OTP MORTGAGE BANK LTD.

CONSOLIDATED FINANCIAL STATEMENTS
IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING
STANDARDS AS ADOPTED BY
THE EUROPEAN UNION

FOR THE YEAR ENDED
31 DECEMBER 2022

This is a translation of the Hungarian Report

OTP MORTGAGEBANK LTD.

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OTP MORTGAGE BANK LTD.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022 (in HUF million)

	Note	2022	2021
Cash, amounts due from banks and balances with the National Bank of Hungary	5.	16,778	15,647
Placements with other banks	6.	217,553	151,975
Financial assets at fair value through other comprehensive income	7.	13,544	16,037
Loans at amortised cost	8.	1,164,795	1,134,767
Loans mandatorily measured at fair value through profit or loss	8.	454,164	405,810
Securities at amortised cost	9.	296,619	175,125
Property and equipment	10.	54	52
Intangible assets	10.	228	191
Right of use assets	10.	281	338
Derivative financial assets designated as hedge accounting relationships	11.	11,786	5,397
Current income tax assets		1,054	5
Deferred tax assets	27.	441	216
Other assets	12.	4,131	5,022
TOTAL ASSETS		**2,181,428**	**1,910,582**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	13.	1,059,717	1,022,772
Repo liabilities	14.	13,947	-
Liabilities from issued securities	15.	971,466	772,011
Derivative financial liabilities designated as hedge accounting relationships	16.	3,889	1,804
Current income tax liabilities		7	480
Leasing liabilities	28.	296	363
Provisions	17.	1,448	869
Other liabilities	17.	5,985	8,543
			-
TOTAL LIABILITIES		**2,056,755**	**1,806,842**
			-
Share capital	18.	82,000	37,000
Retained earnings and reserves	19.	42,673	66,740
			-
TOTAL SHAREHOLDER'S EQUITY		**124,673**	**103,740**
			-
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**2,181,428**	**1,910,582**

Budapest, 4 April 2023

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András Becsei
Chief Executive Officer

Péter Radics
Chief Financial Officer

OTP MORTGAGE BANK LTD.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2022 (in HUF million)

	Note	Year ended 31 December 2022	Year ended 31 December 2021
Interest Income:			
Interest income calculated using the effective interest method	21.	103,496	64,725
Income similar to interest income	21.	17,700	15,202
Total Interest Income		**121,196**	**79,927**
Interest Expense:			
Total Interest Expense	21.	**(108,417)**	**(43,816)**
NET INTEREST INCOME		**12,779**	**36,111**
Loss allowance on loan, placement and repo receivables losses	22.	2,296	912
Loss allowance / (Release of loss allowance) on securities at fair value through other comprehensive income and on securities at amortised cost	22.	(2,071)	(157)
Provision for loan commitments and financial guarantees given	22.	(616)	(47)
Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit of loss	22.	355	(986)
Risk cost total		**(36)**	**(278)**
NET INTEREST INCOME AFTER RISK COST		**12,743**	**35,833**
LOSSES ARISING FROM DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTISED COST	24.	**(61)**	**(57)**
MODIFICATION LOSS	4.	**(22,278)**	**(6,034)**
Income from fees and commissions	23.	6,825	6,400
Expenses from fees and commissions	23.	(9,348)	(9,964)
NET PROFIT FROM FEES AND COMMISSIONS		**(2,523)**	**(3,564)**
Foreign exchange gains / (losses)	24.	2	(3)
Gains / (Losses) on financial instruments at fair value through profit or loss and net result on hedge relationship	24.	13,793	4,941
Net other operating (expense) / income	25.	186	(7)
Other operating expenses	25.	(18)	(112)
Net operating (expense)/income		**13,963**	**4,819**
Personnel expenses	25.	(1,387)	(1,332)
Depreciation and amortization	25.	(256)	(267)
Other administrative expenses	25.	(9,919)	(4,385)
Other administrative expenses		**(11,562)**	**(5,984)**
PROFIT / (LOSS) BEFORE INCOME TAX		**(9,718)**	**25,013**
Income tax expense	27.	(622)	(2,175)
PROFIT / (LOSS) AFTER INCOME TAX		**(10,340)**	**22,838**
Earnings per share (in HUF)			
Basic and diluted	29.	(21,438)	61,724

OTP MORTGAGE BANK LTD.
CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2022 (in HUF million)

	Note	2022	2021
(LOSS) / PROFIT AFTER INCOME TAX	19.	**(10,340)**	**22,838**
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.	(1,998)	(1,825)
Deferred tax related to securities fair value through other comprehensive income	19.	187	164
Gains on derivative financial instruments designated as cash flow hedge	19.	6,052	6,652
Other comprehensive income, net of income tax		**4,241**	**4,991**
TOTAL COMPREHENSIVE (LOSS) / INCOME		**(6,099)**	**27,829**

OTP MORTGAGE BANK LTD.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022 (in HUF million)

	Share capital	Capital reserve	Retained earnings and other reserves	Total
Balance as at 1 January, 2021	**37,000**	**476**	**38,402**	**75,878**
Net profit for the year	-	-	22,838	22,838
Other comprehensive income	-	-	4,991	4,991
Total comprehensive income	37,000	476	66,231	103,707
Share-based payment	-	-	33	33
Balance as at 31 December, 2021	**37,000**	**476**	**66,264**	**103,740**
Balance as at 1 January, 2022	**37,000**	**476**	**66,264**	**103,740**
Net profit for the year	-	-	(10,340)	(10,340)
Other comprehensive income	-	-	4,241	4,241
Total comprehensive income	37,000	476	60,165	97,641
Share-based payment	-	-	32	32
Dividend paid	-	-	(18,000)	(18,000)
Share capital raise	45,000	-	-	45,000
Balance as at 31 December, 2022	**82,000**	**476**	**42,197**	**124,673**

OTP MORTGAGE BANK LTD
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022 (in HUF million)

OPERATING ACTIVITIES	Note	31 December 2022	31 December 2021
Profit before income tax		**(9,718)**	**25,013**
Net interest (paid) / received		(10,610)	(2,744)
Depreciation and amortization		256	267
Loss allowance on loans and placements	22.	(2,296)	(912)
Loss allowance / (Release of loss allowance) on securities at fair value through other comprehensive income	22.	75	1
Loss allowance / (Release of loss allowance) on securities at amortised cost	22.	1,996	156
Loss allowance / (Release of loss allowance) on other assets	12.	7	(21)
Provision on off-balance sheet commitments and contingent liabilities		579	24
Share-based payment	32.	32	34
Losses / (gains) on fair value adjustment of loans at fair value through profit or loss		(14,147)	(3,955)
Losses on fair value adjustment of derivative financial instruments designated in hedge relationship		(3,544)	(4,005)
Interest expense form leasing liabilities		(6)	(7)
Foreign exchange loss	24.	(4)	1
Proceeds from sale of tangible and intangible assets		6	(3)
Net changing in assets and liabilities in operating activities			
Net increase in placements with other banks before allowance for placement losses	6.	(66,608)	(26,169)
Net increase in loans		(50,303)	(213,978)
Increase in other assets, excluding advances for investments and before provisions for losses	12.	(237)	1,055
Net (decrease) / increase in amounts due to banks and deposits from the National Bank of Hungary and other banks	13.	50,896	329,697
(Decrease) / Increase in other liabilities	17.	(4,298)	699
Net increase in the compulsory reserve established by the National Bank of Hungary		(126)	(17)
Income tax paid	27.	-	(1,066)
Net cash provided by operating activities		**(108,050)**	**104,070**

OTP MORTGAGE BANK LTD
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022 (in HUF million)

	Note	31 December 2022	31 December 2021
INVESTING ACTIVITIES			
Proceeds from sale of securities at fair value through other comprehensive income	7.	7,079	7,720
Change in derivative financial instruments designated as hedge accounting		(760)	74
Increase in securities at amortised cost	9.	(153,424)	(68,170)
Redemption of securities at amortised cost	9.	29,934	1,344
Additions to property, equipment and intangible assets	10.	(125)	(118)
Disposal of property, equipment and intangible assets	10.	6	3
Net cash used in investing activities		**(117,290)**	**(59,147)**
FINANCING ACTIVITIES			
Leasing payments		(110)	(126)
Cash received from issuance of securities	15.	199,445	88,650
Cash used for redemption of issued securities	15.	-	(124,130)
Dividends paid		(18,000)	-
Share capital raise		45,000	-
Net cash (used in) / provided by financing activities		**226,345**	**(35,606)**
			-
Net increase in cash and cash equivalents		**1,005**	**9,317**
Cash and cash equivalents at the beginning of the year		**15,619**	**6,302**
Cash and cash equivalents at the end of the year		**16,624**	**15,619**

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"; "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 (headquarters Nádor utca 16. Budapest 1051) is the ultimate parent of OTP Mortgage Bank, and also the ultimate parent of OTP Group.

These consolidated financial statements authorised for issue on 4 April 2023 by the Board of OTP Mortgage Bank. 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 Váci út. 135-139. D Building, Budapest 1138.

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

Signatory of the consolidated financial statements is the Executive Officer, András Becsei and Financial Officer, Péter Radics.

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 2022 is an amount of HUF 48.47 million + VAT.

The shared capital of the Bank consists of 820,000 ordinary shares with a nominal value of HUF 100,000, embodying the same ownership rights.

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 Group's business is limited to the relevant activities by the aforementioned Act.

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 34 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.

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

1.2. Basis of Accounting

As at 31 December 2022 and 2021 the number and the average number of the employees at the Bank were 113 and 104 respectively.

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 annual report contains the data expressed in millions of forints.

The financial statements of the subsidiaries used during the preparation of Consolidated Financial Statements of the Group have the same reporting period – starting from 1 January ending as at 31 December – like the reporting period of the Group.

The consolidate 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 2022

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 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),

    - **IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter** The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1. These amendments had no impact on the consolidated financial statements of the Group as it is not a first-time adopter.

    - **IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities** The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 Financial Instruments: Recognition and Measurement. In accordance with the transitional provisions, the Group applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment (the date of initial application). These amendments had no impact on the consolidated financial statements of the Group as there were no fees charged or incurred related to modifications during the period.

    - **IAS 41 Agriculture – Taxation in fair value measurements** The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41. These amendments had no impact on the consolidated financial statements of the Group as it have no assets in scope of IAS 41 as at the reporting date.

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

- **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).

  - **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the previous version of the IASB’s Conceptual Framework for Financial Reporting to the current version issued in 2018 without significantly changing the accounting requirements for business combinations.

  - **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment any proceeds from the sale of items produced while bringing the asset to the location and condition necessary for it be capable of operating in the manner intended by management. Instead, a company recognizes such sales proceeds and related cost in profit or loss.

  - **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous. The amendments clarify, the costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to the contract activities.

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 IAS 1 “Presentation of Financial Statements” and IFRS Practice Statement 2**- Disclosure of Accounting policies – adopted by the EU on 2 March 2022 (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 – adopted in the EU on 2 March 2022 (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IFRS 17 “Insurance Contracts” –** adopted by the EU on 19 November 2021 (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 – adopted by the EU on 8 September 2022 (effective date for annual periods beginning on or after 1 January 2023)
- **Amendments to IAS 12 “Income Taxes” –** Deferred Tax related to Assets and Liabilities arising from a Single Transaction – adopted by the EU on 11 August 2022 (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 2024),
- **Amendments to IFRS 16 “Leases”** – Lease Liability in a Sale and Leaseback – issued by IASB on 22 September 2022 (effective for annual periods beginning on or after 1 January 2024)
- **Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded).

The Bank anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies applied in the preparation of the accompanying consolidated financial statements are summarized below:

2.1. Basis of presentation

These consolidated financial statements have been prepared under the historical cost convention with the exception of certain financial instruments, which are recorded at fair value. Revenues and expenses are recorded in the period in which they are earned or incurred. The Group does not offset assets and liabilities or income and expenses unless it is required or permitted by an IFRS standard.

During the preparation of consolidated 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 consolidated 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

Initial recognise of foreign currency transactions is based on exchange rate prevailing on the transaction date. 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 reporting date. Income and expenses arising in foreign currencies are converted at the average of Bid and Ask exchange rate of OTP Bank Plc. prevailing on the transaction date. Resulting foreign exchange gains or losses on monetary items are recorded to the Consolidate Statement of Comprehensive Income. The parent entity and all the components are using HUF as both functional and presentational currency.

2.3. Consolidated financial statements

As the parent, OTP Mortgage Bank is preparing Consolidated Financial Statements of the Group.

These Consolidated Financial Statements combine the assets, liabilities, equity, income, expenses and cash flows of the Bank and of those subsidiaries of the Bank in which the Bank exercises control.
All intra-group transactions are consolidated fully on a line-by-line basis while under equity method other consolidation rules are applied. Determination of the entities which are involved into the consolidation procedures based on the determination of the Group’s Control over another entity. Control exists when the Bank has power over the investee, is able to use this power and is exposed or has right to variable returns. Consolidation of a subsidiary should begin from the date when the Group obtains control and cease when the Group loses control. Therefore, income and expenses of a subsidiary should be included in the Consolidated Financial Statements from the date the Group gains control of the subsidiary until the date when the Group ceases to have control of the subsidiary.

Details of subsidiaries:

OTP Ingatlanpont Llc.

Headquarters : 1138 Budapest, Váci út 135-139. A. ép.
OTP Mortgage Bank Ltd. ownership ratio:100%
Share capital: 7,5 mn HUF
part of OTP Mortgage Bank: 7,5 mn HUF

OTP Pénzügyi Pont Ltd.

Headquarters : 1138 Budapest, Váci út 135-139. A. ép.
OTP Mortgage Bank Ltd. ownership ratio:100%
Share capital: 52 mn HUF
part of OTP Mortgage Bank: 52 mn HUF

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.4. Securities at amortised cost

The Group measures at amortized cost those securities which are held for contractual cash collecting purposes, and contractual terms of these securities give rise to cash flows that are solely payment of principal and interest on the principal amount outstanding. The Group initially recognizes these securities at fair value. Securities at amortized cost are subsequently measured using the effective interest ("EIR") method and are subject to impairment. The amortisation of any discount or premium on the acquisition of a security at amortized cost is part of the amortized cost and is recognized as interest income so that the revenue recognized in each period represents a constant yield on the investment. Securities at amortized cost are accounted for on a trade date basis.

Such securities comprise mainly securities issued by the Hungarian and foreign Governments, corporate bonds, mortgage bonds and discounted treasury bills.

2.5. 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. Financial assets at fair value through profit or loss

2.6.1. Derivative financial instruments

In the normal course of business, the Group is a party to contracts for derivative financial instruments, which represent a low initial investment compared to the notional value of the contract and their value depends on value of underlying asset and are settled in the future. The derivative financial instruments used include interest rate forward or swap agreements and currency forward or swap agreements and options. These financial instruments are used by the Group both for hedge interest rate risk and currency exposures associated with its transactions in the financial markets.

Derivative financial instruments are accounted for on a trade date basis and are initially measured at fair value and at subsequent reporting dates also at fair value. Fair values are obtained from quoted market prices, discounted cash-flow models and option pricing models as appropriate. The Group adopts a multi curve valuation approach for calculating the net present value of future cash-flows – based on different curves used for determining forward rates and used for discounting purposes. It shows the best estimation of such derivative deals that are collateralised as the Group has almost all of its open derivative transactions collateralised.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss and are included in the Consolidated Statement of Profit or Loss for the period. Each derivative deal is determined as asset when fair value is positive and as liability when fair value is negative.

Foreign currency contracts

Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot date (settlement occurs two days after the trade date) or at a forward date (settlement occurs more than two days after the trade date). The notional amount of these forward contracts does not represent the actual market or credit risk associated with these contracts.

Foreign currency contracts are used by the Group for risk management and trading purposes. The risk management foreign currency contracts of the Group were used to hedge the exchange rate fluctuations of loans and deposits to credit institutions denominated in foreign currency.

[1] First In First Out

Interest rate swaps

The Group enters into interest rate swap ("IRS") transactions.

IRS transactions oblige two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount (the base of the interest calculation). Notional principal is the amount upon which interest rates are applied to determine the payment streams under IRS transactions. Such notional principal amounts often are used to express the volume of these transactions but are not actually exchanged between the counterparties.

2.6.3. Hedge accounting

Derivative financial instruments designated as a fair-value hedge

Changes in the fair value of derivatives that are designated and qualify as hedging instruments in fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the Consolidated Statement of Profit or Loss along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. Changes in the fair value of hedging instrument in fair value hedges is charged directly to the Consolidated Statement of Profit or Loss.
The conditions of hedge accounting applied by the Bank are the following: formally designated as hedge relationship, proper hedge documentation is prepared, effectiveness test is performed and based on it the hedge is qualified as effective. In the case of a financial instrument measured at amortised cost the Group recognises the hedging gain or loss on the hedged item as the modification of its carrying amount and it is recognised in profit or loss. These adjustments of the carrying amount are amortised to the profit or loss using the effective interest rate method. The Group starts the amortisation when the hedged item is no longer adjusted by the hedging gains or losses. If the hedged item is derecognised, the Group recognises the unamortised fair value in profit or loss immediately. For fair value hedges inefficiencies and the net revaluation of hedged and hedging item are recognized in the Gains /(Losses) on financial instruments at fair value through profit or loss and net result on hedge relationship.
The Group implemented hedge accounting rules prescribed by IFRS 9 in 2018. For further details please see Note 37.

Derivative financial instruments designated as cash-flow hedge

Changes in the fair value of derivatives that are designated and qualify as hedging instrument in cash-flow hedges and that prove to be highly effective in relation to the hedged risk are recognized in their effective portion as reserve in Other Comprehensive Income. The ineffective element of the changes in fair value of hedging instrument is charged directly to the Consolidated Statement of Profit or Loss in the Gains /(Losses) on financial instruments at fair value through profit or loss and net result on hedge relationship.
The Group terminates the hedge relationship if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting. In the case of cash-flow hedges – in line with the standard - hedge accounting is still applied by the Group as long as the underlying asset is derecognized or terminated. When the Group discontinues hedge accounting to a cash-flow hedge the amount in the cash flow hedge reserve is reclassified to the profit or loss if the hedged future cash flows are no longer expected to occur. If the hedged future cash flows are still expected to occur, the amount remains in the cashflow hedge reserve and reclassified to the profit and loss only when the future cash flows occur.
The Group implemented hedge accounting rules prescribed by IFRS 9 in 2018. For further details please see Note 37.

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 may apply 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.

The Group did not apply offsetting in 2022 and in 2021.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.8. Embedded derivatives for liabilities

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. Derivatives embedded in a liability 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 did not have embedded derivatives in 2022 and in 2021.

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

Business models

A business model refers how the Bank manages its financial instruments in order to generate cash flows. It is determined at a level that reflects how groups of financial instruments are managed rather than at an instrument level.

The financial assets held by the Bank are classified into three categories depending on the business model within the financial assets are managed.

- Business model whose objective is to hold financial assets in order to collect contractual cash flows. Some sales can be consistent with hold to collect business model and the Bank assesses the nature, frequency and significance of any sales occurring. The Bank does not consider the sale frequent when at least six months have elapsed between sales. The significant sales are those when the sales exceed 2% of the total hold to collect portfolio. Within this business model the Bank manages mainly loans and advances and long term securities and other financial assets.
- Business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Within this business model the Bank only manages securities.
- Business model whose objective is to achieve gains in a short term period. Within this business model the Bank manages securities and derivative financial instrument.

If cash flows are realised in a way that is different from the expectations at the date that the Bank assessed the business model, that does not give rise to a prior error in the Bank's financial statements nor does it change the classification of the remaining financial assets held in that business model.

When, and only when the Bank changes its business model for managing financial assets it reclassifies all affected assets. Such changes are determined by the Bank's senior management as a result of external or internal changes and must be significant to the Bank's operations and demonstrable to external parties. The Bank shall not reclassify any financial liability.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

Contractual cash-flow characteristics of financial assets

Classification of a financial asset is based on the characteristics of its contractual cash flows if the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

The Bank should determine whether the asset’s contractual cash flows are solely payments of principal and interest on the principal amount outstanding (SPPI test). Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending arrangement.

Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The Bank assesses whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding for the currency in which the financial asset is denominated.

Time value of money is the element of interest that provides consideration for only the passage of time. However, in some cases, the time value of money element may be modified. In such cases, the Bank assesses the modification to determine whether the contractual cash flows represent solely payments of principal and interest on the principal amount outstanding.

When assessing a modified time value of money element, the objective is to determine how different the undiscounted contractual cash flows could be from undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). The benchmark instrument can be an actual or a hypothetical financial asset. If the undiscounted contractual cash flows significantly – above 2% – differ from the undiscounted benchmark cash flows, the financial asset should be subsequently measured at fair value through profit or loss.

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 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 consolidated 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”.

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 Consolidated Statement of Profit or Loss.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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, the subsequent measurement of these loans is under IFRS 9.

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.

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

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.

Subsequent recoveries for loans previously written-off partially or fully, which may have been derecognized from the books with no reasonable expectations for the recovery will be booked in the Consolidated Statement of Profit or Loss on “Income from recoveries of written-off, but legally existing loan” line in Risk cost.

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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

The modification gain or loss shall be calculated at each contract amendments unless they are handled as a derecognition and new recognition. In case of modification the Group recalculates the gross carrying amount of the financial asset. To do this, the new contractual cash flows should be discounted using the financial asset's original effective interest rate (or credit-adjusted effective interest rate for POCI financial asset). Any costs or fees incurred adjust the carrying amount of the modified financial asset are amortized over the remaining term of the modified financial asset.

2.10. Loss allowance

A loss allowance for loans and placements with other banks and repo receivables is recognized by the Group based on the expected credit loss model in accordance with IFRS 9. Based on the three-stage model the recognized loss allowance equals to 12-month expected credit loss from the initial recognition. On financial assets with significantly increased credit risk or credit impaired financial assets (based on objective evidence) the recognized loss allowance is the lifetime expected credit loss.

In the case of purchased or originated credit impaired financial assets, a loss allowance is recognized in the amount of the lifetime expected credit loss since initial recognition. The impairment gain in the Consolidated Statement of Profit or Loss is recognized if lifetime expected credit loss for purchased or originated credit impaired financial assets at measurement date is less than the estimated credit loss at initial recognition.

A loss allowance for loans and placements with other banks and repo receivables represents Management's assessment for potential losses in relation to these activities.

Loss allowance for loan and placements are determined at a level that provides coverage for individually identified credit losses. For loans for which it is not possible to determine the amount of the individually identified credit loss in the absence of objective evidence, a collective impairment loss is recognized. With this, the Group reduces the carrying amount of financial asset portfolios with similar credit risk characteristics to the amount expected to be recovered based on historical loss experience.

At subsequent measurement the Group recognizes an impairment gain or loss through "Impairment gain on POCI loans" in the Consolidated Statement of Profit or Loss as part of "Risk cost" line as an amount of expected credit losses or reversal which is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized in accordance with IFRS 9. If the reason for the impairment no longer exist the impairment is released in the Consolidated Statement of Profit or Loss for the current period.

If a financial asset, for which previously there were no indicators of significant increase in credit risk (i.e. classified in Stage 1) is subsequently classified in Stage 2 or Stage 3 then loss allowance is adjusted to lifetime expected credit loss. If a financial asset, which was previously classified in Stage 2 or Stage 3 is subsequently classified in Stage 1 then the loss allowance is adjusted to the level of 12 month expected credit loss.

Classification into risk classes

According to the requirements of the IFRS9 the Group classifies the financial assets measured at amortized cost, at fair value through other comprehensive income and loan commitments and financial guarantees into the following stages:

- Stage 1 – performing financial instruments without significant increase in credit risk since initial recognition
- Stage 2 – performing financial instruments with significant increase in credit risk since initial recognition but not credit-impaired
- Stage 3 – non-performing, credit-impaired financial instruments
- POCI – purchased or originated credit impaired

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

In the case of trade receivables the Group applies the simplified approach and calculates only lifetime expected credit loss. The 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,
- historical losses are adjusted to reflect information about current conditions and reasonable forecasts of future economic conditions,
- the loss allowance ratio is the sum of the written-off amounts divided by the sum of the average balances,
- the loss allowance is multiplied by the end-of-year balance, it is 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 sovereign exposures as having low credit risk.

Stage 1: financial instruments for which the events and conditions specified in respect of Stage 2 and Stage 3 do not exist on the reporting date.

A client or loan must be qualified as default if one or both the following two conditions occur:

- The client delays more than 90 days. This is considered a hard trigger.
- There is reasonable probability that the client will not pay all of its obligation. This condition is examined on the basis of probability criteria of default.

The subject of default qualification is that exposure (on-balance and off-balance) which originates credit risk (so originated from loan commitments, risk-taking contracts).

A financial instrument shows significant increase in credit risk, and is allocated to Stage 2, if in respect of which any of the following triggers exist on the reporting date, without fulfilling any of the conditions for the allocation to the non-performing stage (stage 3):

- the payment delay exceeds 30 days,
- it is classified as performing forborne,
- based on individual decision, its currency suffered a significant "shock" since the disbursement of the loan,
- the transaction/client rating exceeds a predefined value or falls into a determined range, or compared to the historic value it deteriorates to a predefined degree,
- in the case retail mortgage loans, the loan-to-value ratio exceeds a predefined rate,
- default on another loan of the retail client, if no cross-default exists,
- monitoring classification of corporate and municipal clients above different thresholds defined on group
  - financial difficulties at the debtor (capital adequacy, liquidity, deterioration of the instrument quality),
  - significant decrease of the liquidity or the activity on the active market of the financial instrument can be observed,
  - the rating of the client reflects high risk, but it is better than the default one,
  - significantly decrease in the value of the recovery from which the debtor would disburse the loan,
  - clients under liquidation.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

A financial instrument is non-performing and it is allocated to Stage 3 when any of the following events or conditions exists on the reporting date:

- default (based on the group level default definition),
- classified as non-performing forborne (based on the group level forborne definition),
- the monitoring classification of corporate and municipal clients above different thresholds defined on group level (including but not limited to):
  - breaching of contracts,
  - significant financial difficulties of the debtor (like capital adequacy, liquidity, deterioration of the instrument quality),
  - bankruptcy, liquidation, debt settlement processes against debtor,
  - forced strike-off started against debtor,
  - termination of loan contract by the Bank,
  - occurrence of fraud event,
  - termination of the active market of the financial instrument.

If the exposure is no longer considered as credit impaired, the Group allocates this exposure to Stage 2.

When loss allowance is calculated at exposures categorized into stages the following process is needed by stages:

- Stage 1 (performing): loss allowance at an amount equal to 12-month expected credit loss should be recognized,
- Stage 2 (significant increase in credit risk): loss allowance at an amount equal to lifetime expected credit loss should be recognized,
- Stage 3 (non-performing): loss allowance at an amount equal to lifetime expected credit loss should be recognized.

For lifetime expected credit losses, an entity shall estimate the risk of a default occurring on the financial instrument during its expected life. 12-month expected credit losses are a portion of the lifetime expected credit losses and represent the lifetime cash shortfalls that will result if a default occurs in the 12 months after the reporting date (or a shorter period if the expected life of a financial instrument is less than 12 months), weighted by the probability of that default occurring.

An entity shall measure expected credit losses of a financial instrument in a way that reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes
- the time value of money and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.11. Sale and repurchase agreements, security lending

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on the Consolidated Statement of Financial Position and the consideration received is recorded in Other liabilities or Amounts due to banks, the National Governments, deposits from the National Banks and other banks. Conversely, debt or equity securities purchased under a commitment to resell are not recognized in the Consolidated Statement of Financial Position and the consideration paid is recorded either in Placements with other banks or Deposits from customers. Interest is accrued based on the effective interest method evenly over the life of the repurchase agreement.

In the case of security lending transactions, the Bank as a transferor does not derecognize the securities because it believes that it retains substantially all the risks and rewards of the ownership of the securities. Only a financial liability is recognized against the consideration received. If the Bank is the transferee in security lending transactions, the Bank does not recognize the securities because it believes that the transferor retains substantially all the risks and rewards of the ownership of the securities. Only a financial receivable is recognized against the consideration paid.

2.12. 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.

2.13. 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	11.1% - 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]

2.14. Financial liabilities

The financial liabilities are presented within these lines in the Consolidated Financial Statements:

- Amount due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks
- Repo liabilities
- Liabilities from issued securities
- Derivative financial liabilities designated as hedge accounting
- Other financial liabilities

At initial recognition, the Group measures financial liabilities at fair value plus or minus – in the case of a financial liability not at fair value through profit or loss – transaction costs that are directly attributable to the acquisition or issue of the financial liability.

Usually, the initial fair value of financial liabilities equals to transaction value. However, when the amounts are not equal, the initial fair value difference should be recognized.
If the fair value of financial liabilities is based on a valuation technique using only inputs observable in market transactions, the Group recognizes the initial fair value difference in the Consolidated Statement of Profit or Loss.
When the fair value of financial liabilities is based on models for which inputs are not observable, the difference between the transaction price and the fair value is deferred and recognized in profit or loss on a systematic manner.

In the case of financial liabilities measured at amortized cost fees and commissions related to the origination of the financial liability are recognized through profit or loss during the maturity of the instrument using effective interest method. In certain cases, the Group repurchases a part of financial liabilities (mainly issued securities or subordinated bonds) and the difference between the carrying amount of the financial liability and the amount paid for it is recognized in the net profit or loss for the period and included in other operating income.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.15. 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: ~4.8%

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.

2.16. 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]

2.17. Interest income and income similar to 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) 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. Refer to note 2.6.1. for the presentation of derivative financial instruments.

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.

2.18. Fees and Commissions

Fees and commissions that are not involved in the amortized cost model are recognized in the Consolidated Statement of Profit or Loss on an accrual basis according to IFRS 15 Revenue from contracts with customers These fees are related to, cash withdrawals, security trading etc. Refer to Note 23.

The Group recognizes income if performance obligations related to the certain goods or services 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 services, where the Group transfers control over the asset continuously, income is recognised on accrual basis.

The Group provides foreign exchange trading services to its customers, the profit margin achieved on these transactions is presented as Net profit from fees and commissions in the Consolidated Statement of Profit or Loss.

2.19. Income tax

The Group considers corporate income tax as current tax according to IAS 12. The Group also considers local business tax and the innovation contribution as income tax in Hungary.
The annual taxation charge is based on the tax payable under fiscal regulations prevailing in the country where the company is incorporated, adjusted for deferred taxation. Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences between the tax bases of assets and liabilities and their carrying value for financial reporting purposes, measured at the tax rates that apply to the future period when the asset is expected to be realized or the liability is settled.

Current tax asset or current tax liability is presented related to income tax and innovation contribution separately in the Consolidated Statement of Financial Position.

Deferred tax assets are recognized by the Group for the amounts of income taxes that are recoverable in future periods in respect of deductible temporary differences as well as the carryforward of unused tax losses and the carryforward of unused tax credits.

The Group recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint arrangements, to the extent that, and only to the extent that, it is probable that:

- the temporary difference will reverse in the foreseeable future; and
- taxable profit will be available against which the temporary difference can be utilised.

The Group 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 according to IAS 12.
The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, except to the extent that both of the following conditions are satisfied:

- the Bank is able to control the timing of the reversal of the temporary difference, and
- it is probable that the temporary difference will not reverse in the foreseeable future.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.19. 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.

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

2.20. Banking tax

The Group and some of its subsidiaries are obliged to pay banking tax based on Act LIX of 2006. As the calculation is not based on the taxable profit but on the adjusted total assets as reported in the Separate Financial Statements of the Bank and its entities for the second period preceding the current tax year, therefore, the banking tax is considered as another administrative expense, not as income tax. Pursuant to Government Decree No. 197/2022 published on 4 June 2022, the Hungarian Government decided to impose a windfall tax on credit institutions and financial enterprises temporarily, that is for 2022 and 2023. As for 2022, the base of the windfall tax is the net revenues based on the 2021 financial statements, calculated according to local tax law, whereas the tax rate is 10.

2.21. Off-balance sheet commitments and contingent liabilities

In the ordinary course of its business, the Group enters into off-balance sheet commitments such as guarantees, letters of credit, commitments to extend credit and transactions with financial instruments. The provision for off-balance sheet commitments and contingent liabilities is maintained at a level adequate to absorb future cash outflows which are probable and relate to present obligations.

In the case of commitments and contingent liabilities, the Management determines the adequacy of the loss allowance based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors. The Group recognizes provision for off-balance sheet commitment and contingent liabilities in accordance with IAS 37 when it has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the obligation. For financial guarantees and loan commitments given which are under IFRS 9 the expected credit loss model is applied when the provision is calculated. 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.

2.22. 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 consolidated financial statements.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.23. 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. Hedging gains and losses are presented on the same line item, refer to note 2.6.1.

2.24. Comparative figures

These consolidated financial statements are prepared in accordance with the same accounting policies in all respects as the Financial Statements prepared in accordance with IFRS as adopted by the EU for the year ended 31 December 2021.

The Bank has reclassified items for some notes and adjusted the comparatives in the reporting period. These reclassifications affected the following items in the following notes:

NOTE 12:	OTHER ASSETS Receivable related to Hungarian Government subsidies – were incorrectly classified as other non-financial asset
NOTE 15:	LIABILITIES FROM ISSUED SECURITIES Accrued interests – missing from the prior year component of amortised cost
NOTE 17:	OTHER LIABILITIES AND PROVISIONS Accrued expenses – were incorrectly classified as other non-financial liability
NOTE 23:	NET PROFIT FROM FEES AND COMMISSIONS Receivable recognized under other asset -were incorrectly presented as an Statement of Financial Position item in a disclosure related to the income statement
NOTE 30:	FINANCIAL RISK MANAGEMENT Other financial assets – modified in line with Note 12
NOTE 36:	MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK Property and equipment - were incorrectly presented as financial instrument Intangible assets - were incorrectly presented as financial instrument

These reclassifications are not affecting the primary elements of the Consolidated Financial Statements, only changes are related to the subtotals of certain disclosure notes. We believe that a result of the changes the Consolidated Financial Statements are more transparent to the users of the document.

2.25. Government subsidies to the customers

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.

2.26. Segment report

Operating segments are components of a business that can generate income or expenses, the operating results of which are regularly reviewed by the Chief Operating Decision Maker (CODM), and about which discrete financial information is available. The CODM is the person or group of people who allocates resources and evaluates the unit's performance. The duties of the CODM are performed by the Group's Executive Board. OTP Mortgage Bank is a subsidiary of OTP Bank engaged in mortgage lending, its activity is regulated by Act XXX of 1997 on Mortgage Loan Companies and on Mortgage Bonds.
As a specialized credit institution, the main activity of OTP Mortgage Bank is retail mortgage lending covered by Hungarian real estate. As a supplementary commercial activity, the company is engaged in real estate appraisal. The company is authorized to issue mortgage bonds, on the other hand it cannot collect deposits.

2.26. Segment report [continued]

Based on the evaluation of the Bank's internal reporting structure, the management has identified only one operational segment, which segment is not broken down geographically either, because its activities are carried out exclusively in Hungary. As the Bank's and the Group's operation is simple with a less complex product portfolio the Group's management manages and controls the activity of the Bank as a single product and geographical segment.

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. Loss allowances on financial instruments exposed to credit risk

The Group regularly assesses its financial instruments portfolio for loss allowance. Management determines the adequacy of the loss allowances based upon reviews of individual loans and placements, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. The use of the three-stage model was implemented for IFRS 9 purposes. The impairment methodology is used to classify financial instruments in order to determine whether credit risk has significantly increased since initial recognition and to identify the credit-impaired assets. For instruments with credit-impairment or significant increase of credit risk lifetime expected losses are 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. 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 the 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 Group evaluates the levelling at each reporting period on an instrument-by-instrument basis and reclassifies instruments when necessary, based on the facts at the beginning of the reporting period. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

3.3. Provisions

Provision is recognized and measured for commitments to extend credit and for warranties arising from banking activities based on IFRS 9 Financial Instruments. Provision for these instruments is recognized based on the credit conversion factor, which shows the proportion of the undrawn credit line that will probably be drawn.

Other provisions are recognized and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Group is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Group assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for. (See Note 24.)

Other provision includes provision for litigation, provision for retirement and expected liabilities and provision for confirmed letter of credit.

A provision is recognized by the Group when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

NOTE 4: IMPACT OF ECONOMIC SITUATION AND CORONA VIRUS (COVID-19) ON THE OTP MORTGAGE BANK

The rapid recovery following the Covid crisis has created capacity bottlenecks in many sectors, which, coupled with rising commodity and energy prices, have significantly increased inflation in advanced economies. In the USA, the rate of inflation has not been at this level since the 1970s. The rapidly rising and increasingly broad-based inflation prompted the Fed to take action and to become the first major central bank to start raising interest rates. This move has significantly strengthened the dollar, and US 10-year yields rose to 4.3%. In the USA, inflation clearly peaked in mid-2022, and has been on a downward trend since then. Inflation also rose rapidly in Europe, where the dramatically growing gas and electricity prices posed the bigger problem. However, inflation also peaked in the euro area by the end of 2022, and has been on a downward trend since October 2022. As the Russia-Ukraine war had a much stronger impact on Europe's economic outlook, and the labour market was much less tight than in the USA, the ECB was slower to react to the rise in inflation. Still, European short-term interest rates also rose to 2% by the end of 2022.

The USA went into a technical recession in the first half of 2022, but this turned out to be temporary, and the US economy resumed growth in the second half-year. Europe's economies proved more resilient than had been expected to the effects of the Russia-Ukraine war. In the first half of the year, growth benefited from the sectors that recovered after the pandemic, but the currency area also avoided recession in the second half of the year, and grew by 3.5% in full year 2022.

The main factor that affected Hungary's economy in 2022 was the war in a neighbouring country. Although the Hungarian economy grew by 8.2% year-on-year in the first quarter and by 6.5% in the second, this was largely fuelled by massive one-off transfers at the beginning of 2022. By the second half of the year, however, the economy had lost steam and entered technical recession (two consecutive quarters of economic contraction) by the end of 2022. As a result, the Hungarian economy grew by 4.6% in 2022 as a whole. Inflation, which went beyond 20% by the end of the year, played a significant role in the downturn, significantly eroding real income, and turning its growth negative by the end of 2022.

The strong domestic demand at the beginning of the year allowed businesses to pass through the ongoing cost shocks to prices. From the second half of the year, a number of administrative measures (tightening of KATA tax rules, windfall taxes, increasing the public heath product tax, scrapping some price caps, etc.) also boosted inflation. As a consequence, Hungary's inflation decoupled from the developments in the euro area, where inflation peaked around 10%, and from the CEE region, where it peaked at 15-17%. In Hungary, inflation did not peak in 2022.

Given that Hungary is a major net energy importer, the sharp rise in energy prices has significantly worsened the Hungarian economy's external balance, which put the forint under depreciation pressure. In addition, the continued delay in agreeing on EU funds has increased the risk premium on HUF assets, which also contributed to the forint's weakening – the MNB could reverse this only by a drastic interest rate hike, when the EUR/HUF was nearing 435. As a result, the effective reference rate rose to 18%. The falling gas prices, and the agreement reached with the EU at the end of 2022 had a benign effect on the HUF's exchange rate.

Falling real incomes and high interest rates have considerably slowed credit market growth. The housing loan market saw the sharpest slowdown: by the end of 2022 (as the Green Home Programme credit line ended), the contracted amount had fallen to half of the level seen in 2021.

Despite the rapidly eroding real incomes, household consumption was still relatively buoyant. But this came at a price: households' ability to save has sharply fallen. Outflows from demand deposits was particularly strong; these amounts flowed into foreign currency deposits and investment fund units.

In 2022 overall ECL of the Group slightly decreased which is the net result of an increase due to worsening macro environment and of a decrease as a result of the migration of clients exiting the moratoria in 2021 from Stage2 to stage1. Uncertainties related to the macro environment are considered via different macro scenarios in the ECL calculation. For the ECL estimation the Group uses 3 macro scenarios from which the weighted average was used as forward-looking element required by IFRS9. The baseline scenario applied by the Group is based on the macroeconomic outlook and consensus of Hungary, in line with publicly available information. The bank's direct exposure towards Ukrainian and Russian citizens is non-material and as such it does not impact directly ECL (indirect effects are reflected in general in the applied macro scenarios).

For the assessment of the Russia-Ukraine war on the going concern ability of the Group please refer to Note38.

Banking taxes:

The after tax effect of the special tax on financial institutions payable in Hungary since 2010 reached HUF 2,9 billion for full-year 2022, the whole amount was booked in the first quarter. Furthermore, for 2022 the after tax burden of the windfall tax (announced by the Hungarian Government on 4 June and payable temporarily in 2022 and 2023) was HUF 4,8 billion, accounted for in a lump sum in 2Q.

NOTE 4: IMPACT OF ECONOMIC SITUATION AND CORONA VIRUS (COVID-19) ON THE OTP MORTGAGE BANK (in HUF mn) [continued]

Interest rate caps in Hungary:

For the period between 1 January and 30 June 2022 the Hungarian 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 contractual reference rate as at 27 October 2021. The modification loss related to the interest rate cap for variable rate mortgage loans announced was recognized in the Bank's 2021 financial accounts. The extension of the interest rate cap to housing purposes financial leasing contracts did not have a significant negative effect.
Pursuant to Government Decree No. 215/2022 (issued on 17 June) the Government extended the interest rate cap for variable-rate retail mortgage loans by an additional 6 months, i.e. until 31 December 2022. The expected one-off effect of the extension of the interest rate cap amounted to -HUF 8,7 billion (after tax) and was booked in 2Q 2022.
The details of the extension of the interest rate cap scheme were revealed on 14 October 2022. Firstly, the interest rate cap was further extended by 6 months, until the end of June 2023. Secondly, from 1 November 2022 the provisions of the interest rate cap must applied to the market-based mortgages with up to 5 years interest rate repricing period, too.
The expected negative after tax effect of the measures taken in October 2022 amounted to HUF 12,8 billion and was accounted for in 4Q 2022 in one sum.

Moratorium 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. Similarly, with its Government Decree No. 216/2022 published on 17 June, the Government further extended the expiry of the moratorium, until the end on 2022. Eligible clients had to notify their bank about their intention to participate in the payment holiday until the end of July 2022. The general payment holiday expired at the end of 2022.
Starting from September 2022 to the end of 2023, due to the severe draught, agricultural companies can enjoy a payment moratorium on their working capital and investment loans. Eligible borrowers can decide whether to join the scheme or not. At the end of 2022, HUF 0,7 billion worth of loans were subject to the moratorium for agricultural companies.
During the term of the moratorium OTP Mortgage Bank accrues the unpaid interest in its statement of recognized income, amongst the revenues. At the same time, due to the fact that interest cannot be charged on the unpaid interest, and the unpaid interest will be repaid later, in the course of 2020, 2021 and 2022 altogether HUF 13,7 billion one-off loss emerged in Hungary (after tax).

Other relevant regulatory changes in Hungary in the period under review:

- On 5 April 2022 the National Bank of Hungary raised the available amount under the Green Home Programme by an additional HUF 100 billion, up from the originally announced HUF 200 billion.
- Pursuant to Government Decree No. 150/2022 published on 14 April 2022, effective from 29 April the intermediary and other fees paid by the State to commercial banks were amended in the case of the Housing Subsidy for Families (CSOK), the VAT refund subsidy for newly built homes, the repayment by the State of housing loan taken out by families with children, and the baby loans. These fees are now set as absolute amounts, instead of the previous percentage terms. Furthermore, the interest subsidy paid by the state was reduced by one percentage point in the case of baby loans requested after 29 April.
- According to the press release made by the National Bank of Hungary on 30 June 2022, the counter-cyclical capital buffer rate will be increased, for the first time since its introduction 6 years ago, to 0.5% effective from 1 July 2023.
- The baby loan programme which was originally meant to expire by the end of 2022 was extended by 2 years, till the end of 2024.

NOTE 4: **IMPACT OF ECONOMIC SITUATION AND CORONA VIRUS (COVID-19) ON THE OTP MORTGAGE BANK (in HUF mn) [continued]**

Financial assets modified during the year ended 31 December 2022 related to covid moratorium

Modification due to prolongation of deadline of covid moratoria till 31 July 2022

With its Government Decree No. 216/2022 published on 17 June, the Government further extended the expiry of the moratorium of retail client loans, until the end on 2022. Eligible clients had to notify their bank about their intention to participate in the payment holiday until the end of July, the extended period was effective from 1 August until 31 December.

As a further mesure, Government Decree No. 292/2022 published on 8 August included certain agricultural entrepreneurs in the moratorium from 1 September to 31 December 2023.

Loss HUF 172 million from the modification of amortized cost and further HUF 0.2 million fair value decrease was recognized at the end of July, 2022 due to one month of extension for all clients.

Changes of book value of related loans measured at amortized cost on 31 July 2022:

Gross carrying amount before modification	78,862
Modification loss due to covid moratoria	(172)
Gross carrying amount after modification	**78,690**
Loss allowance before modification	(7,574)
Net amortised cost after modification	**71,116**

Modification due to prolongation of interest rate cap (30 June 2022)

Pursuant to Government Decree No. 215/2022 (issued on 17 June) the Government extended the interest rate cap for variable-rate retail mortgage loans by an additional 6 months, i.e. until 31 December 2022. The expected one-off effect of the extension of the interest rate cap amounted to -HUF 8,7 billion (after tax) and was booked in 2Q 2022. Loss effect on FVTPL loans was less than HUF 0.1 billion.

Changes of book value of related loans measured at amortized cost on 30 June 2022:

Gross carrying amount before modification	223,497
Modification due to interest rate cap	(8,739)
Gross carrying amount after modification	**214,758**
Loss allowance before modification	(6,191)
Net amortised cost after modification	**208,567**

NOTE 4: IMPACT OF ECONOMIC SITUATION AND CORONA VIRUS (COVID-19) ON THE OTP MORTGAGE BANK (in HUF mn) [continued]

Modification due to moratoria related to agriculture and prolongation of the existing moratoria (30 September 2022)

On 30 September, 2022 further HUF 560 million modification loss and HUF 0.7 million fair value decrease was recognized due to clients eligible for the extension of the moratorium between 1 September and 31 December, thereof HUF 27 million modification loss, HUF 413 million gross loan amount and HUF 60 million was related to agricultural entrepreneurs.

Changes of book value of related loans measured at amortized cost on 30 September 2022:

Gross carrying amount before modification	56,491
Modification loss due to covid moratoria	(560)
Gross carrying amount after modification	**55,931**
Loss allowance before modification	(5,506)
Net amortised cost after modification	**50,425**

Modification due to prolongation of interest rate cap (30 November 2022)

With its Government Decree No. 415/2022 published on 26 October, the Government extended interest rate cap measures to variable, reference rate based and non-subsidized loans of micro, small and medium entrepreneurs. Reference rates of 28 June shall be applied for the outstanding volume as at 27 June 2022. Eligible clients had to notify their bank about their intention to participate in the payment holiday until 15 September, the extended period was effective from 15 November. Only HUF 5 million loss resulted from this measure, because of the small rate of corporate loans in Mortgage Banks portfolio.

Changes of book value of loans of agricultural entrepreneurs measured at amortized cost on 30 November 2022:

Gross carrying amount before modification	3,103
Modification due to interest rate cap	(5)
Gross carrying amount after modification	**3,098**
Loss allowance before modification	(90)
Net amortised cost after modification	**3,008**

Modification due to scope extension (mortgage loans with 5 year fixing without subsidy) and prolongation of the existing interest rate cap (31 December 2022)

With its Government Decree No. 216/2022 published on 17 June 2022 Government extended its measures on interest rates. Firstly, the interest rate cap was further extended by 6 months, until the end of June 2023. Secondly, from 1 November 2022 the provisions of the interest rate cap must applied to the market-based mortgages with up to 5 years interest rate repricing period, too.
The expected negative after tax effect of the measures taken in October 2022 amounted to HUF 12.8 billion modification loss and HUF 2.0 billion fair value decrease.

Changes of book value of related loans measured at amortized cost on 30 June 2022:

Gross carrying amount before modification	216,310
Modification due to interest rate cap	(12,802)
Gross carrying amount after modification	**203,508**
Loss allowance before modification	(5,689)
Net amortised cost after modification	**197,819**

NOTE 4: IMPACT OF ECONOMIC SITUATION AND CORONA VIRUS (COVID-19) ON THE OTP MORTGAGE BANK (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**

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

The Group shall deposit compulsory reserve in a determined percent of its liabilities at NBH. Liabilities considered in compulsory reserve calculation are as follows:

	2022	2,021
Amounts due from banks and balances with banks/National Bank of Hungary		
Within one year:		
In HUF	16,751	15,621
In foreign currency	15	31
	16,766	**15,652**
Loss allowance	(142)	(33)
Subtotal	**16,624**	**15,619**
Compulsory reserve	154	28
Total	**16,778**	**15,647**
From this: amounts due from OTP Bank	16,618	15,647

An analysis of the change in the provision for impairment	**2022**	**2021**
Balance as at 1 January	**33**	**-**
Provision for the period	710	33
Release of provision	(601)	-
Closing balance	**142**	**33**
Rate of the compulsory reserve	10%*	1%

*From 1. October 2022 the rate of the compulsory reserve is changed.

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 (from 1. October 2022, the minimum and maximum rate that can be chosen) determined by the NBH in a specific decree. The Bank is required to complete compulsory reserve requirements in the second month after the reserve calculation period, requirements shall be completed on a monthly average until September 30 2022 after date daily. 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.

NOTE 6: PLACEMENTS WITH OTHER BANKS (in HUF million)

	2022	2021
Within one year		
In HUF	59,721	9,523
Over one year		
In HUF	159,095	142,794
Subtotal	**218,816**	**152,317**
Impairment	(1,263)	(342)
Total	**217,553**	**151,975**
From this: amounts due from OTP Bank	58,703	477

An analysis of the change in the provision for impairment	**2022**	**2021**
Balance as at 1 January	**342**	**400**
Provision for the period	1,256	101
Release of provision	(335)	(159)
Closing balance	**1,263**	**342**

Interest conditions of placements with other banks	**2022**	**2021**
Within one year		
in HUF	15.45%-16.87%	2.72%-3.65%
Over one year		
in HUF	17.52%-17.79%	4.35% - 4.62%
Average interest of placements with other banks		
Placements with other banks in HUF	8.71%	4.26%

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

	2022	**2021**
Hungarian Government bonds	13,544	16,037
Total	**13,544**	**16,037**
Interest rate:	5.5%	5.5%

The whole portfolio was denominated in HUF as at 31 December 2022.

Remaining maturity of securities at fair value through other comprehensive income can be analysed as follows:

	2022	**2021**
Within one year:		
fixed interest		
Over one year:		
fixed interest	13,108	15,599
Total	**13,108**	**15,599**

The valuation of the securities at fair value through other comprehensive income was as follows as at 31 December 2022:

	Amortized cost	**Fair value (net of interest accrual)**
Hungarian Government bonds	16,079	13,108
Total	**16,079**	**13,108**

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

	Amortized cost	**Fair value (net of interest accrual)**
Hungarian Government bonds	16,497	15,599
Total	**16,497**	**15,599**

NOTE 8: LOANS (in HUF million)

Loans measured at fair value through profit or loss

	2022	2021
Within one year	31,189	29,449
Over one year	422,975	376,361
Loans measured at fair value through profit or loss total	**454,164**	**405,810**

Loans measured at fair value through profit or loss are mandatorily measured at fair value through profit or loss.

Loans at amortised cost

	2022	2021
Within one year	89,012	99,370
Over one year	1,092,384	1,054,848
Loans gross total	**1,181,396**	**1,154,218**
Impairment losses	(16,601)	(19,451)
Total	**1,164,795**	**1,134,767**

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

	2022	2021
In HUF	99.99%	99.99%
In foreign currency	0.01%	0.01%
Total	**100%**	**100%**

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

	2022	2021
Loans denominated in HUF	1.12% - 17.17%	1.21% - 10.83%
Average interest on loans denominated in HUF	4.22%	4.34%

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

	2022	2021
Loans denominated in HUF, with a maturity within one year	1% - 19.05%	0.78% - 17.68%
Loans denominated in HUF, with a maturity over one year	0.62% - 15.37%	0.78% - 17.68%
Loans denominated in foreign currency	1.74% - 6.87%	1.74% - 6.87%
Average interest on loans denominated in HUF	6.62%	5.51%
Average interest on loans denominated in foreign currency	4.66%	4.66%

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

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

	2022	2021
Balance as at 1 January	**19,451**	**20,262**
Provision for the period	17,819	24,980
Release of provision	(19,428)	(25,329)
Other movement	(180)	(20)
Partial write-off	(1,061)	(442)
Closing balance	**16,601**	**19,451**

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:

	2022	2021
Loss allowance on placements with other banks	1,030	(25)
Loss allowance on loans at amortised cost	(3,326)	(887)
Total	**(2,296)**	**(912)**

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)

	2022	2021
Government bonds	298,944	175,454
Subtotal	**298,944**	**175,454**
Provision for impairment	(2,325)	(329)
Total	**296,619**	**175,125**

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

	2022	2021
Balance as at 1 January	**329**	**173**
Loss allowance	2,170	235
Release of loss allowance	(174)	(79)
Closing balance at 31 December	**2,325**	**329**

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

	2022	2021
Interest rates on securities at amortised cost	1% - 6.75%	1% - 5%
Average interest on securities at amortised cost denominated in HUF	3.71%	2.50%

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

	2022	2021
Within one year:		
fixed interest	-	27,083
Over one year:		
fixed interest	295,286	146,872
Total	**295,286**	**173,955**

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

For the year ended 31 December 2022

	Intangible assets	Property	Office equipment and vehicles	Construction in progress	Right of use assets	Total
Cost						
Balance as at 1 January 2022	**1,890**	**6**	**260**	**-**	**618**	**2,774**
Additions	267	5	16	31	233	552
Disposals	(109)	(2)	(44)	(21)	(459)	(635)
Balance as at 31 December 2022	**2,048**	**9**	**232**	**10**	**392**	**2,691**
Accumulated Depreciation and Amortization						
Balance as at 1 January 2022	**1,699**	**2**	**212**	**-**	**280**	**2,193**
Charge for the year	121	-	25	-	115	261
Disposals	-	(1)	(41)	-	(284)	(326)
Balance as at 31 December 2022	**1,820**	**1**	**196**	**-**	**111**	**2,128**
Net book value						
Balance as at 1 January 2022	**191**	**4**	**48**	**-**	**338**	**581**
Balance as at 31 December 2022	**228**	**8**	**36**	**10**	**281**	**563**

For the year ended 31 December 2021

	Intangible assets	Property	Office equipment and vehicles	Construction in progress	Right of use assets	Total
Cost						
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**	**0**	**462**	**720**
Balance as at 31 December 2021	**191**	**4**	**48**	**0**	**338**	**581**

NOTE 11: DERIVATIVE FINANCIAL ASSETS DESIGNATED AS HEDGE ACCOUNTING (in HUF million)

	2022	2021
Interest rate swaps designated as fair value hedge	-	-
Interest rate swaps designated as cash flow hedge	11,786	5,397
Total	**11,786**	**5,397**

NOTE 12: OTHER ASSETS (in HUF million)

	2022	2021
Other financial assets		
Receivables from OTP Employee Stock Ownership Program (OTP ESOP)	1,213	772
Receivable related to Hungarian Government subsidies[2]	1,031	1,348
Prepayments and accrued income	157	97
Trade receivables	523	614
Receivables from suppliers	54	47
Other	74	152
Loss allowance	(169)	(179)
Other financial assets total	**2,883**	**2,851**
Other non-financial assets		
Prepayments and accrued income	29	41
Current income tax receivable	1,225	1,622
Inventories	3	3
Other	8	511
Provision for impairment on other assets	(17)	(6)
Other non-financial assets total[3]	**1,248**	**2,171**
Total	**4,131**	**5,022**

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

	2022	2021
Balance as at 1 January	**179**	**203**
Charge for the period	84	114
Release of loss allowance	(94)	(138)
Balance as at 31 December	**169**	**179**

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

	2022	2021
Balance as at 1 January	**6**	**5**
Charge for the period	13	8
Release of provision	(2)	(7)
Balance as at 31 December	**17**	**6**

[2] Receivables from Hungarian goverment has been reclassified to other financial assets. In 2021 it was presented amoung other non-financial assets.
[3] Receivables from Hungarian goverment has been reclassified to other financial assets. In 2021 it was presented amoung other non-financial assets.

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

	2022	2021
Within one year:		
in HUF	110,099	508,333
in foreign currency	185	216
EUR	8	11
JPY	171	198
CHF	6	7
Subtotal	**110,284**	**508,549**
Over one year:		
in HUF	949,433	514,223
Subtotal	**949,433**	**514,223**
Total	**1,059,717**	**1,022,772**
From this: amounts due to OTP Bank	875,761	894,390

Interest conditions on amounts due to OTP Bank and other banks

	2022	2021
Within one year:		
in HUF	0.9% - 15.97%	3.2% - 3.79%
in foreign currency	0.1% - 2.83%	(0.58%)-0.36%
Over one year:		
in HUF	0%-15.97%	0%-4.51%

NOTE 14: REPO LIABILITIES (in HUF million)

	2022	2021
Within one year:		
In HUF	13,947	-
Total	**13,947**	**-**

Interest rates on amounts due to banks and deposits from the NBH are as follows:

	2022	2021
Within one year:		
In HUF	4.75%	-
Average interest on repo liabilities in HUF	4.75%	-

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

	2022	2021
Within one year		
In HUF	55,173	8,805
Over one year		
In HUF	916,293	763,206
Total	**971,466**	**772,011**
Issued mortgage bonds during the period (nominal value)	200,000	95,020
Mortgage bonds became due or repurchased during the period (nominal value)	-	122,100
Interest conditions on issued securities		
Interest conditions	1.25%-17.36%	1.25%-11.00%

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

	2022	2021
Nominal value of the issued securities	971,120	771,120
Unamortized premiums	(5,853)	(6,161)
Fair value hedge adjustment	(3,799)	(1,753)
Accrued interest[4]	9,998	8,805
Amortized cost	**971,466**	**772,011**

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 not a maturing mortgage bond. Mortgage bonds were issued in amount of HUF 200,00 billion in 2022, the fees paid during the issue are HUF 545 million.

Issued securities denominated in HUF as at 31 December 2022 (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	4/5/2018	11/24/2023	45,000	45,261	1.75%	fix	not hedged
OJB2024/A	9/17/2018	5/20/2024	70,000	70,466	17.36%	variable	not hedged
OJB2024/C	2/24/2020	10/24/2024	100,000	100,322	17.18%	variable	not hedged
OJB2024/II	10/10/2018	10/24/2024	101,000	100,801	2.50%	fix	not hedged
OJB2025/I	7/31/2009	7/31/2025	150,000	159,793	11.00%	fix	not hedged
OJB2025/II	2/3/2020	11/26/2025	90,000	85,727	1.50%	fix	hedged
OJB2027/I	7/23/2020	10/27/2027	120,100	118,983	1.25%	fix	not hedged
OJB2031/I	8/18/2021	10/22/2031	95,020	89,479	2.50%	fix	not hedged
OJB2029/A	7/25/2022	5/24/2029	200,000	200,634	17.13%	variable	not hedged
Total issued securities			**971,120**	**971,466**			

[4] In 2021 the accrued interest was not disclosed in the reconciliation of the face value and the amortized cost. The Bank extended the this year table as such.

NOTE 15: 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
OJB2023/I	4/5/2018	11/24/2023	45,000	45,457	1.75%	fix	not hedged
OJB2024/A	9/17/2018	5/20/2024	70,000	70,113	4.26%	variable	not hedged
OJB2024/C	2/24/2020	10/24/2024	100,000	100,070	3.95%	variable	not hedged
OJB2024/II	10/10/2018	10/24/2024	101,000	100,442	2.50%	fix	not hedged
OJB2025/I	7/31/2009	7/31/2025	150,000	160,735	11.00%	fix	not hedged
OJB2025/II	2/3/2020	11/26/2025	90,000	87,572	1.50%	fix	hedged
OJB2027/I	7/23/2020	10/27/2027	120,100	118,712	1.25%	fix	not hedged
OJB2031/I	8/18/2021	10/22/2031	95,020	88,910	2.50%	fix	not hedged
Total issued securities			**771,120**	**772,011**			

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

	2022	2021
Interest rate swap designated as fair value hedge	3,889	1,804
Interest rate swap designated as cash flow hedge	-	-
Total	**3,889**	**1,804**

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

	2022	2021
Other financial liabilities		
Accounts payable	2,896	3,827
Accrued expenses[5]	830	1,088
Clearing account[6]	1,700	3,012
Other financial liabilities total	**5,426**	**7,927**
Other non-financial liabilities		
Current income tax payable	420	462
Social contribution	73	83
Settlement accounts	18	-
Other	48	71
Other non-financial liabilities total	**559**	**616**
Other liabilities total	**5,985**	**8,543**

[5] In 2021 the accrued interest was disclosed also in the other non-financial liabilities, In 2022 the Bank aggregated the balances and they are disclosed only in the other financial liabilities.
[6] In 2021 this line called „other" category, in 2022 the Bank decided to discribe more precisely.

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:

	2022	2021
Provision for losses on other off-balance sheet commitments and contingent liabilities	1,395	779
Provisions in accordance with IFRS 9	**1,395**	**779**
Provision for litigation	53	90
Provisions in accordance with IAS 37	**53**	**90**
Total	**1,448**	**869**

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

	2022	2021
Opening balance	779	732
Provision for the period	5,261	2,643
Release of provision	(4,645)	(2,596)
Closing balance	**1,395**	**779**

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

	2022	2021
Opening balance	90	112
Provision for the period	17,280	3,799
Release of provision	(17,317)	(3,821)
Closing balance	**53**	**90**

NOTE 18: SHARE CAPITAL (in HUF million)

All 820,000 shares are ordinary shares with a nominal value of HUF 100 thousand and are authorised and fully paid.

	2022	2021
Authorized, issued and fully paid:		
Share capital (in HUF million)	82,000	37,000

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.
In 2022, OTP Bank Plc. carried out a capital increase in OTP Mortgage Bank Ltd. in two phases:

Period opening date	Period closing date	Quantity of change	Quantity of total
31/12/2021	29/06/2022	370,000	370,000
29/06/2022	15/12/2022	200,000	570,000
15/12/2022	31/12/2022	250,000	820,000
Total			**820,000**

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

In 2022 dividend of HUF 18 billion was proposed by the Management, which was fully paid. In 2023 dividend not expected to be proposed by the Management.

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. This line contains changes in fair value of financial assets at fair value through other comprehensive income and cash flow hedge reserve.

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.

	2022	2021
Retained earnings	24,629	18,831
Capital reserve	476	476
General reserves	20,464	21,424
Fair value of financial instruments measured at fair value through other comprehensive income	(2,598)	(787)
Share-based payment reserve	137	105
Fair value of derivative financial instruments designated as cash-flow hedge	9,905	3,853
Net (loss) /profit for the period	(10,340)	22,838
Retained earnings and other reserves	**42,673**	**66,740**

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

	2022	2021
Balance as at 1 January	(818)	844
Change of fair value correction	(2,073)	(1,825)
Deferred tax related to change of fair value correction	187	163
Closing balance	**(2,704)**	**(818)**

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

	2022	2021
Balance as at 1 January	30	29
Increase of loss allowance	75	1
Closing balance	**105**	**30**

An analysis of the change in fair value adjustment of securities at fair value through other comprehensive income

	2022	2021
Balance as at 1 January	**(787)**	**873**
Fair value increase	(2,073)	(1,825)
Deferred tax related to change of fair value correction	187	163
Change is ECL	**75**	**1**
Closing balance	**(2,598)**	**(787)**

An analysis of the change in fair value of derivative financial instruments designated as cash-flow hedge

	2022	2021
Balance as at 1 January	**3,853**	**(2,798)**
Release	(71,999)	(21,405)
Increase	78,051	28,056
Closing balance	**9,905**	**3,853**

NOTE 20: INTEREST SUBSIDIES RELATED TO HOUSING LOANS

During 2022 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 2022.

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 201,5 billion in 2022, which is 54% more than in the previous year. At the end of the year, the supported loan portfolio of the Mortgage Bank was HUF 581,3 billion, 26.3% more than a year earlier (nominal gross data, include the MNB NHP ZOP loan).

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

	2022	2021
Interest income accounted for using the effective interest rate method from / on		
Loans at amortised cost	72,426	53,369
FVOCI securities	405	415
Placements with other banks	16,134	2,959
Amounts due from banks and balances with National Bank of Hungary	1,685	142
Securities at amortised cost	8,754	2,087
Interest subsidy on housing loans financed by mortgage bonds	4,092	5,753
Subtotal	**103,496**	**64,725**
Income similar to interest income		
Loans mandatorily measured at fair value through profit or loss	18,162	15,711
Swap deals related to Placements with other banks	(462)	(509)
Subtotal	**17,700**	**15,202**
Interest income total	**121,196**	**79,927**
Interest expense due to / from / on		
Amounts due to banks and deposits from the National Bank of Hungary and other banks	52,554	15,549
Leasing liabilities	6	6
Liabilities from issued securities	55,081	28,242
Financial assets	769	19
Repo liabilities	7	-
Subtotal	**108,417**	**43,816**

NOTE 22: **RISK COST (in HUF million)**

	2022	2021
Loss allowance of loans at amortised cost		
Loss allowance	(16,758)	(24,539)
Release of loss allowance	20,084	25,426
Total	**3,326**	**887**
Loss allowance of placements with other banks		
Loss allowance	(1,966)	(549)
Release of loss allowance	936	574
Total	**(1,030)**	**25**
Loss allowance on FVOCI securities		
Loss allowance	(82)	(15)
Release of loss allowance	7	14
Total	**(75)**	**(1)**
Loss allowance of securities at amortised cost		
Loss allowance	(2,170)	(235)
Release of loss allowance	174	79
Total	**(1,996)**	**(156)**
Provision on loan commitments and financial guarantees		
Loss allowance	(5,261)	(2,643)
Release of loss allowance	4,645	2,596
Total	**(616)**	**(47)**
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	355	(986)
Total	**355**	**(986)**
Net loss allowance / (release of loss allowance) total	**(36)**	**(278)**

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

Income from fees and commissions

	2022	2021
Fees and commissions relating to lending	2,731	2,385
Other	4,094	4,015
part of OTP Ingatlanpont Llc	*4,041*	*3,860*
part of OTP Pénzügyi Pont Ltd.	*(391)*	*(384)*
Total	**6,825**	**6,400**

Expense from fees and commissions

	2022	2021
Fees and commissions relating to issued securities	358	332
Fees and commissions relating to lending	3,403	4,348
Others	5,587	5,284
part of OTP Ingatlanpont Llc	*3,115*	*2,939*
part of OTP Pénzügyi Pont Ltd.	*338*	*408*
Total	**9,348**	**9,964**
Net loss from fees and commissions	**(2,523)**	**(3,564)**

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, and includes fees related to FVTPL loans, which are settled when incurred.

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)

	2022	2021
Losses arising from derecognition of financial assets measured at amortised cost		
Loss from loans	(29)	(18)
Other	(32)	(39)
Total	**(61)**	**(57)**

Derecognition of financial assets measured at amortised cost was due to sale of non-perfoming loans.

	2022	2021
Foreign exchange gains / (losses)		
Gains from foreign exchange	7	(4)
Margin gains	1	2
Margin losses	(6)	(1)
Total	**2**	**(3)**

	2022	2021
Gains / (Losses) on financial instruments at fair value through profit or loss and net result on hedge relationships		
Gains on loans mandatorily measured at fair value through profit or loss and result on hedge relationships	29,413	24,523
Losses on loans mandatorily measured at fair value through profit or loss and result on hedge relationships	(15,620)	(19,582)
Total	**13,793**	**4,941**
Total gains and losses from operating income (without other operating income)	**13,795**	**4,938**

For the year ended 31 December 2022 gains and losses attributable to the hedged risk on the hedged item and on the hedging instruments and also ineffectiveness in case of fair value hedge on amortised cost line items as follows

	Hedged items	Hedging instrument	Hedge ineffectiveness
Fair value hedge	2,045	(2,047)	(2)

For the year ended 31 December 2021 gains and losses attributable to the hedged risk on the hedged item and on the hedging instruments and also ineffectiveness in case of fair value hedge on amortised cost line items as follows

	Hedged items	Hedging instrument	Hedge ineffectiveness
Fair value hedge	2,137	(2,125)	12

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

	2022	2021
Other operating income		
Other direct costs of mortgage bond raising		
Income from closed lawsuits	17	29
Green home program, part of the funding for growth scheme	112	(110)
Other	57	74
Total	**186**	**(7)**
Other operating expenses		
Provisions for future liabilities	30	44
Non-repayable assets contributed	(2)	(151)
Other	(46)	(5)
Total	**(18)**	**(112)**
Other administrative expenses:		
Personnel expenses:		
Wages	(1,087)	(1,025)
Taxes related to personnel expenses	(152)	(181)
Other personnel expenses	(148)	(126)
Total	**(1,387)**	**(1,332)**
Depreciation and amortization	**(256)**	**(267)**
Other administrative expenses:		
Bank tax	(2,891)	(2,236)
Credit institution's extra profit tax	(4,782)	-
Other taxes	(86)	(142)
Total taxes, other than income	**(7,759)**	**(2,378)**
Services	(550)	(481)
Professional fees	(1,332)	(1,282)
Rental fees	(118)	(102)
Material type expenses	(31)	(27)
Advertising	(123)	(104)
Other	(6)	(11)
Total	**(9,919)**	**(4,385)**

The table below contains the detailing of the fees for audit services, which is presented in professional fees line item.

	2022	2021
Annual audit without VAT	47.45	47.00
Total	**47.45**	**47.00**

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

	2022	2021
Group key executives	123	116
part of salaries	96	92
part of premiums	11	12
part of jubilee rewards	3	-
part of other personnel expenses	13	12
Total	**123**	**116**

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

NOTE 27: 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 2022 and 2021 is as follows:

	2022	2021
Current tax charge	660	2,231
Deferred tax (benefit)	(38)	(56)
Total income tax charge	**622**	**2,175**

A reconciliation of the deferred tax liability as at 31 December 2022 and 2021 is as follows:

	2022	2021
Balance as at January 1	**216**	**(4)**
Recognized in other comprehensive income tax as tax benefit	187	164
Deferred tax benefit	38	56
Balance as at December 31	**441**	**216**

A reconciliation of deferred tax assets and liabilities as at 31 December 2022 and 2021 is as follows:

	2022	2021
Fair value adjustment for at fair value through other comprehensive income final assets	268	81
Provision for untaken leave	1	1
Amortised cost of loans	176	138
Difference in depreciation and amortization	(4)	(4)
Deferred tax assets / liabilities	**441**	**216**
Net deferred tax assets / liabilities	**441**	**216**

NOTE 27: INCOME TAX (in HUF million) [continued]

A reconciliation of the effective tax rate as at 31 December 2022 and 2021 is as follows:

	2022	2021
Profit / (loss) before income tax	**(9,718)**	**25,013**
Consolidation adjustment	**(587)**	**708**
Income tax expense at statutory tax rates	**-**	**2,315**
Income tax adjustments due to permanent differences are as follows:		
Use of tax	-	(1,134)
Difference in depreciation and amortization	1	1
Tax refund in accordance with Acts on customer Loans	(1)	(1)
Other	-	(115)
Income tax	**-**	**1,066**
Effective tax-rate	0.00%	4.14%
Business tax and innovation contribution	**660**	**1,165**
Total income tax expense	**660**	**2,231**

NOTE 28: LEASE (in HUF million)

The Bank as a lessee:

Average weighted amount of the implicit interest rate/incremental borrowing rate applied to recognise the lease liabilities: ~4.8 %.

Amounts recognised in profit and loss	2022	2021
Interest expense on lease liabilities	6	7
Expense relating to short-term leases	117	102
Leasing liabilities by maturities:		
Within one year	48	119
Over one year	248	244
Total	**296**	**363**

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

	2022	2021
Balance as at 1 January	618	696
Additions due to new contracts	232	-
Derecognition due to expired contracts	(433)	(82)
Change due to revaluation and modification	(25)	4
Closing balance	**392**	**618**
Depreciation		
Balance as at 1 January	280	234
Depreciation charge	108	128
Derecognition due to expired contracts	(283)	(82)
Change due to revaluation and modification	6	-
Closing balance	**111**	**280**
Net carrying amount	**281**	**338**

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 Group has no preference shares and no options or other rights related to shares.

	2022	**2021**
Net income after taxes (in million HUF)	(10,340)	22,838
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (piece)	482,329	370,000
Earnings per share (in HUF)	**(21,438)**	**61,724**

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 Group. The most significant risks the Group faces include[1]:

30.1. 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.

30.1.1. 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.

The net carrying amount of financial assets are considered as maximum exposure to credit risk.

[1] The management of liquidity risk related to financial instruments are shown in Note 36.

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

30.1. Credit risk [continued]

30.1.1. 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 these 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 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 2022:

		Gross carrying amount					Loss allowance				
	Carrying amount	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Cash amount due from banks and balances with the National Bank of Hungary	16,778	16,920	-	-	-	16,920	142	-	-	-	142
Placements with other banks	217,553	218,816	-	-	-	218,816	1,263	-	-	-	1,263
Mortgage loans	1,162,760	1,026,682	105,940	45,966	599	1,179,187	2,905	4,865	8,615	42	16,427
Corporate loans	2,035	884	1,116	209	-	2,209	5	97	72	-	174
Loans at amortised cost	1,164,795	1,027,566	107,056	46,175	599	1,181,396	2,910	4,962	8,687	42	16,601
FVOCI securities	13,544	13,544	-	-	-	13,544	105	-	-	-	105
Securities at amortised cost	296,619	298,944	-	-	-	298,944	2,325	-	-	-	2,325
Other financial assets	2,883	2,987	53	12	-	3,052	-	166	3	-	169
Financial assets total	**1,712,067**	**1,578,777**	**107,109**	**46,187**	**599**	**1,732,672**	**6,762**	**5,128**	**8,690**	**42**	**20,622**
Off balance sheet items	99,690	77,930	23,079	76	-	101,085	200	1,184	11	-	1,395

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					Loss allowance				
	Carrying amount	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Cash amount due from banks and balances with the National Bank of Hungary	15,647	15,680	-	-	-	15,680	33	-	-	-	33
Placements with other banks	151,975	152,317	-	-	-	152,317	342	-	-	-	342
Mortgage loans	1,133,989	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 amortised 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	16,037	16,037	-	-	-	16,037	30	-	-	-	30
Securities at amortised cost	175,125	175,454	-	-	-	175,454	329	-	-	-	329
Other financial assets[1]	2,851	2,972	50	8	-	3,030	1	175	3	-	179
Financial assets total[2]	**1,496,366**	**1,225,350**	**252,850**	**38,039**	**497**	**1,516,736**	**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] In 2021 the other non-financial assets was disclosed in this table, but in 2022 it was eliminated.
[2] In 2021 the other non-financial assets was disclosed in this table, but in 2022 it was eliminated.

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

31.12.2022	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired**	**Total**
Loss allowance as at 1 January 2022 IFRS 9	2,284	7,659	9,462	46	19,451
Transfer to Stage 1	4,477	(4,002)	(475)	-	-
Transfer to Stage 2	(86)	1,794	(1,708)	-	-
Transfer to Stage 3	(7)	(669)	676	-	-
Net remeasurement of loss allowance	(4,354)	377	1,459	1	(2,517)
New financial assets originated or purchased	749	464	62	-	1,275
Financial assets derecognised (other than write-offs)	(153)	(661)	(789)	(5)	(1,608)
Loss allowance as at 31 December 2022	**2,910**	**4,962**	**8,687**	**42**	**16,601**

Loans at amortised cost

31.12.2021	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired**	**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[10]	59[11]	-	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**

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[10] In the current year, all loans were originated in stage 1, however, in the table above, the loans that were disbursed in the current year, but by the end of the year are already in stage 2 or 3, are shown as impairment losses originated in stage 2 and 3
[11] The same applies.

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		
31.12.2022	**Stage 1**	**Total**
Loss allowance as at 1 January 2022	342	342
Net remeasurement of loss allowance	128	128
New financial assets originated or purchased	930	930
Financial assets derecognised (other than write-offs)	(137)	(137)
Loss allowance as at 31 December 2022	**1,263**	**1,263**

Placements with other banks, net of allowance for placement losses		
31.12.2021	**Stage 1**	**Total**
Loss allowance as at 1 January 2021	400	400
Net remeasurement of loss allowance	(56)	(56)
New financial assets originated or purchased	1	1
Financial assets derecognised (other than write-offs)	(3)	(3)
Loss allowance as at 31 December 2021	**342**	**342**

FVOCI Securities		
31.12.2022	**Stage 1**	**Total**
Loss allowance as at 1 January 2022	30	30
Net remeasurement of loss allowance	75	75
Loss allowance as at 31 December 2022	**105**	**105**

FVOCI Securities		
31.12.2021	**Stage 1**	**Total**
Loss allowance as at 1 January 2021	29	29
Net remeasurement of loss allowance	1	1
Loss allowance as at 31 December 2021	**30**	**30**

Securities at amortised cost		
31.12.2022	**Stage 1**	**Total**
Loss allowance as at 1 January 2022	**329**	**329**
Net remeasurement of loss allowance	1,423	1,423
New financial assets originated or purchased	624	624
Financial assets derecognised (other than write-offs)	(51)	(51)
Loss allowance as at 31 December 2022	**2,325**	**2,325**

Securities at amortised cost		
31.12.2021	**Stage 1**	**Total**
Loss allowance as at 1 January 2021	173	173
Net remeasurement of loss allowance	34	34
New financial assets originated or purchased	122	122
Loss allowance as at 31 December 2021	**329**	**329**

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

30.1. Credit risk [continued]

30.1.1. Analysis by loan types [continued]

Changes in expected credit loss of loan commitments and financial guaranties by IFRS 9 stages

Off Balance sheet items 31.12.2022	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Expected credit loss as at 1 January 2022	417	335	27	779
Transfer from Stage 1 to Stage 2	307	(300)	(7)	-
Transfer from Stage 1 to Stage 3	(27)	28	(1)	-
Transfer from Stage 2 to Stage 1	(1)	(1)	2	-
Net remeasurement of loss allowance	(647)	29	(6)	(624)
New financial assets originated or purchased	170	1,100	7	1,277
Financial assets derecognised (other than write-offs)	(19)	(7)	(11)	(37)
Expected credit loss as at 31 December 2022	**200**	**1,184**	**11**	**1,395**

Off Balance sheet items 31.12.2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Expected credit loss 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)
Expected credit loss as at 31 December 2021	**417**	**335**	**27**	**779**

Loan portfolio by internal ratings

2022	**Gross carrying amount**				
	Stage1	**Stage2**	**Stage3**	**POCI**	**Total**
High grade (1-4)	863,843	36,964	-	151	900,958
Medium grade (5-7)	9,011	14,079	-	65	23,155
Low grade (8-9)	154,712	56,013	-	125	210,850
Non performing	-	-	46,175	258	46,433
Total	**1,027,566**	**107,056**	**46,175**	**599**	**1,181,396**

2022	**Accumulated loss allowance**				
	Stage1	**Stage2**	**Stage3**	**POCI**	**Total**
High grade (1-4)	2,041	1,211	-	6	3,258
Medium grade (5-7)	210	1,153	-	2	1,365
Low grade (8-9)	659	2,598	-	4	3,261
Non performing	-	-	8,687	30	8,717
Total	**2,910**	**4,962**	**8,687**	**42**	**16,601**

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

30.1. Credit risk [continued]

30.1.1. Analysis by loan types [continued]

Loan portfolio by internal ratings

2021	Gross carrying amount				
	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**

2021	Accumulated loss allowance				
	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	2022	2021
Retail	1,179,033	1,152,611
Agriculture, forestry and fishing	2,344	3,106
Other services	19	24
Total gross loans and finance lease receivable	**1,181,396**	**1,155,741**

Loss allowance on loans at amortized cost and finance lease receivable by economic activities	2022	2021
Retail	(16,400)	(19,229)
Agriculture, forestry and fishing	(200)	(217)
Other services	(1)	(5)
Total loss allowance on loans and finance lease receivable	**(16,601)**	**(19,451)**

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	2022	2021
Government guarantees	975,437	772,311
Deposit, securities	20,803	20,733
Mortgage	5,050,553	4,271,846
Total	**6,046,793**	**5,064,890**

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	2022	2021
Government guarantees	13,639	17,143
Deposit, securities	14,788	14,488
Mortgage	1,543,688	1,443,303
Total	**1,572,115**	**1,474,934**

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

2022	Gross carrying amount	Loss allowance	Carrying amount	Collateral value
Mortgage loans	46,522	(8,641)	37,881	140,499
Corporate loans	252	(87)	165	938
Total	**46,774**	**(8,728)**	**38,046**	**141,437**

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

2022	Gross carrying amount	Loss allowance	Carrying amount	Collateral value
Mortgage loans	9,497	(1,449)	8,048	26,675
Total	**9,497**	**(1,449)**	**8,048**	**26,675**

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
Total	**6,973**	**(1,669)**	**5,304**	**18,707**

Offsetting

Derivatives:
The Group does not trade in derivatives or potential derivative transactions are part of designated hedging relationships and as such the Group does not apply offsetting. Derivative transactions are concluded with the Ultimate parent of the Group and this is why based on the Group risk management policies master netting agreements and margin deposits are not applied.

Repo transactions:
The Group has one repo deal with the Ultimate parent of the Group open as at 31 December 2022. This repo deal is backed by one Hungarian Government Bond (2032/A) with a nominal amount HUF 19 billion. For the details of the repo transaction refer to Note 14.

Other balance sheet positions potentially subject to netting arrangements:
The Group does not have netting arrangements in addition to the aforementioned repo transactions.

Collaterals:
The Group's activity is to disburse mortgage loans to its customers. In accordance with the respective act governing the operation of the Group and in accordance with the respective internal risk management policies such mortgage loan exposures are collateralized.

The Group finances its activity by way of issuing mortgage-backed securities (in accordance with the respective act). Such issued bonds are backed by the performing mortgage portfolio.

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

Restructured loans

	2022		2021	
	Gross portfolio	**Allowance**	**Gross portfolio**	**Allowance**
Retail loans	46,307	(1,706)	211,838	(5,992)
Corporate loans	480	(16)	562	(37)
SME loans	718	(83)	918	(97)
Total	**47,505**	**(1,805)**	**213,318**	**(6,126)**

The forborne definition used by the Bank is based on EU 2015/227 regulation.
Restructuring (forbearance) is a modification of the contract – initiated by either the client or the bank – that provides a concession or allowance towards the client in respect to the client’s current or future financial difficulties. The table of restructured loans contains exposures classified as performing forborne. An exposure is considered performing forborne if the conditions of the non-performing status are not met at the time of the restructuring, or the exposure fulfilled the requirements of the minimum one-year cure period as non-performing forborne.
The loan volume of Group classified as performing forborne exclusively due to moratoria participation decreased significantly due the expiration of the probation period for retail exposures.

At fair value through other comprehensive income securities as at 31 December 2022

	Baa2		Not rated		Total
Hungarian government bonds	13,544	100.00%	-	0.00%	13,544
Total	**13,544**	**100.00%**	**-**	**0.00%**	**13,544**

Securities at amortised cost as at 31 December 2022

	Baa2		Not rated		Total
Hungarian government bonds	296,619	100.00%	-	0.00%	296,619
Total	**296,619**	**100.00%**	**-**	**0.00%**	**296,619**

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**

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

30.2. 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.

30.2.1. Interest rate sensitivity analysis[12]

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 were prepared by assuming only the adversing 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.
- Deposits with an interest rate lower than 0.3% even at high market rates were assumed to be unchanged for the whole period.
- The sensitivity of interest income to changes in BUBOR is analysed.

The simulation were prepared by assuming two scenarios:
1. BUBOR increases gradually by 100 bps over the next year (scenario 1)
2. 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, 2023 would be decreased by HUF 293 million (scenario 1) and by HUF 25 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	
		2022	**2021**
HUF	(0.1%) parallel shift	42	351
HUF	0.1% parallel shift	(41)	(351)

30.2.2. 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 made on the assumption, that the price changes happen as a one-off event, and neither does it take into consideration possible balance sheet dynamics, nor the potential increase or decrease of risk costs related to foreign exchange denominated assets.

The total net open position of OTP Mortgage Bank was 144 million HUF long on 31st December 2022 (compared to 21 million HUF as of 31/12/2021), which consisted of EUR, JPY and CHF 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

[12] Quantitative data on interest rate risk are shown in Note 35

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

30.3. 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 2022 as well as in 2021.

The Bank's capital adequacy calculation is in line with IFRS and based on Basel III as at 31 December 2022 and 2021. 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).

Capital adequacy **In HUF million**	**2022**	**2021**
Core capital	126,719	95,972
Regulatory capital	**126,719**	**95,972**
Credit risk capital requirement	59,853	56,741
Market risk requirement	-	-
Operational risk capital requirement	3,368	1,724
Total required regulatory capital	**63,221**	**58,465**
Surplus capital	**63,498**	**37,507**
Capital ratio	16.0%	13.1%

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 (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.

	2022	2021
Current litigations	934	755
Loan facilities	101,085	62,693
Contingent and future liabilities	**102,019**	**63,448**

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 11 million and HUF 17 million as at 31 December 2022 and 2021, 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.

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. The Bank does not have post-employment benefits plan.

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.

For employee benefits of key management personal other than share-based payment refer to Note26.

The parameters for the share-based payment relating to ongoing years 2019-2022 by Supervisory Board for periods of each year as follows:

	The year 2019	**The year 2020**	**The year 2021**	**The year 2022**	**Total**
Group	1.59	3.62	5.34	21	31.55

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

As at 31 December 2022

	EUR	CHF	JPY	USD	Total
Assets	12	7	183	-	202
Liabilities	(245)	(6)	(171)	(2)	(424)
Net position	**(233)**	**1**	**12**	**(2)**	**(222)**

As at 31 December 2021

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

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 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 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	**2022**	**2021**
Cash, amounts due from OTP Bank	16,618	15,647
Placements with OTP Bank	58,703	477
Accrued receivables	99	40

Liabilities	**2022**	**2021**
Amounts due to OTP Bank and other banks	(875,761)	(894,390)
Repo liabilities	(13,947)	-
Face value of issued mortgage bonds held by OTP Bank	(316,196)	(12,100)
Accrued interest expense due to OTP Bank	(3,977)	(29)
Other liabilities due to OTP Bank	(2,224)	(276)

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

	2022	**2021**
Interest income	579	1,195
Interest expense	(49,192)	(9,765)
Account handling fees paid to OTP Bank	(3,000)	(4,611)
Other fees and commissions relating to lending received from OTP Bank	2,203	877
of which: Revenue from the value appraisal activity from OTP Bank	985	876
Other fees and commissions relating to lending paid to OTP Bank	(2,550)	(3,158)

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

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 4,355 million as at 31 December 2021. These loans were covered by HUF 8,826 million mortgages, which can be categorized into 5 different interest periods:

1 year:	4.76% - 5.36%
5 years:	1.70% - 11.02%
10 years:	2.35% - 8.90%
20 years:	2.49% - 4.24%
25 years:	2.50% - 9.20%

The APR[13] rate at the time the loan is disbursed is based on current market rates.

34.3. Outstanding balances/Transactions related to other related party[14]

34.3.1. Transactions related to OTP Building Society Ltd.

	2022	2021
Face value of issued mortgage bonds held by OTP Building Society Ltd.	64,696	64,696
Accrued interest expense	(1,926)	(1,939)

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

	2022	2021
Book value of non-performing loans sold to OTP Faktoring Ltd.	114	8
Selling price of the non-performing loans related to OTP Faktoring Ltd.	95	8

34.3.3. Transactions related to Merkantil Bank Ltd.

	2022	2021
Face value of issued mortgage bonds held bí Merkantil Bank Ltd.	122,665	96,665
Accrued interest expense	(2,248)	(2,223)

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

Compensation of key management personnel is shown in Note 26.

	2022	2021
Other liabilities due to other related party	97	(195)
Other operating income from other related party	137	1,756
Revenue from the value appraisal activity from OTP Faktoring Ltd. And from other related party	1,051	629

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.

[13] Annual Percentage Rate

[14] 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 35: 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.

NOTE 35: INTEREST RATE RISK MANAGEMENT [continued]

As at 31 December 2022	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Subtotal		Total
	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	
Cash, amounts due from banks and balances with the National Banks	**16,766**	**12**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**16,766**	**12**	**16,778**
fixed interest	16,131	3	-	-	-	-	-	-	-	-	-	-	16,131	3	16,134
variable interest	635	9	-	-	-	-	-	-	-	-	-	-	635	9	644
Placements with other banks	**217,553**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**217,553**	**-**	**217,553**
variable interest	217,553	-	-	-	-	-	-	-	-	-	-	-	217,553	-	217,553
Financial assets at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**13,544**	**-**	**-**	**-**	**13,544**	**-**	**13,544**
fixed interest	-	-	-	-	-	-	-	-	13,544	-	-	-	13,544	-	13,544
Loans at amortised cost	**61,760**	**70**	**129,748**	**124**	**62,822**	**-**	**26,442**	**-**	**883,829**	**-**	**-**	**-**	**1,164,601**	**194**	**1,164,795**
fixed interest	73	-	-	-	-	-	-	-	205,483	-	-	-	205,556	-	205,556
variable interest	61,687	70	129,748	124	62,822	-	26,442	-	678,346	-	-	-	959,045	194	959,239
Loans mandatorily measured at fair value through profit or loss	**8,017**	**-**	**10,882**	**-**	**69,856**	**-**	**49,377**	**-**	**316,032**	**-**	**-**	**-**	**454,164**	**-**	**454,164**
variable interest	8,017	-	10,882	-	69,856	-	49,377	-	316,032	-	-	-	454,164	-	454,164
Securities at amortised cost	**-**	**-**	**-**	**-**	**-**	**-**	**32,686**	**-**	**263,933**	**-**	**-**	**-**	**296,619**	**-**	**296,619**
fixed interest	-	-	-	-	-	-	32,686	-	263,933	-	-	-	296,619	-	296,619
Derivative financial assets designated as hedge accounting relationships	**-**	**-**	**-**	**-**	**11,786**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**11,786**	**-**	**11,786**
fixed interest	-	-	-	-	(2,042)	-	-	-	-	-	-	-	(2,042)	-	(2,042)
variable interest	-	-	-	-	13,828	-	-	-	-	-	-	-	13,828	-	13,828
Other financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,864**	**19**	**2,864**	**19**	**2,883**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	2,864	19	2,864	19	2,883

NOTE 35: INTEREST RATE RISK MANAGEMENT [continued]

As at 31 December 2022	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Subtotal		Total
	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	**-**	**-**	**1,610**	**-**	**99,184**	**185**	**51,309**	**-**	**907,429**	**-**	**-**	**-**	**1,059,532**	**185**	**1,059,717**
fixed interest	-	-	-	-	59,677	185	51,309	-	907,429	-	-	-	1,018,415	185	1,018,600
variable interest	-	-	1,610	-	39,507	-	-	-	-	-	-	-	41,117	-	41,117
Repo liabilities	**13,947**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**13,947**	**-**	**13,947**
fixed interest	13,947	-	-	-	-	-	-	-	-	-	-	-	13,947	-	13,947
Liabilities from issued securities	**371,423**	**-**	**-**	**-**	**45,260**	**-**	**100,801**	**-**	**453,982**	**-**	**-**	**-**	**971,466**	**-**	**971,466**
fixed interest	-	-	-	-	45,260	-	100,801	-	453,982	-	-	-	600,043	-	600,043
variable interest	371,423	-	-	-	-	-	-	-	-	-	-	-	371,423	-	371,423
Derivative financial liabilities designated as hedge accounting relationships	**4,424**	**-**	**-**	**-**	**-**	**(535)**	**-**	**-**	**-**	**-**	**-**	**-**	**4,424**	**(535)**	**3,889**
fixed interest	-	-	-	-	-	(535)	-	-	-	-	-	-	-	(535)	(535)
variable interest	4,424	-	-	-	-	-	-	-	-	-	-	-	4,424	-	4,424
Leasing liabilities	**-**	**4**	**1**	**17**	**-**	**60**	**-**	**81**	**-**	**133**	**-**	**-**	**1**	**295**	**296**
fixed interest	-	-	1	-	-	-	-	-	-	-	-	-	1	-	1
variable interest	-	4	-	17	-	60	-	81	-	133	-	-	-	295	295
Other financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,320**	**1**	**5,320**	**1**	**5,321**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	5,320	1	5,320	1	5,321
Net position	**(85,698)**	**78**	**139,019**	**107**	**20**	**290**	**(43,605)**	**(81)**	**115,927**	**(133)**	**(2,456)**	**18**	**123,207**	**279**	**123,486**

NOTE 35: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]

As at 31 December 2021	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Subtotal		Total
	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	
Cash, amounts due from banks and balances with the National Banks	**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
Financial assets at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**16,037**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**16,037**	**-**	**16,037**
fixed interest	-	-	-	-	16,037	-	-	-	-	-			16,037	-	16,037
Loans 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 35: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]

As at 31 December 2021	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Subtotal		Total
	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	Foreign currency	
Amounts due to banks and the Hungarian Government, deposits from the National Bank of Hungary 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**
fixed interest	1	-	1	-	3	-	1	-	(1)	-			5	-	5
variable 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 36: 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.

2022	Within 3 months	Within one year and over 3 month	Within 5 years and over one year	Over 5 years	Total
Cash, due from banks and balances with the National Bank of Hungary	16,920	-	-	-	16,920
Placements with other banks	59,721	-	159,095	-	218,816
Securities at fair value through other comprehensive income	436	-	15,000	-	15,436
Loans measured at amortised cost	50,723	53,995	272,836	866,657	1,244,211
Loans mandatorily measured at fair value through profit or loss	14,172	17,270	98,851	305,781	436,074
Securities at amortised cost	3,658	-	196,365	143,000	343,023
Other financial assets	2,021	-	-	-	2,021
TOTAL ASSETS	**147,651**	**71,265**	**742,147**	**1,315,438**	**2,276,501**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	16,205	85,321	446,625	555,824	1,103,975
Repo liabilities	13,947				13,947
Liabilities from issued securities	9,998	45,000	631,100	295,020	981,118
Leasing liabilities	21	61	214	-	296
Other financial liabilities	5,321	-	-	-	5,321
TOTAL LIABILITIES	**45,492**	**130,382**	**1,077,939**	**850,844**	**2,104,657**
Receivables from derivative financial instruments designated as fair value and cash flow hedge	1,378	2,025	2,334	434	6,171
Liabilities from derivative financial instruments designated as fair value and cash flow hedge	(618)	(1,354)	(3,631)	(443)	(6,046)
Net position of financial instruments designated as fair value hedge	760	671	(1,297)	(9)	125
Net position of derivative financial instruments total	**760**	**671**	**(1,297)**	**(9)**	**125**
Undrawn credit lines	**101,085**	**-**	**-**	**-**	**101,085**

NOTE 36: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF million) [continued]

2021[15]	Within 3 months	Within one year and over 3 month	Within 5 years and over one year	Over 5 years	Total
Cash, due from banks and balances with the National Bank of Hungary	15,647	-	-	-	15,647
Placements with other banks	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	51,707	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
Other financial assets	1,328	354	-	-	1,682
TOTAL ASSETS	**86,602**	**101,521**	**623,757**	**1,101,618**	**1,913,498**
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 and cash flow hedge	167	833	2,382	1,004	4,386
Liabilities from derivative financial instruments designated as fair value and cash flow 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**
Undrawn credit lines	62,693	-	-	-	62,693

[15] In 2021 Property and equipment and intangible assets were disclosed in this table, but in 2022 it was eliminated.

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 37) 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.

Use of modified yield curve

During the year ended 31 December 2022 yield curves derived from hungarian government bonds ("ÁKK curve") have become distorted due to certain market events, which means that real liquidity has concentrated on certain part of the yield curve. Therefore a modified yield curve - which is not observable on the market - has been used at the concerning fair value calculations. This yield curve is based on the relevant yield curve points of the original ÁKK curve. Based on Management's discretion fair value calculated with modified yield curves can represent the perspective of market participants reliable at current market conditions.

Modified yield curve was used for calculating fair value in case of subsidised represented in "Loans mandatorily measured at fair value through profit or loss" line.

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Fair value of financial assets and liabilities

	2022		2021	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash, due from banks and balances with the National Bank of Hungary	16,778	16,778	15,647	15,647
Placements with other banks	217,553	217,553	151,975	151,975
Securities at amortised cost	296,619	260,553	175,125	178,454
Loans at amortised cost	1,164,795	1,020,141	1,134,767	1,175,594
Other financial assets	1,852	1,852	1,503	1,503
Total assets measured not at fair value	**1,697,597**	**1,516,877**	**1,480,540**	**1,523,173**
Securities at fair value through other comprehensive income – debt instruments	13,544	13,544	16,037	16,037
Loans mandatorily measured at fair value through profit or loss	454,164	454,164	405,810	405,810
Derivative financial assets designated as hedge accounting relationships	11,786	11,786	5,397	5,397
Total assets measured at fair value	**479,494**	**479,494**	**427,253**	**427,253**
FINANCIAL ASSETS TOTAL	**2,177,091**	**1,996,371**	**1,906,261**	**1,950,417**
Amounts due to OTP Bank and other banks	1,059,717	914,351	1,022,772	993,614
Repo liabilities	13,947	13,947	-	-
Liabilities from issued securitites	971,466	849,960	772,011	736,904
Leasing liabilities	296	296	363	363
Other financial liabilities	5,321	5,321	8,618	8,618
Total liabilities measured not at fair value	**2,050,747**	**1,783,875**	**1,803,764**	**1,739,499**
Derivative financial instruments designated as hedging instruments	3,889	3,889	1,804	1,804
Total liabilities measured at fair value	**3,889**	3,889	1,804	1,804
FINANCIAL LIABILITIES TOTAL	**2,054,635**	**1,787,763**	**1,805,568**	**1,741,303**

NOTE 37: 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 2022	Total	Level 1	Level 2	Level 3
Loans mandatorily measured at fair value through profit or loss	454,164	-	-	454,164
Securities at fair value through other comprehensive income – debt instruments	13,544	13,544	-	-
Positive fair value of derivative financial instruments designated as fair value hedge	11,786	-	11,786	-
Negative fair value of derivative financial instruments designated as fair value hedge	(3,889)	-	(3,889)	-
Total	**475,605**	**13,544**	**7,897**	**454,164**

As at 31 December 2021	Total	Level 1	Level 2	Level 3
Loans mandatorily measured at fair value through profit or loss	405,810	-	-	405,810
Securities at fair value through other comprehensive income – debt instruments	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	**425,440**	**16,037**	**3,593**	**405,810**

Bonds issued by the Bank are listed on stock exchanges, they are traded in liquid and active market with observable and transparent prices, and therefor they are classified as level 1 in the fair value hierarchy.

Valuation techniques on Level 2 instruments

The fair value of Level 2 instruments is calculated by discounting their expected interest and capital cash flows, Discounting is done with the respective swap curve of each currency.

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.

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Unobservable inputs used in measuring fair value

Type of financial instrument	Fair values at 31 December 2022	Valuation technique	Significant unobservable input	Range of estimates for unobservable input
Loans mandatory measured at fair value through profit and loss	454.164	Discounted cash flow model	Probability of default	+/- 20%
Loans mandatory measured at fair value through profit and loss	454.164	Discounted cash flow model	Operational costs	+/- 20%

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 2022	Unobservable inputs	Carrying amount	Fair values		Effect on profit and loss	
			Favourable	Unfavourable	Favourable	Unfavourable
Loans mandatory measured at fair value through profit and loss	Probability of default	454,164	454,383	453,945	219	(219)
Loans mandatory measured at fair value through profit and loss	Operational costs	454,164	459,950	448,558	5,786	(5,606)

31 December 2021	Unobservable inputs	Carrying amount	Fair values		Effect on profit and loss	
			Favourable	Unfavourable	Favourable	Unfavourable
Loans mandatory measured at fair value through profit and loss	Probability of default	405,810	406,359	405,266	549	(547)
Loans mandatory measured at fair value through profit and loss	Operational costs	405,810	412,864	399,020	7,054	(6,794)

In the loans mandatory measured at fair value through profit or loss the Bank calculated the favourable and unfavourable effects of using reasonably possible alternative assumptions by modifying the rates of probability of default by +/- 20% as one of the most significant unobservable input.

Reconciliation of the opening and closing balances of Level 3 instruments for the year ended 31 December 2022

	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	405,810	76,401	355	13,792	(42,194)	454,164
Total	**405,810**	**76,401**	**355**	**13,792**	**(42,194)**	**454,164**

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

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)	(14,884)	405,810
Total	**318,044**	**106,605**	**986**	**(4,941)**	**(14,884)**	**405,810**

Derivative financial instruments

OTP Mortgage Bank regularly enters into hedging transactions in order to decrease its financial risks.

The assessment of the hedge effectiveness (both for fair value hedges and cash flow hedges) to determine the economic relationship between the hedged item and the hedging instrument is accomplished with prospective scenario analysis via different rate shift scenarios of the relevant risk factor(s) of the hedged risk component(s). The fair value change of the hedged item and the hedging instrument is compared in the different scenarios. Economic relationship is justified if the change of the fair value of the hedged item and the hedging instrument are in the opposite direction and the absolute changes are similar amounts. The hedge ratio is determined as the ratio of the notional of the hedged item and the notional of the hedging instrument. The sources of hedge ineffectiveness are the not hedged risk components (e.g. change of cross currency basis spreads in case of interest rate risk hedges), slight differences in maturity dates and interest payment dates in case of fair value hedges, and differences between the carrying amount of the hedged item and the carrying amount of the hedging instrument (e.g. caused by interest rate risk components in the fair value of the hedging instrument).

Derivatives held for hedging – as at 31 December 2022

	Assets	Liabilities
Derivative financial instruments designated as hedge accounting		
Derivatives designated in fair value hedges		
Interest rate swap	-	3,889
Derivatives designated in cash flow hedges		
Interest rate swaps	11,786	-
Total derivatives designated in cash flow hedges	**11,786**	**3,889**

Derivatives held for hedging – as at 31 December 2021

	Assets	Liabilities
Derivative financial instruments designated as hedge accounting		
Derivatives designated in fair value hedges		
Interest rate swap	-	1,804
Derivatives designated in cash flow hedges		
Interest rate swaps	5,397	-
Total derivatives designated in cash flow hedges	**5,397**	**1,804**

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Hedge accounting

Interest rate risk management is centralized at OTP Mortgage Bank. Interest rate risk is measured by simulating NII and EVE under different stress and plan scenarios, the established risk limits are described in „OTP Bank's Group-Level Regulations on the Management of Liquidity Risk and Interest Rate Risk of Banking Book". The interest rate risk management activity aims to stabilize NII within the approved risk limits.

The risk management objective of these hedge relationships is to mitigate the risk of clean fair value (i.e. excluding accrued interest) change of MIRS loans due to the change of interest rate reference indexes (BUBOR) of the respective currency.

Amount, timing and uncertainty of future cash flows - hedging instruments as at 31 December 2022

2022			**Maturity**		
Interest rate risk- interest rate swap (HUF)	**One to three months**	**Three months to one year**	**One year to five years**	**More than five years**	**Total**
Fair value hedge					
Notional	-	-	15,000	-	15,000
Average Interest Rate	-	-	1.50%	-	
Cash flow hedge					
Notional	1,547	10,647	-	28,027	40,221
Average Interest Rate	4.60%	1.08%	-	1.58%	

Amount, timing and uncertainty of future cash flows - hedging instruments as at 31 December 2021

2021			**Maturity**		
Interest rate risk- interest rate swap (HUF)	**One to three months**	**Three months to one year**	**One year to five years**	**More than five years**	**Total**
Fair value hedge					
Notional	-	-	15,000	-	15,000
Average Interest Rate	-	-	1.50%	-	
Cash flow hedge					
Notional	-	-	12,194	28,027	40,221
Average Interest Rate	-	-	1.01%	1.58%	

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Hedge accounting as at 31 December 2022

Interest rate risk	Nominal amount	Carrying amount		Line item in the statement of financial position where the hedging instrument is located	Change in fair value of hedged item for calculating ineffectiveness for 2022
Interest rate swaps		**Assets**	**Liabilities**		
Fair value hedge	15,000	-	3,889	Derivative financial assets designated as hedge accounting relationships	(2,047)
Cash flow hedge	40,221	11,786	-	Derivative financial liabilities designated as hedge accounting relationships	5,592

	Type of risk	Carrying amount of the hedged item for the year ended 31 December 2022		Amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item		Line item in the statement of financial position in which the hedged item is included
		Assets	**Liabilities**	**Assets**	**Liabilities**	
Fair value hedge						
- Other securities	Interest rate risk	-	14,976	-	(3,799)	Liabilities from issued securities

Hedge accounting as at 31 December 2021

Interest rate risk	Nominal amount	Carrying amount		Line item in the statement of financial position where the hedging instrument is located	Change in fair value of hedged item for calculating ineffectiveness for 2021
Interest rate swaps		**Assets**	**Liabilities**		
Fair value hedge	15,000	-	1,804	Derivative financial assets designated as hedge accounting relationships	(2,125)
Cash flow hedge	40,221	5,397	-	Derivative financial liabilities designated as hedge accounting relationships	6,130

	Type of risk	Carrying amount of the hedged item for the year ended 31 December 2021		Amount of fair value hadge adjustments on the hedged item included in the carrying amount of the hedged item		Line item in the statement of financial position in which the hedged item is included
		Assets	**Liabilities**	**Assets**	**Liabilities**	
Fair value hedge						
- Other securities	Interest rate risk	-	14,961	-	(1,753)	Liabilities from issued securities

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Change in the fair value of the hedging instrument related to cash flow hedge as at 31 December 2022

	Type of risk	**Carrying amount of the hedging instrument for the year ended 31 December 2022**		**Cash flow hedge reserve year ended 31 December 2022**	**Line item in the statement of financial position in which the hedged item is included**
		Assets	**Liabilities**		
Cash flow hedge					
- Loans	Interest rate risk	-	41,117	(9,905)	Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks

Change in the fair value of the hedging instrument related to cash flow hedge as at 31 December 2021

	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**	**Line item in the statement of financial position in which the hedged item is included**
		Assets	**Liabilities**		
Cash flow hedge					
- Loans	Interest rate risk	-	40,357	(3,853)	Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks

For the year ended 31 December 2022 and 31 December 2021 OCI related to cash flow hedges refer to Note 19.

NOTE 38: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2022

Special taxes on financial institutions

Pursuant to Government Decree No. 197/2022 published on 4 June 2022, the Hungarian Government decided to impose a windfall tax on credit institutions and financial enterprises temporarily, that is for 2022 and 2023.
As for 2022, the base of the windfall tax is the net revenues based on the 2021 financial statements, calculated according to local tax law, whereas the tax rate is 10%.
Furthermore, for 2022 the after-tax burden of the windfall tax was HUF 67,8 billion, accounted for in a lump sum in the second quarter.

Prolongation of deadline of loan moratorium and interest rate cap

See Note 4.

Risk relating to the Russian-Ukrainian armed conflict

On 24 February 2022 Russia launched a military operation against Ukraine which is still ongoing at the date of this Report. Until now many countries, as well as the European Union imposed sanctions due to the armed conflict on Russia and Russian businesses and citizens. Russia responded to these sanctions with similar measures.

The armed conflict and the international sanctions influence the business and economic activities significantly all around the world. There are a number of factors associated with the Russian-Ukrainian armed conflict and the international sanctions as well as their impact on global economies that could have a material adverse effect on (among other things) the profitability, capital and liquidity of financial institutions such as the OTP Group.

The armed conflict and the international sanctions cause significant economic damage to the affected parties and in addition they cause disruptions in the global economic processes, of which the precise consequences (inter alia the effects on energy and grain markets, the global transport routes and international trade as well as tourism) are difficult to be estimated at the moment.

It remains unclear how this will evolve through 2022 and the OTP Group continues to monitor the situation closely. However, the OTP Group's ability to conduct business may be adversely affected by disruptions to its infrastructure, business processes and technology services. This may cause significant customer detriment, costs to reimburse losses incurred by the OTP Group’s customers, and reputational damage.

Furthermore, the OTP Group relies on models to support a broad range of business and risk management activities, including informing business decisions and strategies, measuring and limiting risk, valuing exposures, conducting stress testing and assessing capital adequacy. Models are, by their nature, imperfect and incomplete representations of reality because they rely on assumptions and inputs, and as such assumptions may later potentially prove to be incorrect, this can affect the accuracy of their outputs. This may be exacerbated when dealing with unprecedented scenarios, such as the Russian-Ukrainian armed conflict and the international sanctions, due to the lack of reliable historical reference points and data.

Any and all such events mentioned above could have a material adverse effect on the OTP Group’s business, financial condition, results of operations, prospects, liquidity, capital position and credit ratings.

NOTE 39: POST BALANCE SHEET EVENTS

Summary of economic policy measures made and other relevant regulatory changes as post-balance sheet events

In the section below, the measures and developments which have been made since the balance sheet date, and – in OTP Mortgage Bank's view – are relevant and have materially influenced / can materially influence the operation of the Bank.

Pillar1 capital adequacy requirements of OTP Mortgage Bank are (ratios of total risk weighted exposure) the followings: a common equity tier 1 capital ratio of 4.5%, a tier 1 capital ratio of 6.0% and a total capital ratio of 8.0%. Additional capital conservation buffer requirement ratio is 2.5 %. There is no Pillar2 requirement in individual level.

On 24 January 2023 the National Bank of Hungary kept the reference rates unchanged. The NBH held a long-term deposit tender on 25 January, and from 1 February discount bill auctions are held on a weekly basis. Furthermore, the Deputy Governor announced that effective from April the mandatory reserve requirement for banks will be increased from 5% to 10%.

On 27 January 2023 S&P Global Ratings lowered the long- and short-term foreign and local currency sovereign credit ratings on Hungary to 'BBB-/A-3' from 'BBB/A-2'. The outlook on the long-term ratings is stable.

According to the press release published on 30 January 2023 by S&P Global Ratings, the rating agency downgraded its long- and short-term issuer credit ratings, as well as the long- and short-term resolution counterparty ratings on OTP Bank Plc. and OTP Mortgage Bank Ltd. to 'BBB-/A-3' from 'BBB/A-2', and the senior preferred debt rating of OTP Bank Plc. was also downgraded by one notch to 'BBB-'. The outlook on the long-term issuer ratings is stable.

According to the press release published on 6 February 2023 by Moody's Investors Service, the rating agency concluded the ratings review initiated in July 2021. The rating agency downgraded OTP Bank's subordinated bond rating by one notch to 'Ba2' from 'Ba1'. All other ratings and assessments of OTP Bank have been affirmed. Outlook is stable.

At the same time, Moody's Investors Service downgraded the backed long-term domestic currency issuer rating of OTP Mortgage Bank to 'Baa3' from 'Baa2'. All other ratings and assessments of OTP Mortgage Bank have been affirmed. Outlook is stable.

The acquisition of 'I-gen.hu Pénzügyi Szolgáltató Kft' (I-gen.hu Financial Service Ltd) company was completed in January 2023. The purchase price was HUF 35 million. On 26 January 2023, Ingatlanpont Llc carried out a HUF 10 million capital increase in this company. At the date of Annual Report the Group has no information on the accounting and profitability effect of the acquisition. The balance sheet total of I-gen.hu Financial Service Ltd is not significant compared to the consolidated balance sheet total.

One of the main reasons for the current banking crisis is the fact that banks have to recognize significant losses on their fair value measured fixed rate securities that they previously purchased in a low interest rate environment and their fair value has decreased after the sharp increase in rates.
Significant losses can also occur if the low-yield instrument is measured at amortized cost but the bank has to sell it off due to liquidity issues (deposit withdrawals), thus realising the price change losses. The threats described above do not affect OTP Mortgage Bank as a significant part of its securities portfolio is measured at amortized cost, it does not collect any client deposits and has no relationships with the institutions affected by the crisis. The bank's liquidity is stable, it is not expected that the securities measured at amortized cost would have to be sold before maturity, which would mean the realization of any potential losses.

Building a better working world

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Independent Auditor's Report

To the Shareholder of OTP Jelzálogbank Zrt.

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying 2022 consolidated financial statements of OTP Jelzálogbank Zrt. ("the Company") and its subsidiaries (altogether "the Group") included in the accompanying 529900925TK5QIGTBH86-2022-12-31-hu.zip[1] digital file, which comprise the consolidated statement of financial position as at 31 December 2022 - showing a balance sheet total of HUF 2,181,428 million and a total comprehensive loss for the year of HUF 6,099 million -, the related consolidated statement of profit or loss, consolidated statement of other 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 2022 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.

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

[1] Digital identification of the above referred digital file, using SHA 256 HASH algorithm is 09A80935D4422AA06692912916BF0DB1D50FDDAE3AA1764D55C98DD5565018A7

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 relating to loans at amortised cost</u>

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 inherently uncertain processes involving various assumptions and factors, including the financial 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	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 relevant from audit perspective related to the determination of ECL.

models, are unsecured or are subject to potential collateral shortfalls. Given the economic uncertainties from the Russian – Ukrainian conflict, risks of the global economy and payment moratoria in place, the estimation of forward-looking information requires significant judgement.

Due to the significance of loans at amortised cost (representing 53% of Total Assets as of 31 December 2022) and the related estimation uncertainty, this is considered a key audit matter.

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 also assessed the management's assumptions on the expected future cash flows, including the value of realisable collateral and estimates of recovery on default based on our own understanding and available market information.

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 22 Risk cost.

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

A significant part of the Group's financial reporting process, including revenue recognition 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

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.

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.

As our audit of the consolidated 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.

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 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 information

Other information consists of the 2022 consolidated business report of the Group and the Management Analysis and Corporate Governance sections of the 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.

When fulfilling this responsibility we have considered the following law: Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 on Supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format ("ESEF Regulation"), as such prescribing specific requirements for the consolidated business report, in relation with forming our opinion on the consolidated business report.

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 2022 is consistent, in all material respects, with the 2022 consolidated financial statements of the Group and the relevant requirements of the Hungarian Accounting Law and the other law listed above.

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

Report on compliance with the requirements of the regulation on the European Single Electronic Format:

We have undertaken a reasonable assurance engagement on the compliance of the consolidated financial statements included in the digital file - identified in our report - prepared by the Group ("consolidated financial statements in ESEF format") with the requirements set out in the ESEF Regulation.

Responsibilities of the management and those charged with governance for the consolidated financial statements in ESEF format

The Company's management is responsible for preparing the consolidated financial statements in ESEF format that comply with the ESEF Regulation. This responsibility includes:

- the preparation of the consolidated financial statements in the applicable XHTML format;
- the selection and application of appropriate iXBRL tags as required by ESEF Regulation using judgement where necessary; including completeness of use of the relevant tags, appropriateness of creation and anchoring of the extension elements; and
- the design, implementation and maintenance of internal control relevant to the application of the ESEF Regulation.

Those charged with governance are responsible for overseeing the Group's financial reporting process including compliance with the ESEF

Our responsibility and summary of the work performed

Our responsibility is to express an opinion on whether the consolidated financial statements in ESEF format complies, in all material respects, with the requirements of the ESEF Regulation based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with Hungarian National Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000).

A reasonable assurance engagement in accordance with ISAE 3000 involves performing procedures to obtain evidence about compliance with the ESEF Regulation. The nature, timing and extent of procedures selected depend on the auditor's judgment, including the assessment of the risks of material departures from the requirements set out in the ESEF Regulation whether due to fraud or error. Our reasonable assurance engagement included obtaining an understanding of the tagging, obtaining an understanding of the Group's internal controls relevant to the application of the requirements of the ESEF Regulation, verifying whether the XHTML format was applied properly, evaluating the completeness of the Group's tagging of the consolidated financial statements using the XBRL markup language, evaluating the appropriateness of the Group's use of iXBRL elements selected from the ESEF taxonomy and the creation of extension elements where no suitable element in the ESEF taxonomy has been identified and evaluating the use of anchoring in relation to the extension elements.
We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements in ESEF format of the Group for the year ended 31 December 2022 included in the digital file -identified in our report - complies, in all material respects, with the requirements of the ESEF Regulation.

Building a better working world

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 4 April 2022. 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 two years.

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, 4 April 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

FOR THE YEAR ENDED
31 DECEMBER 2022

This is a translation of the Hungarian Report

OTP MORTGAGEBANK LTD.

CONTENTS

OTP MORTGAGE BANK LTD.

SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022 (in HUF million)

	Note	2022	2021
Cash, amounts due from banks and balances with the National Bank of Hungary	5.	16,135	14,568
Placements with other banks	6.	217,553	151,975
Financial assets at fair value through other comprehensive income	7.	13,544	16,037
Loans at amortised cost	8.	1,166,744	1,136,290
Loans mandatorily measured at fair value through profit or loss	8.	454,173	405,819
Securities at amortised cost	10.	296,619	175,125
Investments in subsidiaries	9.	3,213	3,063
Property and equipment	11.	20	12
Intangible assets	11.	200	191
Right of use assets	11.	198	175
Derivative financial assets designated as hedge accounting relationships	12.	11,786	5,397
Current income tax assets		1,051	-
Defered tax assets		264	78
Other assets	13.	3,796	4,581
TOTAL ASSETS		**2,185,296**	**1,913,311**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	14.	1,059,717	1,022,772
Repo liabilities	15.	13,947	-
Liabilities from issued securities	16.	971,466	772,011
Derivative financial liabilities designated as hedge accounting relationships	17.	3,889	1,804
Current income tax liabilities		-	465
Leasing liabilities	29.	197	182
Provisions	18.	1,432	804
Other liabilities	18.	5,422	7,593
TOTAL LIABILITIES		**2,056,070**	**1,805,631**
Share capital	19.	82,000	37,000
Retained earnings and reserves	19.	47,226	70,680
TOTAL SHAREHOLDER'S EQUITY		**129,226**	**107,680**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**2,185,296**	**1,913,311**

Budapest, 4 April 2023

…………………………………………….	…………………………………………...
András Becsei	Péter Radics
Chief Executive Officer	Chief Financial Officer

OTP MORTGAGE BANK LTD.
SEPARATE STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2022
(in HUF million)

	Note	Year ended 31 December 2022	Year ended 31 December 2021
Interest Income:			
Interest income calculated using the effective interest method	22.	103,170	64,523
Income similar to interest income	22.	17,700	15,202
Total Interest Income		**120,870**	**79,725**
Interest Expense:			
Total Interest Expense	22.	**(108,416)**	**(43,816)**
NET INTEREST INCOME		**12,454**	**35,909**
Loss allowance on loan, placement and repo receivables losses	23.	2,296	912
Loss allowance / (Release of loss allowance) on securities at fair value through other comprehensive income and on securities at amortised cost	23.	(2,071)	(157)
Provision for loan commitments and financial guarantees given	23.	(616)	(47)
Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit of loss	23.	355	(986)
Risk cost total		**(36)**	**(278)**
NET INTEREST INCOME AFTER RISK COST		**12,418**	**35,631**
LOSSES ARISING FROM DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTISED COST	25.	(34)	(23)
MODIFICATION LOSS	4.	(22,278)	(6,034)
Income from fees and commissions	24.	3,175	2,924
Expenses from fees and commissions	24.	(6,210)	(6,979)
NET PROFIT FROM FEES AND COMMISSIONS		**(3,035)**	**(4,055)**
Foreign exchange gains / (Losses)	25.	2	(2)
Gains / (Losses) on financial instruments at fair value through profit or loss and net result on hedge relationships	25.	13,793	4,941
Net other operating (expense) / income	26.	104	(77)
Other operating expenses	26.	(73)	(163)
Net operating (expense)/income		**13,826**	**4,699**
Personnel expenses	26.	(708)	(684)
Depreciation and amortization	26.	(185)	(176)
Other administrative expenses	26.	(9,135)	(3,637)
Other administrative expenses		**(10,028)**	**(4,497)**
PROFIT / (LOSS) BEFORE INCOME TAX		**(9,131)**	**25,721**
Income tax expense	28.	(595)	(2,165)
PROFIT / (LOSS) AFTER INCOME TAX		**(9,726)**	**23,556**
Earnings per share (in HUF)			
Basic and diluted	30.	(20,165)	63,665

OTP MORTGAGE BANK LTD.
SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022 (in HUF million)

	Note	2022	2021
(LOSS) / PROFIT AFTER INCOME TAX	20.	**(9,726)**	**23,556**
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	20.	(1,998)	(1,825)
Deferred tax related to securities fair value through other comprehensive income	20.	187	164
Gains on derivative financial instruments designated as cash flow hedge	20.	6,052	6,652
Other comprehensive income, net of income tax		**4,241**	**4,991**
TOTAL COMPREHENSIVE (LOSS) / INCOME		**(5,485)**	**28,547**

OTP MORTGAGE BANK LTD.
SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022
(in HUF million)

	Share capital	Retained earnings and other reserves	Total
Balance as at 1 January, 2021	**37,000**	**42,102**	**79,102**
Net profit for the year	-	23,556	23,556
Other comprehensive income	-	4,991	4,991
Total comprehensive income	**37,000**	**70,649**	**107,649**
Share-based payment	-	31	31
Balance as at 31 December, 2021	**37,000**	**70,680**	**107,680**
Balance as at 1 January, 2022	**37,000**	**70,680**	**107,680**
Net profit for the year	-	(9,726)	(9,726)
Other comprehensive income	-	4,241	4,241
Total comprehensive income	**37,000**	**65,195**	**102,195**
Share-based payment	-	31	31
Dividend paid	-	(18,000)	(18,000)
Share capital raise	45,000	-	45,000
Balance as at 31 December, 2022	**82,000**	**47,226**	**129,226**

OTP MORTGAGE BANK LTD.
SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2022
(in HUF million)

OPERATING ACTIVITIES	Note	31 December 2022	31 December 2021
Profit before income tax		(9,131)	25,721
Net interest (paid) / received		(10,610)	(2,744)
Depreciation and amortization		185	176
Loss allowance on loans and placements	23.	(2,296)	(912)
Loss allowance / (Release of loss allowance) on securities at fair value through other comprehensive income	23.	75	1
Loss allowance / (Release of loss allowance) on securities at amortised cost	23.	1,996	156
Loss allowance / (Release of loss allowance) on other assets	13.	23	19
Provision on off-balance sheet commitments and contingent liabilities	18.	627	30
Share-based payment	33.	31	31
Losses / (gains) on fair value adjustment of loans at fair value through profit or loss		(14,147)	(3,955)
Unrealised losses on fair value adjustment of derivative financial instruments designated in hedge relationships		(3,544)	(4,005)
Interest expense form leasing liabilities	29.	(5)	(6)
Foreign exchange loss		(3)	1
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.	(66,608)	(26,169)
Net increase in loans		(50,729)	(214,594)
Increase in other assets, excluding advances for investments and before provisions for losses	13.	(325)	937
Net (decrease) / increase in amounts due to banks and deposits from the National Bank of Hungary and other banks	14.	50,896	329,697
(Decrease) / Increase in other liabilities	18.	(3,837)	528
Net increase in the compulsory reserve established by the National Bank of Hungary		(126)	(17)
Income tax paid	28.	-	(1,065)
Net cash provided by operating activities		**(107,528)**	**103,827**

OTP MORTGAGE BANK LTD.
SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2022
(in HUF million)

	Note	31 December 2022	31 December 2021
INVESTING ACTIVITIES			
Proceeds from sale of securities at fair value through other comprehensive income	7.	7,080	7,720
Change in derivative financial instruments designated as hedge accounting		(760)	74
Increase in investments in subsidiaries	9.	(150)	-
Increase in securities at amortised cost	10.	(153,424)	(68,170)
Redemption of securities at amortised cost	10.	29,934	1,344
Additions to property, equipment and intangible assets	11.	(114)	(118)
Disposal of property, equipment and intangible assets	11.	-	3
Net cash used in investing activities		**(117,434)**	**(59,147)**
FINANCING ACTIVITIES			
Leasing payments		(52)	(44)
Cash received from issuance of securities	16.	200,000	88,650
Cash used for redemption of issued securities	16.	(545)	(124,130)
Dividends paid		(18,000)	-
Share capital raise		45,000	-
Net cash (used in) / provided by financing activities		**226,403**	**(35,524)**
Net increase / (decrease) in cash and cash equivalents		**1,441**	**9,156**
Cash and cash equivalents at the beginning of the year		**14,540**	**5,384**
Cash and cash equivalents at the end of the year		**15,981**	**14,540**
Interest received		108,731	67,521
Interest paid		82,586	41,486

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 (headquarters Nádor utca 16. Budapest 1051) is the ultimate parent of OTP Mortgage Bank, and also the ultimate parent of OTP Group.

These separate financial statements authorised for issue on 4 April 2023 by the Board of OTP Mortgage Bank. 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 Váci út. 135-139. D Building, Budapest 1138.

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

Signatory of the separate financial statements is the Executive Officer, András Becsei and Financial Officer, Péter Radics.

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 2022 is HUF 36,58 million + VAT.

The shared capital of the Bank consists of 820,000 ordinary shares with a nominal value of HUF 100,000, embodying the same ownership rights.

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 Bank's business is limited to the relevant activities by the aforementioned Act.

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.

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

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 35 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 16,16 years. The Bank is lengthening the average maturity of its outstanding mortgage bonds to reduce the liquidity gaps.

As at 31 December 2022 and 2021 the number and the average number of the employees at the Bank were 40 and 41 respectively.

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 2022

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 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),

    - **IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter** The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1. These amendments had no impact on the consolidated financial statements of the Group as it is not a first-time adopter.

    - **IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities** The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 Financial Instruments: Recognition and Measurement. In accordance with the transitional provisions, the Group applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment (the date of initial application). These amendments had no impact on the consolidated financial statements of the Group as there were no fees charged or incurred related to modifications during the period.

    - **IAS 41 Agriculture – Taxation in fair value measurements** The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41. These amendments had limited impact on the consolidated financial statements of the Group as it have limited assets in scope of IAS 41 as at the reporting date.

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

- **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).

    - **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the previous version of the IASB's Conceptual Framework for Financial Reporting to the current version issued in 2018 without significantly changing the accounting requirements for business combinations.

    - **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment any proceeds from the sale of items produced while bringing the asset to the location and condition necessary for it be capable of operating in the manner intended by management. Instead, a company recognizes such sales proceeds and related cost in profit or loss.

    - **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous. The amendments clarify, the costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to the contract activities.

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 IAS 1 "Presentation of Financial Statements" and IFRS Practice Statement 2**- Disclosure of Accounting policies – adopted by the EU on 2 March 2022 (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 – adopted in the EU on 2 March 2022 (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IFRS 17 "Insurance Contracts" –** adopted by the EU on 19 November 2021 (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 – adopted by the EU on 8 September 2022 (effective date for annual periods beginning on or after 1 January 2023)
- **Amendments to IAS 12 "Income Taxes" –** Deferred Tax related to Assets and Liabilities arising from a Single Transaction – adopted by the EU on 11 August 2022 (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 2024),
- **Amendments to IFRS 16 "Leases"** – Lease Liability in a Sale and Leaseback – issued by IASB on 22 September 2022 (effective for annual periods beginning on or after 1 January 2024)
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded).

The Bank anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies applied in the preparation of the accompanying 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

Initial recognise of foreign currency transactions is based on exchange rate prevailing on the transaction date. 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 reporting date. Income and expenses arising in foreign currencies are converted at the average of Bid and Ask exchange rate of OTP Bank Plc. prevailing on the transaction date. Resulting foreign exchange gains or losses on monetary items are recorded to the Consolidate Statement of Comprehensive Income. The parent entity and all the components are using HUF as both functional and presentational currency.

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

FVOCI securities are held within a business model whose objective is achieved by both collecting of contractual cash flows and selling securities. Furthermore contractual terms of FVOCI securities give rise on specified dates to cash flows that are solely payment of principal and interest on the principal amount outstanding.

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.

2.7. Financial assets at fair value through profit or loss

2.7.1. Derivative financial instruments

In the normal course of business, the Bank is a party to contracts for derivative financial instruments, which represent a low initial investment compared to the notional value of the contract and their value depends on value of underlying asset and are settled in the future. The derivative financial instruments used include interest rate forward or swap agreements and currency forward or swap agreements and options. These financial instruments are used by the Bank both for trading purposes and to hedge interest rate risk and currency exposures associated with its transactions in the financial markets.

Derivative financial instruments are accounted for on a trade date basis and are initially measured at fair value and at subsequent reporting dates also at fair value. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. OTP Bank adopts multi curve valuation approach for calculating the net present value of future cash flows – based on different curves used for determining forward rates and used for discounting purposes. It shows the best estimation of such derivative deals that are collateralised as OTP Bank has almost its entire open derivative transactions collateralised.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss and are included in the Consolidated Statement of Profit or Loss for the period. Each derivative deal is determined as asset when fair value is positive and as liability when fair value is negative

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.

[1] First In First Out

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.7. Financial assets at fair value through profit or loss [continued]

Interest rate swaps

The Bank enters into interest rate swap ("IRS") transactions. The swap transaction is a complex agreement concerning the swap of certain financial instruments, which usually consists of a spot and one or more forward contracts.

Interest rate swaps obligate two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount (the base of the interest calculation). Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps. Such notional principal amounts are often used to express the volume of these transactions but are not actually exchanged between the counterparties. The Bank's interest rate swaps were used for management of interest rate exposures and have been accounted for at mark-to-market fair value.

2.7.3. Hedge Accounting

In the case of a financial instrument measured at amortised cost the Bank recognises the hedging gain or loss on the hedged item as the modification of its carrying amount and it is recognised in profit or loss. These adjustmets of the carrying amount are amortised to the profit or loss using the effective interest rate method. The Bank starts the amortisation when the hedged item is no longer adjusted by the hedging gains or losses. If the hedged item is derecognised, the Bank recognises the unamortised fair value in profit or loss immediately.

Derivative financial instruments designated as fair value

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.

In the case of a financial instrument measured at amortised cost the Bank recognises the hedging gain or loss on the hedged item as the modification of its carrying amount and it is recognised in profit or loss. These adjustments of the carrying amount are amortised to the profit or loss using the effective interest rate method. The Bank starts the amortisation when the hedged item is no longer adjusted by the hedging gains or losses. If the hedged item is derecognised, the Bank recognises the unamortised fair value in profit or loss immediately. For fair value hedges inefficiencies and the net revaluation of hedged and hedging item are recognized in the Gains /(Losses) on financial instruments at fair value through profit or loss and net result on hedge relationship.

The Bank implemented hedge accounting rules prescribed by IFRS 9 in 2018. For further details please see Note 38.

Derivative financial instruments designated as cash flow hedge

Changes in the fair value of derivatives that are designated and qualify as hedging instrument in cash-flow hedges and that prove to be highly effective in relation to the hedged risk are recognized in their effective portion as reserve in Other Comprehensive Income. The ineffective element of the changes in fair value of hedging instrument is charged directly to the Separate Statement of Profit or Loss in the Gains /(Losses) on financial instruments at fair value through profit or loss and net result on hedge relationship.

The Bank terminates the hedge relationship if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting. In the case of cash-flow hedges – in line with the standard - hedge accounting is still applied by the Bank as long as the underlying asset is derecognized or terminated. When the Bank discontinues hedge accounting to a cash-flow hedge the amount in the cash flow hedge reserve is reclassified to the profit or loss if the hedged future cash flows are no longer expected to occur. If the hedged future cash flows are still expected to occur, the amount remains in the cashflow hedge reserve and reclassified to the profit and loss only when the future cash flows occur.

The Group implemented hedge accounting rules prescribed by IFRS 9 in 2018. For further details please see Note 38.

2.8. 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 may apply 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.

The Group did not apply offsetting in 2022 and in 2021.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.9. 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. Derivatives embedded in a liability 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 did not have embedded derivatives in 2022 and in 2021.

2.10. 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”.

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, the subsequent measurement of these loans is under IFRS 9.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

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.

Subsequent recoveries for loans previously written-off partially or fully, which may have been derecognized from the books with no reasonable expectations for the recovery will be booked in the Separate Statement of Profit or Loss on “Income from recoveries of written-off, but legally existing loan” line in Risk cost.

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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.11. 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.

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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.11 Loss allowance [continued]

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

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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.12. Sale and repurchase agreements, security lending

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on the Separate Statement of Financial Position and the consideration received is recorded in Other liabilities or Amounts due to banks, the National Governments, deposits from the National Banks and other banks. Conversely, debt or equity securities purchased under a commitment to resell are not recognized in the Separate Statement of Financial Position and the consideration paid is recorded either in Placements with other banks or Deposits from customers. Interest is accrued based on the effective interest method evenly over the life of the repurchase agreement.

In the case of security lending transactions, the Bank as a transferor does not derecognize the securities because it believes that it retains substantially all the risks and rewards of the ownership of the securities. Only a financial liability is recognized against the consideration received. If the Bank is the transferee in security lending transactions, the Bank does not recognize the securities because it believes that the transferor retains substantially all the risks and rewards of the ownership of the securities. Only a financial receivable is recognized against the consideration paid.

2.13. 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.

2.14. 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	11.1% - 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.

2.15. Financial liabilities

The financial liabilities are presented within these lines in the Separate Financial Statements:

- Amount due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks
- Repo liabilities
- Liabilities from issued securities
- Derivative financial liabilities designated as hedge accounting
- Other financial liabilities

At initial recognition, the Bank measures financial liabilities at fair value plus or minus – in the case of a financial liability not at fair value through profit or loss – transaction costs that are directly attributable to the acquisition or issue of the financial liability.

Usually, the initial fair value of financial liabilities equals to transaction value. However, when the amounts are not equal, the initial fair value difference should be recognized.
If the fair value of financial liabilities is based on a valuation technique using only inputs observable in market transactions, the Bank recognizes the initial fair value difference in the Separate Statement of Profit or Loss.
When the fair value of financial liabilities is based on models for which inputs are not observable, the difference between the transaction price and the fair value is deferred and recognized in profit or loss on a systematic manner.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.15. Financial liabilities [continued]

In the case of financial liabilities measured at amortized cost fees and commissions related to the origination of the financial liability are recognized through profit or loss during the maturity of the instrument using effective interest method. In certain cases, the 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 recognized in the net profit or loss for the period and included in other operating income.

2.16. 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: ~4.8%

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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.17. Share capital

Share capital is the capital determined in the Articles of Association and registered by the Budapest-Capital Regional Court. Share capital is the capital the Bank raised by issuing common stocks at the date the shares were issued. The amount of share capital has not changed over the current period.

2.18. Interest income and income similar to 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) 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. Refer to note 2.7.1. for the presentation of derivative financial instruments.

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.

2.19. 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. Refer to Note 24.

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.

The Bank provides foreign exchange trading services to its customers, the profit margin achieved on these transactions is presented as Net profit from fees and commissions in the Separate Statement of Profit or Loss.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.20. 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.

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.

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

2.21. Income tax

The Bank and some of its subsidiaries are obliged to pay banking tax based on Act LIX of 2006. As the calculation is not based on the taxable profit but on the adjusted total assets as reported in the Separate Financial Statements of the Bank and its entities for the second period preceding the current tax year, therefore, the banking tax is considered as another administrative expense, not as income tax. Pursuant to Government Decree No. 197/2022 published on 4 June 2022, the Hungarian Government decided to impose a windfall tax on credit institutions and financial enterprises temporarily, that is for 2022 and 2023. As for 2022, the base of the windfall tax is the net revenues based on the 2021 financial statements, calculated according to local tax law, whereas the tax rate is 10%.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.22. 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.

2.23. 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. (Personnel expenses)

2.24. Government subsidies to the customers

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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.25. 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. Hedging gains and losses are presented on the same line item, refer to note 2.7.1.

2.26. Comparative figures

These separate financial statements are prepared in accordance with the same accounting policies in all respects as the Financial Statements prepared in accordance with IFRS as adopted by the EU for the year ended 31 December 2021.

The Bank has reclassified items for some notes and adjusted the comparatives in the reporting period. These reclassifications affected the following items in the following notes:

NOTE 13:	OTHER ASSETS Receivable related to Hungarian Government subsidies – were incorrectly classified as other non-financial asset
NOTE 16:	LIABILITIES FROM ISSUED SECURITIES Accrued interests – missing from the prior year component of amortised cost
NOTE 18:	OTHER LIABILITIES AND PROVISIONS Accrued expenses – were incorrectly classified as other non-financial liability
NOTE 24:	NET PROFIT FROM FEES AND COMMISSIONS Receivable recognized under other asset – were incorrectly presented as an Statement of Financial Position item in a disclosure related to the income statement
NOTE 31:	FINANCIAL RISK MANAGEMENT Other financial assets – modified in line with Note 13
NOTE 37:	MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK Property and equipment – were incorrectly presented as financial instrument Intangible assets – were incorrectly presented as financial instrument

These reclassifications are not affecting the primary elements of the Consolidated Financial Statements, only changes are related to the subtotals of certain disclosure notes. We believe that a result of the changes the Consolidated Financial Statements are more transparent to the users of the document.

2.27. Segment report

OTP Mortgage Bank is a subsidiary of OTP Bank engaged in mortgage lending, its activity is regulated by Act XXX of 1997 on Mortgage Loan Companies and on Mortgage Bonds.
As a specialized credit institution, the main activity of OTP Mortgage Bank is retail mortgage lending covered by Hungarian real estate. As a supplementary commercial activity, the company is engaged in real estate appraisal. The company is authorized to issue mortgage bonds, on the other hand it cannot collect deposits.

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 17.)

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: IMPACT OF ECONOMIC SITUATION AND CORONA VIRUS (COVID-19) ON THE OTP MORTGAGE BANK (in HUF mn)

The rapid recovery following the Covid crisis has created capacity bottlenecks in many sectors, which, coupled with rising commodity and energy prices, have significantly increased inflation in advanced economies. In the USA, the rate of inflation has not been at this level since the 1970s. The rapidly rising and increasingly broad-based inflation prompted the Fed to take action and to become the first major central bank to start raising interest rates. This move has significantly strengthened the dollar, and US 10-year yields rose to 4.3%. In the USA, inflation clearly peaked in mid-2022, and has been on a downward trend since then. Inflation also rose rapidly in Europe, where the dramatically growing gas and electricity prices posed the bigger problem. However, inflation also peaked in the euro area by the end of 2022, and has been on a downward trend since October 2022. As the Russia-Ukraine war had a much stronger impact on Europe's economic outlook, and the labour market was much less tight than in the USA, the ECB was slower to react to the rise in inflation. Still, European short-term interest rates also rose to 2% by the end of 2022.

The USA went into a technical recession in the first half of 2022, but this turned out to be temporary, and the US economy resumed growth in the second half-year. Europe's economies proved more resilient than had been expected to the effects of the Russia-Ukraine war. In the first half of the year, growth benefited from the sectors that recovered after the pandemic, but the currency area also avoided recession in the second half of the year, and grew by 3.5% in full year 2022.

The main factor that affected Hungary's economy in 2022 was the war in a neighbouring country. Although the Hungarian economy grew by 8.2% year-on-year in the first quarter and by 6.5% in the second, this was largely fuelled by massive one-off transfers at the beginning of 2022. By the second half of the year, however, the economy had lost steam and entered technical recession (two consecutive quarters of economic contraction) by the end of 2022. As a result, the Hungarian economy grew by 4.6% in 2022 as a whole. Inflation, which went beyond 20% by the end of the year, played a significant role in the downturn, significantly eroding real income, and turning its growth negative by the end of 2022.

The strong domestic demand at the beginning of the year allowed businesses to pass through the ongoing cost shocks to prices. From the second half of the year, a number of administrative measures (tightening of KATA tax rules, windfall taxes, increasing the public heath product tax, scrapping some price caps, etc.) also boosted inflation. As a consequence, Hungary's inflation decoupled from the developments in the euro area, where inflation peaked around 10%, and from the CEE region, where it peaked at 15-17%. In Hungary, inflation did not peak in 2022.

Given that Hungary is a major net energy importer, the sharp rise in energy prices has significantly worsened the Hungarian economy's external balance, which put the forint under depreciation pressure. In addition, the continued delay in agreeing on EU funds has increased the risk premium on HUF assets, which also contributed to the forint's weakening – the MNB could reverse this only by a drastic interest rate hike, when the EUR/HUF was nearing 435. As a result, the effective reference rate rose to 18%. The falling gas prices, and the agreement reached with the EU at the end of 2022 had a benign effect on the HUF's exchange rate.

Falling real incomes and high interest rates have considerably slowed credit market growth. The housing loan market saw the sharpest slowdown: by the end of 2022 (as the Green Home Programme credit line ended), the contracted amount had fallen to half of the level seen in 2021.

Despite the rapidly eroding real incomes, household consumption was still relatively buoyant. But this came at a price: households' ability to save has sharply fallen. Outflows from demand deposits was particularly strong; these amounts flowed into foreign currency deposits and investment fund units.

In 2022 overall ECL of the Group slightly decreased which is the net result of an increase due to worsening macro environment and of a decrease as a result of the migration of clients exiting the moratoria in 2021 from Stage2 to stage1. Uncertainties related to the macro environment are considered via different macro scenarios in the ECL calculation. For the ECL estimation the Group uses 3 macro scenarios from which the weighted average was used as forward-looking element required by IFRS9. The baseline scenario applied by the Group is based on the macroeconomic outlook and consensus of Hungary, in line with publicly available information. The bank's direct exposure towards Ukrainian and Russian citizens is non-material and as such it does not impact directly ECL (indirect effects are reflected in general in the applied macro scenarios).

For the assessment of the Russia-Ukraine war on the going concern ability of OTP Mortgage Bank Group please refer to Note 39.

Banking taxes:

The after tax effect of the special tax on financial institutions payable in Hungary since 2010 reached HUF 2,9 billion for full-year 2022, the whole amount was booked in the first quarter. Furthermore, for 2022 the after tax burden of the windfall tax (announced by the Hungarian Government on 4 June and payable temporarily in 2022 and 2023) was HUF 4,8 billion, accounted for in a lump sum in 2Q.

NOTE 4: IMPACT OF ECONOMIC SITUATION AND CORONA VIRUS (COVID-19) ON THE OTP MORTGAGE BANK (in HUF mn) [continued]

Interest rate caps in Hungary:

For the period between 1 January and 30 June 2022 the Hungarian 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 contractual reference rate as at 27 October 2021. The modification loss related to the interest rate cap for variable rate mortgage loans announced was recognized in the Bank's 2021 financial accounts. The extension of the interest rate cap to housing purposes financial leasing contracts did not have a significant negative effect.
Pursuant to Government Decree No. 215/2022 (issued on 17 June) the Government extended the interest rate cap for variable-rate retail mortgage loans by an additional 6 months, i.e. until 31 December 2022. The expected one-off effect of the extension of the interest rate cap amounted to -HUF 8,7 billion (after tax) and was booked in 2Q 2022.
The details of the extension of the interest rate cap scheme were revealed on 14 October 2022. Firstly, the interest rate cap was further extended by 6 months, until the end of June 2023. Secondly, from 1 November 2022 the provisions of the interest rate cap must applied to the market-based mortgages with up to 5 years interest rate repricing period, too.
The expected negative after tax effect of the measures taken in October 2022 amounted to HUF 12,8 billion and was accounted for in 4Q 2022 in one sum.

Moratorium 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. Similarly, with its Government Decree No. 216/2022 published on 17 June, the Government further extended the expiry of the moratorium, until the end on 2022. Eligible clients had to notify their bank about their intention to participate in the payment holiday until the end of July 2022. The general payment holiday expired at the end of 2022.
Starting from September 2022 to the end of 2023, due to the severe draught, agricultural companies can enjoy a payment moratorium on their working capital and investment loans. Eligible borrowers can decide whether to join the scheme or not. At the end of 2022, HUF 0,7 billion worth of loans were subject to the moratorium for agricultural companies.
During the term of the moratorium OTP Mortgage Bank accrues the unpaid interest in its statement of recognized income, amongst the revenues. At the same time, due to the fact that interest cannot be charged on the unpaid interest, and the unpaid interest will be repaid later, in the course of 2020, 2021 and 2022 altogether HUF 13,7 billion one-off loss emerged in Hungary (after tax).

Other relevant regulatory changes in Hungary in the period under review:
On 5 April 2022 the National Bank of Hungary raised the available amount under the Green Home Programme by an additional HUF 100 billion, up from the originally announced HUF 200 billion.

Pursuant to Government Decree No. 150/2022 published on 14 April 2022, effective from 29 April the intermediary and other fees paid by the State to commercial banks were amended in the case of the Housing Subsidy for Families (CSOK), the VAT refund subsidy for newly built homes, the repayment by the State of housing loan taken out by families with children, and the baby loans. These fees are now set as absolute amounts, instead of the previous percentage terms. Furthermore, the interest subsidy paid by the state was reduced by one percentage point in the case of baby loans requested after 29 April.

According to the press release made by the National Bank of Hungary on 30 June 2022, the counter-cyclical capital buffer rate will be increased, for the first time since its introduction 6 years ago, to 0.5% effective from 1 July 2023.

The baby loan programme which was originally meant to expire by the end of 2022 was extended by 2 years, till the end of 2024.

NOTE 4: IMPACT OF ECONOMIC SITUATION AND CORONA VIRUS (COVID-19) ON THE OTP MORTGAGE BANK (in HUF mn) [continued]

Financial assets modified during the year ended 31 December 2022 related to covid moratorium

Modification due to prolongation of deadline of covid moratoria till 31 July 2022

With its Government Decree No. 216/2022 published on 17 June, the Government further extended the expiry of the moratorium of retail client loans, until the end on 2022. Eligible clients had to notify their bank about their intention to participate in the payment holiday until the end of July, the extended period was effective from 1 August until 31 December.

As a further mesure, Government Decree No. 292/2022 published on 8 August included certain agricultural entrepreneurs in the moratorium from 1 September to 31 December 2023.

Loss HUF 172 million from the modification of amortized cost and further HUF 0.2 million fair value decrease was recognized at the end of July, 2022 due to one month of extension for all clients.

Changes of book value of related loans measured at amortized cost on 31 July, 2022:

Gross carrying amount before modification	78,862
Modification loss due to covid moratoria	(172)
Gross carrying amount after modification	**78,690**
Loss allowance before modification	(7,574)
Net amortised cost after modification	**71,116**

Modification due to prolongation of interest rate cap (30 June 2022)

Pursuant to Government Decree No, 215/2022 (issued on 17 June) the Government extended the interest rate cap for variable-rate retail mortgage loans by an additional 6 months, i,e, until 31 December 2022. The expected one-off effect of the extension of the interest rate cap amounted to -HUF 8,7 billion (after tax) and was booked in 2Q 2022. Loss effect on FVTPL loans was less than HUF 0,1 billion.

Changes of book value of related loans measured at amortized cost on 30 June 2022:

Gross carrying amount before modification	223,497
Modification due to interest rate cap	(8,739)
Gross carrying amount after modification	**214,758**
Loss allowance before modification	(6,191)
Net amortised cost after modification	**208,567**

NOTE 4: IMPACT OF ECONOMIC SITUATION AND CORONA VIRUS (COVID-19) ON THE OTP MORTGAGE BANK (in HUF mn) [continued]

Modification due to moratoria related to agriculture and prolongation of the existing moratoria (30 September 2022)

On 30 September 2022 further HUF 560 million modification loss and HUF 0,7 million fair value decrease was recognized due to clients eligible for the extension of the moratorium between 1 September and 31 December, thereof HUF 27 million modification loss, HUF 413 million gross loan amount and HUF 60 million was related to agricultural entrepreneurs.

Changes of book value of related loans measured at amortized cost on 30 September 2022:

Gross carrying amount before modification	56,491
Modification loss due to covid moratoria	(560)
Gross carrying amount after modification	**55,931**
Loss allowance before modification	(5,506)
Net amortised cost after modification	**50,425**

Modification due to prolongation of interest rate cap (30 November 2022)

With its Government Decree No, 415/2022 published on 26 October, the Government extended interest rate cap measures to variable, reference rate based and non-subsidized loans of micro, small and medium entrepreneurs. Reference rates of 28 June shall be applied for the outstanding volume as at 27 June 2022. Eligible clients had to notify their bank about their intention to participate in the payment holiday until 15 September, the extended period was effective from 15 November. Only HUF 5 million loss resulted from this measure, because of the small rate of corporate loans in Mortgage Banks portfolio.

Changes of book value of loans of agricultural entrepreneurs measured at amortized cost on 30 November 2022:

Gross carrying amount before modification	3,103
Modification due to interest rate cap	(5)
Gross carrying amount after modification	**3,098**
Loss allowance before modification	(90)
Net amortised cost after modification	**3,008**

Modification due to scope extension (mortgage loans with 5 year fixing without subsidy) and prolongation of the existing interest rate cap (31 December 2022)

With its Government Decree No, 216/2022 published on 17 June 2022 Government extended its measures on interest rates. Firstly, the interest rate cap was further extended by 6 months, until the end of June 2023. Secondly, from 1 November 2022 the provisions of the interest rate cap must applied to the market-based mortgages with up to 5 years interest rate repricing period too.
The expected negative after tax effect of the measures taken in October 2022 amounted to HUF 12,8 billion modification loss and HUF 2.0 billion fair vaue decrease.

Changes of book value of related loans measured at amortized cost on 30 June 2022:

Gross carrying amount before modification	216,310
Modification due to interest rate cap	(12,802)
Gross carrying amount after modification	**203,508**
Loss allowance before modification	(5,689)
Net amortised cost after modification	**197,819**

NOTE 4: IMPACT OF ECONOMIC SITUATION AND CORONA VIRUS (COVID-19) ON THE OTP MORTGAGE BANK (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**

In 2022 overall ECL significantly decreased due to he migration of clients exiting the moratoria in 2021 from Stage2 to stage1. Uncertainties related to the macro environment are considered via different macro scenarios in the ECL calculation. The bank's direct exposure towards Ukrainian and Russian citizens is non material, the effect is reflected in lower GDP expectations related to ECL.

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

	2022	2021
Amounts due from banks and balances with banks/National Bank of Hungary		
Within one year:		
In HUF	16,120	14,567
In foreign currency	3	6
	16,123	**14,573**
Loss allowance	(142)	(33)
Subtotal	**15,981**	**14,540**
Compulsory reserve	154	28
Total	**16,135**	**14,568**
From this: amounts due from OTP Bank	15,975	14,601

An analysis of the change in the provision for impairment	**2022**	**2021**
Balance as at 1 January	**33**	**-**
Provision for the period	710	33
Release of provision	(601)	-
Closing balance	**142**	**33**
Compulsory reserve	154	28
Rate of the compulsory reserve	10%*	1%

*From 1. October 2022 the rate of the compulsory reserve is changed.

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 (from 1. October 2022, the minimum and maximum rate that can be chosen) determined by the NBH in a specific decree. The Bank is required to complete compulsory reserve requirements in the second month after the reserve calculation period, requirements shall be completed on a monthly average until 30 September 2022, after date daily. 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.

NOTE 6: PLACEMENTS WITH OTHER BANKS (in HUF million)

	2022	2021
Within one year		
In HUF	59,721	9,523
Over one year		
In HUF	159,095	142,794
Subtotal	**218,816**	**152,317**
Impairment	(1,263)	(342)
Total	**217,553**	**151,975**
From this: amounts due from OTP Bank	58,703	477

NOTE 6: PLACEMENTS WITH OTHER BANKS (in HUF million) [continued]

An analysis of the change in the provision for impairment	2022	2021
Balance as at 1 January	**342**	**400**
Provision for the period	1,256	101
Release of provision	(335)	(159)
Closing balance	**1,263**	**342**

Interest conditions of placements with other banks	2022	2021
Within one year		
in HUF	15.45%-16.87%	2.72%-3.65%
Over one year		
in HUF	17.52%-17.79%	4.35% - 4.62%
Average interest of placements with other banks		
Placements with other banks in HUF	8.71%	4.26%

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

	2022	2021
Hungarian Government bonds	13,544	16,037
Total	**13,544**	**16,037**

The whole portfolio was denominated in HUF as at 31 December 2022.

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

	2022	2021
Over one year:		
fixed interest	13,108	15,599
Total	**13,108**	**15,599**
Interest rate:	5.5%	5.5%

The valuation of the securities at fair value through other comprehensive income was as follows as at 31 December 2022:

	2022	
	Amortized cost	Fair value (net of interest accrual)
Hungarian Government bonds	16,079	13,108
Total	**16,079**	**13,108**

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

	2021	
	Amortized cost	Fair value (net of interest accrual)
Hungarian Government bonds	16,497	15,599
Total	**16,497**	**15,599**

NOTE 8: LOANS (in HUF million)

Loans measured at fair value through profit or loss

	2022	2021
Within one year	31,189	29,449
Over one year	422,984	376,370
Loans measured at fair value through profit or loss total	**454,173**	**405,819**

Loans measured at fair value through profit or loss are mandatorily measured at fair value through profit or loss.

Loans at amortised cost

	2022	2021
Within one year	89,012	99,370
Over one year	1,094,333	1,056,371
Loans gross total	**1,183,345**	**1,155,741**
Provision for impairment on loan losses	(16,601)	(19,451)
Total	**1,166,744**	**1,136,290**

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

	2022	2021
In HUF	99.99%	99.99%
In foreign currency	0.01%	0.01%
Total	**100%**	**100%**

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

	2022	2021
Loans denominated in HUF	1.12% - 17.17%	1.21% - 10.83%
Average interest on loans denominated in HUF	4.22%	4.34%

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

	2022	2021
Loans denominated in HUF, with a maturity within one year	1% - 19.05%	0.78% - 17.68%
Loans denominated in HUF, with a maturity over one year	0.62% - 15.37%	0.78% - 17.68%
Loans denominated in foreign currency	1.74% - 6.87%	1.74% - 6.87%
Average interest on loans denominated in HUF	6.62%	5.51%
Average interest on loans denominated in foreign currency	4.66%	4.66%

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

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

	2022	2021
Balance as at 1 January	**19,451**	**20,262**
Provision for the period	17,819	24,980
Release of provision	(19,428)	(25,329)
Other movement	(180)	(20)
Partial write-off	(1,061)	(442)
Closing balance	**16,601**	**19,451**

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:

	2022	2021
Loss allowance on placements with other banks	1,030	(25)
Loss allowance on loans at amortised cost	(3,326)	(887)
Total	**(2,296)**	**(912)**

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)

	2022	2021
Investments in subsidiaries:		
OTP Ingatlanpont Ltd.	1,867	1,867
OTP Financial Point Ltd.	1,346	1,196
Total	**3,213**	**3,063**

The OTP Mortgage Bank acquired a 100% shareholding in OTP Ingatlanpont Llc. (headquarters:1138 Budapest, Váci út 135-139. A. ép.) in December 2016, the Mortgage Bank also made a capital increase in Ingatlanpont Llc. The acquisition was registered by the Court of Registration in January 2017. (Share capital of OTP Ingatlanpont Llc: 7,5 mn HUF)

The OTP Mortgage Bank acquired a 100% shareholding in OTP Pénzügyi Pont Ltd. (headquarters:1138 Budapest, Váci út 135-139. A. ép.) in July 2019. The Mortgage Bank also made a capital increase in Pénzügyi Pont Ltd. The acquisition was registered by the Court of Registration in October 2019. In September 2022 the Mortgage Bank made a capital increase (150 HUF million) in Pénzügyi Pont Ltd. (Share capital of OTP Pénzügyi Pont Ltd: 52 mn HUF)

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

	2022	2021
Government bonds	298,944	175,454
Subtotal	**298,944**	**175,454**
Provision for impairment	(2,325)	(329)
Total	**296,619**	**175,125**

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

	2022	2021
Balance as at 1 January	**329**	**173**
Loss allowance	2,170	235
Release of loss allowance	(174)	(79)
Closing balance at 31 December	**2,325**	**329**

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

	2022	2021
Interest rates on securities at amortised cost	1% - 6,75%	1% - 5%
Average interest on securities at amortised cost denominated	3.71%	2.50%

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

	2022	2021
Within one year:		
fixed interest	-	27,083
Over one year:		
fixed interest	295,286	146,872
Total	**295,286**	**173,955**

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

For the year ended 31 December 2022

	Intangible assets	Office equipment and vehicles	Construction in progress	Right of use assets	Total
Cost					
Balance as at 1 January 2022	**1,889**	**88**	**-**	**323**	**2,300**
Additions	237	7	17	200	461
Disposals	(107)	(25)	(7)	(323)	(462)
Balance as at 31 December 2022	**2,019**	**70**	**10**	**200**	**2,299**
Accumulated Depreciation and Amortization					
Balance as at 1 January 2022	**1,698**	**76**	**-**	**148**	**1,922**
Charge for the year	121	10	-	52	183
Disposals	-	(26)	-	(198)	(224)
Balance as at 31 December 2022	**1,819**	**60**	**-**	**2**	**1,881**
Net book value					
Balance as at 1 January 2022	**191**	**12**	**-**	**175**	**378**
Additions	116	(3)	17	148	278
Disposals	(107)	1	(7)	(125)	(238)
Balance as at 31 December 2022	**200**	**10**	**10**	**198**	**418**

For the year ended 31 December 2021

	Intangible assets	Office equipment and vehicles	Construction in progress	Right of use assets	Total
Cost					
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**	**0**	**226**	**438**
Additions	(1)	(8)	1	(51)	(59)
Disposals	-	-	(1)	-	(1)
Balance as at 31 December 2021	**191**	**12**	**0**	**175**	**378**

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

	2022	2021
Interest rate swaps designated as fair value hedge	-	-
Interest rate swaps designated as cash flow hedge	11,786	5,397
Total	**11,786**	**5,397**

NOTE 13: OTHER ASSETS (in HUF million)

	2022	2021
Other financial assets		
Receivables from OTP Employee Stock Ownership Program (OTP ESOP)	1,189	709
Receivable related to Hungarian Government subsidies[2]	1,031	1,348
Prepayments and accrued income	156	96
Trade receivables	162	176
Receivables from suppliers	9	9
Other	74	152
Loss allowance	(49)	(41)
Other financial assets total	**2,572**	**2,449**
Other non-financial assets		
Prepayments and accrued income	12	11
Current income tax receivable	1,221	1,616
Other	8	511
Provision for impairment on other assets	(17)	(6)
Other non-financial assets total[3]	**1,224**	**2,132**
Total	**3,796**	**4,581**

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

	2022	2021
Balance as at 1 January	**41**	**23**
Charge for the period	30	66
Release of loss allowance	(22)	(48)
Balance as at 31 December	**49**	**41**

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

	2022	2021
Balance as at 1 January	**6**	**5**
Charge for the period	13	8
Release of provision	(2)	(7)
Balance as at 31 December	**17**	**6**

[2] Receivables from Hungarian goverment has been reclassified to other financial assets. In 2021 it was presented amoung other non-financial assets.
[3] Receivables from Hungarian goverment has been reclassified to other financial assets. In 2021 it was presented amoung other non-financial assets.

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

	2022	2021
Within one year:		
in HUF	110,099	508,333
EUR	8	11
JPY	171	198
CHF	6	7
in foreign currency	185	216
Subtotal	**110,284**	**508,549**
Over one year:		
in HUF	949,433	514,223
	-	-
Subtotal	**949,433**	**514,223**
Total	**1,059,717**	**1,022,772**
From this: amounts due to OTP Bank	875,761	894,390

Interest conditions on amounts due to OTP Bank and other banks

		2021
Within one year:		
in HUF	0.9% - 15.97%	3.2% - 3.79%
in foreign currency	0.1% - 2.83%	(-0.58)-0.36%
Over one year:		
in HUF	0%-15.97%	0%-4.51%

NOTE 15: REPO LIABILITIES (in HUF million)

	2022	2021
Within one year:		
In HUF	13,947	-
Total	**13,947**	**-**

Interest rates on repo liabilities are as follows:

	2022	2021
Within one year:		
In HUF	4.75%	-
		-
Average interest on repo liabilities in HUF	4.75%	-

NOTE 16: LIABILITIES FROM ISSUED SECURITIES (in HUF million)

	2022	2021
Within one year		
In HUF	55,173	8,805
Over one year		
In HUF	916,293	763,206
Total	**971,466**	**772,011**
Issued mortgage bonds during the period (nominal value)	200,000	95,020
Mortgage bonds became due or repurchased during the period (nominal value)	-	122,100
Interest conditions on issued securities		
Interest conditions	1.25%-17.36%	1.25%-11.00%

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

	2022	2021
Nominal value of the issued securities	971,120	771,120
Unamortized premiums	(5,853)	(6,161)
Fair value hedge adjustment	(3,799)	(1,753)
Accrued interest[4]	9,998	8,805
Amortized cost without accumulated interest	**971,466**	**772,011**

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 not a maturing mortgage bond. Mortgage bonds were issued in amount of HUF 200,00 billion in 2022, the fees paid during the issue are HUF 545 million.

[4] In 2021 the accrued interest was not disclosed in the reconciliation of the face value and the amortized cost. The Bank extended the this year table as such.

NOTE 16: LIABILITIES FROM ISSUED SECURITIES (in HUF million) [continued]

Issued securities denominated in HUF as at 31 December 2022 (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	4/5/2018	11/24/2023	45,000	45,261	1.75%	fix	not hedged
OJB2024/A	9/17/2018	5/20/2024	70,000	70,466	17.36%	variable	not hedged
OJB2024/C	2/24/2020	10/24/2024	100,000	100,322	17.18%	variable	not hedged
OJB2024/II	10/10/2018	10/24/2024	101,000	100,801	2.50%	fix	not hedged
OJB2025/I	7/31/2009	7/31/2025	150,000	159,793	11.00%	fix	not hedged
OJB2025/II	2/3/2020	11/26/2025	90,000	85,727	1.50%	fix	hedged
OJB2027/I	7/23/2020	10/27/2027	120,100	118,983	1.25%	fix	not hedged
OJB2031/I	8/18/2021	10/22/2031	95,020	89,479	2.50%	fix	not hedged
OJB2029/A	7/25/2022	5/24/2029	200,000	200,634	17.13%	variable	not hedged
Total issued securities			**971,120**	**971,466**			

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	4/5/2018	11/24/2023	45,000	45,457	1.75%	fix	not hedged
OJB2024/A	9/17/2018	5/20/2024	70,000	70,113	4.26%	variable	not hedged
OJB2024/C	2/24/2020	10/24/2024	100,000	100,070	3.95%	variable	not hedged
OJB2024/II	10/10/2018	10/24/2024	101,000	100,442	2.50%	fix	not hedged
OJB2025/I	7/31/2009	7/31/2025	150,000	160,735	11.00%	fix	not hedged
OJB2025/II	2/3/2020	11/26/2025	90,000	87,572	1.50%	fix	hedged
OJB2027/I	7/23/2020	10/27/2027	120,100	118,712	1.25%	fix	not hedged
OJB2031/I	8/18/2021	10/22/2031	95,020	88,910	2.50%	fix	not hedged
Total issued securities			**771,120**	**772,011**			

NOTE 17: DERIVATIVE FINANCIAL LIABLITIES DESIGNATED AS HEDGE ACCOUNTING (in HUF million)

	2,022	2,021
Interest rate swap designated as fair value hedge	3,889	1,804
Interest rate swap designated as cash flow hedge	-	-
Total	**3,889**	**1,804**

NOTE 18: OTHER LIABILITIES AND PROVISIONS (in HUF million)

	2022	2021
Other financial liabilities		
Accounts payable	2,774	3,636
Accrued expenses[5]	518	587
Clearing account[6]	1,600	2,816
Other financial liabilities total	**4,892**	**7,039**
Other non-financial liabilities		
Current income tax payable	409	424
Social contribution	56	61
Settlement accounts	17	(2)
Other	48	71
Other non-financial liabilities total	**530**	**554**
Other liabilities total	**5,422**	**7,593**

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

	2022	2021
Provision for losses on other off-balance sheet commitments and contingent liabilities	1,395	779
Provisions in accordance with IFRS 9	**1,395**	**779**
Provision for litigation	37	25
Provisions in accordance with IAS 37	**37**	**25**
Total	**1,432**	**804**

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

	2022	2021
Opening balance	**779**	**732**
Provision for the period	5,261	2,643
Release of provision	(4,645)	(2,596)
Closing balance	**1,395**	**779**

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

	2022	2021
Opening balance	**25**	**42**
Provision for the period	17,265	3,799
Release of provision	(17,253)	(3,816)
Closing balance	**37**	**25**

[5] In 2021 the accrued interest was disclosed also in the other non-financial liabilities, In 2022 the Bank aggregated the balances and they are disclosed only in the other financial liabilities.
[6] In 2021 this line called „other" category, in 2022 the Bank decided to discribe more precisely.

NOTE 19: SHARE CAPITAL (in HUF million)

All 820,000 shares are ordinary shares with a nominal value of HUF 100.000 and are authorised and fully paid.

	2022	2021
Authorized, issued and fully paid:		
Share capital (in HUF million)	**82,000**	**37,000**

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.
In 2022, OTP Bank Plc. carried out a capital increase in OTP Mortgage Bank Ltd. in two phases:

Period opening date	Period closing date	Quantity of change	Quantity of total
31/12/2021	29/06/2022	370,000	370,000
29/06/2022	15/12/2022	200,000	570,000
15/12/2022	31/12/2022	250,000	820,000
Total			**820,000**

NOTE 20: RETAINED EARNINGS AND RESERVES (in HUF million)

In 2022 dividend of HUF 18 billion was proposed by the Management, which was fully paid. In 2023 dividend not 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. This line contains changes in fair value of financial assets at fair value through other comprehensive income and cash flow hedge reserve.

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.

The equity correlation table of the Bank based on paragraph 114/B of Act on Accounting as at 1 January 2022

Balance as at 1 January, 2022	Share capital	Capital reserve	Retained earnings and other reserves	Evaluation reserve	Net profit/(loss) for the period	Total
Capital items according to IFRS	**37,000**	**-**	**70,680**	**-**	**-**	**107,680**
Other comprehensive income	-	-	(4,991)	4,991	-	-
Net profit 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**

NOTE 20: 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 2022:

Balance as at 31 December, 2022	Share capital	Capital reserve	Retained earnings and other reserves	Evaluation reserve	Net profit/(loss) for the period	Total
Capital items according to IFRS	**82,000**	**-**	**47,226**	**-**	**-**	**129,226**
Other comprehensive income	-	-	(4,241)	4,241	-	-
Net profit for the year	-	-	9,726	-	(9,726)	-
General reserve	-	20,464	(20,464)	-	-	-
Capital items according to 114/B.§ of Accounting Act	**82,000**	**20,464**	**32,247**	**4,241**	**(9,726)**	**129,226**

	2022	2021
Retained earnings	47,226	70,680
Net profit for the year	-9,726	23,556
Untied retained earnings	**37,500**	**94,236**

	2022	2021
Retained earnings	29,055	23,499
General reserves	20,464	20,464
Fair value of financial instruments measured at fair value through other comprehensive income	(2,598)	(787)
Share-based payment reserve	126	95
Fair value of derivative financial instruments designated as cash-flow hedge	9,905	3,853
Net (loss) /profit for the period	(9,726)	23,556
Retained earnings and other reserves	**47,226**	**70,680**

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

	2022	2021
Balance as at 1 January	**(818)**	**844**
Change of fair value correction	(2,073)	(1,825)
Deferred tax related to change of fair value correction	187	163
Closing balance	**(2,704)**	**(818)**

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

	2022	2021
Balance as at 1 January	**30**	**29**
Increase of loss allowance	75	1
Closing balance	**105**	**30**

An analysis of the change in fair value adjustment of securities at fair value through other comprehensive income

	2022	2021
Balance as at 1 January	**(787)**	**873**
Increase	(2,073)	(1,825)
Deferred tax related to change of fair value correction	187	163
Increase of loss allowance	75	1
Closing balance	**(2,598)**	**(787)**

An analysis of the change in fair value of derivative financial instruments designated as cash-flow hedge

	2022	2021
Balance as at 1 January	**3,853**	**(2,798)**
Increase	(71,999)	(21,405)
Release	78,051	28,056
Closing balance	**9,905**	**3,853**

NOTE 21: INTEREST SUBSIDIES RELATED TO HOUSING LOANS

During 2022 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 2022.

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 201,5 billion in 2022, which is 54% more than in the previous year. At the end of the year, the supported loan portfolio of the Mortgage Bank was HUF 581,3 billion, 26.3% more than a year earlier (nominal gross data, include the MNB NHP ZOP loan).

NOTE 22: INTEREST INCOME AND EXPENSES (in HUF million)

	2022	2021
Interest income accounted for using the effective interest rate method from / on		
Loans at amortised cost	72,135	53,167
FVOCI securities	405	415
Placements with other banks	16,099	2,959
Amounts due from banks and balances with National Bank of Hungary	1,685	142
Securities at amortised cost	8,754	2,087
Interest subsidy on housing loans financed by mortgage bonds	4,092	5,753
Subtotal	**103,170**	**64,523**
Income similar to interest income		
Loans mandatorily measured at fair value through profit or loss	18,162	15,711
Swap deals related to Placements with other banks	(462)	(509)
Subtotal	**17,700**	**15,202**
Interest income total	**120,870**	**79,725**
Interest expense due to / from / on		
Amounts due to banks and deposits from the National Bank of Hungary and other banks	52,554	15,549
Leasing liabilities	5	6
Liabilities from issued securities	55,081	28,242
Financial assets	769	19
Repo liabilities	7	-
Subtotal	**108,416**	**43,816**

NOTE 23: RISK COST (in HUF million)

	2022	2021
Loss allowance of loans at amortised cost		
Loss allowance	(16,758)	(24,539)
Release of loss allowance	20,084	25,426
Total	**3,326**	**887**
Loss allowance of placements with other banks		
Loss allowance	(1,966)	(549)
Release of loss allowance	936	574
Total	**(1,030)**	**25**
Loss allowance on FVOCI securities		
Loss allowance	(82)	(15)
Release of loss allowance	7	14
Total	**(75)**	**(1)**
Loss allowance of securities at amortised cost		
Loss allowance	(2,170)	(235)
Release of loss allowance	174	79
Total	**(1,996)**	**(156)**
Provision on loan commitments and financial guarantees		
Loss allowance	(5,261)	(2,643)
Release of loss allowance	4,645	2,596
Total	**(616)**	**(47)**
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	355	(986)
Total	**355**	**(986)**
Net loss allowance / (release of loss allowance) total	**(36)**	**(278)**

NOTE 24: NET PROFIT FROM FEES AND COMMISSIONS (in HUF million)

Fee and commission income

	2022	2021
Fees and commissions relating to lending	2,731	2,385
Other	444	539
Total	**3,175**	**2,924**

Expense from fees and commissions

	2022	2021
Fees and commissions relating to issued securities	358	332
Fees and commissions relating to lending	3,718	4,710
Others	2,134	1,937
Total	**6,210**	**6,979**
Net loss from fees and commissions	**(3,035)**	**(4,055)**

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, and includes fees related to FVTPL loans, which are settled when incurred.

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 25: GAINS AND LOSSES (in HUF mn)

	2022	2021
Losses arising from derecognition of financial assets measured at amortised cost		
Loss from loans	(34)	(23)
	(34)	**(23)**

	2022	2021
Foreign exchange gains / (losses)		
Gains from foreign exchange	3	(1)
Margin gains	1	-
Margin losses	(2)	(1)
Total	**2**	**(2)**

	2022	2021
Gains / (Losses) on financial instruments at fair value through profit or loss and net result on hedge relationships		
Gains on loans mandatorily measured at fair value through profit or loss and result on hedge relationships	29,413	24,523
Losses on loans mandatorily measured at fair value through profit or loss and result on hedge relationships	(15,620)	(19,582)
Total	**13,793**	**4,941**
Total gains and losses from operating income (without other operating income)	**13,795**	**4,939**

For the year ended 31 December 2022 gains and losses attributable to the hedged risk on the hedged item and on the hedging instruments and also ineffectiveness in case of fair value hedge on amortised cost line items as follows

	Hedged items	Hedging instrument	Hedge ineffectiveness
Fair value hedge	2,045	(-2,047)	(2)

For the year ended 31 December 2021 gains and losses attributable to the hedged risk on the hedged item and on the hedging instruments and also ineffectiveness in case of fair value hedge on amortised cost line items as follows

	Hedged items	Hedging instrument	Hedge ineffectiveness
Fair value hedge	2,137	(-2,125)	12

NOTE 26: NET OTHER OPERATING INCOME AND EXPENSES OTHER ADMINISTRATIVE EXPENSES (in HUF million)

	2022	2021
Other operating income		
Income from closed lawsuits	17	29
Green home program, part of the funding for growth scheme	112	(110)
Other	(25)	4
Total	**104**	**(77)**
Other operating expenses		
Provisions for future liabilities	34	2
Non-repayable assets contributed	1	151
Other	38	10
Total	**73**	**163**
Other administrative expenses:		
Personnel expenses:		
Wages	(564)	(537)
Taxes related to personnel expenses	(77)	(88)
Other personnel expenses	(67)	(59)
Total	**(708)**	**(684)**
Depreciation and amortization	**(185)**	**(176)**
Other administrative expenses:		
Taxes, other than income		
Bank tax	(2,891)	(2,236)
Credit institution's extra profit tax	(4,782)	-
Other taxes	1	(2)
Total taxes, other than income	*(7,672)*	*(2,238)*
Services	(280)	(273)
Professional fees	(1,169)	(1,112)
Rental fees	(9)	(8)
Material type expenses	(4)	(5)
Advertising	(1)	(1)
Total	**(9,135)**	**(3,637)**

The table below contains the detailing of the fees for audit services, which is presented in professional fees line item.

	2022	2021
Annual audit without VAT	36.58	36.07
Total	**36.58**	**36.07**

NOTE 27: COMPENSATION OF KEY MANAGEMENT PERSONNEL (in HUF million)

	2022	2021
Key executives	73	68
part of salaries	62	59
part of jubilee rewards	1	-
part of other personnel expenses	10	9
Total	**73**	**68**

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

NOTE 28: 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 2022 and 2021 is as follows:

	2022	2021
Current tax charge	594	2,165
Deferred tax (benefit)	1	-
Total income tax charge	**595**	**2,165**

A reconciliation of the deferred tax liability as at 31 December 2022 and 2021 is as follows:

	2022	2021
Balance as at January 1	**78**	**(86)**
Recognized in other comprehensive income tax as tax benefit	186	164
Balance as at December 31	**264**	**78**

A reconciliation of deferred tax assets and liabilities as at 31 December 2022 and 2021 is as follows:

	2022	2021
Fair value adjustment for at fair value through other comprehensive income final assets	267	81
Provision for untaken leave	1	1
Difference in depreciation and amortization	(4)	(4)
Deferred tax assets / liabilities	**264**	**78**
Net deferred tax assets / liabilities	**264**	**78**

A reconciliation of the effective tax rate as at 31 December 2022 and 2021 is as follows:

	2022	2021
Profit / (loss) before income tax	-9,131	25,721
Income tax expense at statutory tax rates	-	2,315
Income tax adjustments due to permanent differences are as follows:		
Use of tax	-	(1,135)
Difference in depreciation and amortization	1	1
Tax refund in accordance with Acts on customer Loans	-	(1)
Other	(1)	(115)
Income tax	-	**1,065**
Effective tax-rate	0.00%	4.14%
Business tax and innovation contribution	**594**	**1,100**
Total income tax expense	**594**	**2,165**

NOTE 29: LEASE (in HUF million)

The Bank as a lessee:

Average weighted amount of the implicit interest rate/incremental borrowing rate applied to recognise the lease liabilities: ~4.8 %.

Amounts recognised in profit and loss	**2022**	**2021**
Interest expense on lease liabilities	5	6
Expense relating to short-term leases	9	9

Leasing liabilities by maturities:

	2022	**2021**
Leasing liabilities by maturities:		
Within one year	35	51
Over one year	162	131
Total	**197**	**182**

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**	
	2022	**2021**
Balance as at 1 January	**323**	**323**
Additions due to new contracts	200	-
Derecognition due to matured contracts	(323)	-
Closing balance	**200**	**323**
Depreciation		
Balance as at 1 January	**148**	**97**
Depreciation charge	52	51
Derecognition due to matured contracts	(198)	-
Closing balance	**2**	**148**
Net carrying amount	**198**	**175**

NOTE 30: 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.

	2022	**2021**
Net income after taxes (in million HUF)	-9,726	23,556
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (piece)	482,329	370,000
Earnings per share (in HUF)	**(20,165)**	**63,665**

NOTE 31: 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

31.1. 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.

31.1.1. 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.

The net carrying amount of financial assets are considered as maximum exposure to credit risk.

NOTE 31: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

31.1. Credit risk [continued]

31.1.1. 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 these 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 31: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

31.1. Credit risk [continued]

31.1.1. 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 2022:

		Gross carrying amount					Loss allowance				
	Carrying amount	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Cash amount due from banks and balances with the National Bank of Hungary	16,135	16,277	-	-	-	16,277	142	-	-	-	142
Placements with other banks	217,553	218,816	-	-	-	218,816	1,263	-	-	-	1,263
Mortgage loans	1,164,709	1,028,631	105,940	45,966	599	1,181,136	2,905	4,865	8,615	42	16,427
Corporate loans	2,035	884	1,116	209	-	2,209	5	97	72	-	174
Loans at amortised cost	1,166,744	1,029,515	107,056	46,175	599	1,183,345	2,910	4,962	8,687	42	16,601
FVOCI securities	13,544	13,544	-	-	-	13,544	105	-	-	-	105
Securities at amortised cost	296,619	298,944	-	-	-	298,944	2,325	-	-	-	2,325
Other financial assets	2,572	2,556	53	12	-	2,621	-	46	3	-	49
Financial assets total	**1,713,044**	**1,579,652**	**107,109**	**46,187**	**599**	**1,733,547**	**6,763**	**5,008**	**8,690**	**42**	**20,503**
Off balance sheet items	99,690	77,930	23,079	76	-	101,085	200	1,184	11	-	1,395

NOTE 31: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

31.1. Credit risk [continued]

31.1.1. 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**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Cash amount due from banks and balances with the National Bank of Hungary	14,568	14,601	-	-	-	14,601	33	-	-	-	33
Placements with other banks	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 amortised 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	16,037	16,037	-	-	-	16,037	30	-	-	-	30
Securities at amortised cost	175,125	175,454	-	-	-	175,454	329	-	-	-	329
Other financial assets[1]	2,449	2,432	50	8	-	2,490	1	38	2	-	41
Financial assets total[2]	**1,496,408**	**1,223,732**	**254,371**	**38,040**	**497**	**1,516,640**	**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] In 2021 the other non-financial assets was disclosed in this table, but in 2022 it was eliminated.
[2] In 2021 the other non-financial assets was disclosed in this table, but in 2022 it was eliminated.

NOTE 31: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

31.1. Credit risk [continued]

31.1.1. 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

31.12.2022	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loss allowance as at 1 January 2022 IFRS 9	**2,284**	**7,659**	**9,462**	**46**	**19,451**
Transfer to Stage 1	4,477	(4,002)	(475)	-	-
Transfer to Stage 2	(86)	1,794	(1,708)	-	-
Transfer to Stage 3	(7)	(669)	676	-	-
Net remeasurement of loss allowance	(4,354)	377	1,459	1	(2,517)
New financial assets originated or purchased	749	464	62	-	1,275
Financial assets derecognised (other than write-offs)	(153)	(661)	(789)	(5)	(1,608)
Loss allowance as at 31 December 2022	**2,910**	**4,962**	**8,687**	**42**	**16,601**

Loans at amortised cost

31.12.2021	**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[9]	59[10]	-	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**

[9] In the current year, all loans were originated in stage 1, however, in the table above, the loans that were disbursed in the current year, but by the end of the year are already in stage 2 or 3, are shown as impairment losses originated in stage 2 and 3.
[10] The same applies.

NOTE 31: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

31.1. Credit risk [continued]

31.1.1. 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 31.12.2022	Stage 1	Total
Loss allowance as at 1 January 2022	**342**	**342**
Net remeasurement of loss allowance	128	128
New financial assets originated or purchased	930	930
Financial assets derecognised (other than write-offs)	(137)	(137)
Loss allowance as at 31 December 2022	**1,263**	**1,263**

Placements with other banks, net of allowance for placement losses 31.12.2021	Stage 1	Total
Loss allowance as at 1 January 2021	**400**	**400**
Net remeasurement of loss allowance	-56	-56
New financial assets originated or purchased	1	1
Financial assets derecognised (other than write-offs)	-3	-3
Loss allowance as at 31 December 2021	**342**	**342**

FVOCI Securities 31.12.2022	Stage 1	Total
Loss allowance as at 1 January 2022	**30**	**30**
Net remeasurement of loss allowance	75	75
Loss allowance as at 31 December 2022	**105**	**105**

FVOCI Securities 31.12.2021	Stage 1	Total
Loss allowance as at 1 January 2021	**29**	**29**
Net remeasurement of loss allowance	1	1
Loss allowance as at 31 December 2021	**30**	**30**

Securities at amortised cost 31.12.2022	Stage 1	Total
Loss allowance as at 1 January 2022	**329**	**329**
Net remeasurement of loss allowance	1,423	1,423
New financial assets originated or purchased	624	624
Financial assets derecognised (other than write-offs)	(51)	(51)
Loss allowance as at 31 December 2022	**2,325**	**2,325**

Securities at amortised cost 31.12.2021	Stage 1	Total
Loss allowance as at 1 January 2021	**173**	**173**
Net remeasurement of loss allowance	34	34
New financial assets originated or purchased	122	122
Loss allowance as at 31 December 2021	**329**	**329**

NOTE 31: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

31.1. Credit risk [continued]

31.1.1. Analysis by loan types [continued]

Changes in expected credit loss of loan commitments and financial guaranties by IFRS 9 stages

Off Balance sheet items

31.12.2022	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Expected credit loss as at 1 January 2022	**417**	**335**	**27**	**-**	**779**
Transfer from Stage 1 to Stage 2	307	-300	-7	-	-
Transfer from Stage 1 to Stage 3	-27	28	-1	-	-
Transfer from Stage 2 to Stage 1	-1	-1	2	-	-
Net remeasurement of loss allowance	-647	29	-6	-	-624
New financial assets originated or purchased	170	1,100	7	-	1,277
Financial assets derecognised (other than write-offs)	-19	-7	-11	-	-37
Expected credit loss as at 31 December 2022	**200**	**1,184**	**11**	**-**	**1,395**

Off Balance sheet items

31.12.2021	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Expected credit loss 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
Expected credit loss as at 31 December 2021	**417**	**335**	**27**	**-**	**779**

NOTE 31: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

31.1. Credit risk [continued]

31.1.1. 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

Loan portfolio by internal ratings

2022			**Gross carrying amount**		
	Stage1	**Stage2**	**Stage3**	**POCI**	**Total**
High grade (1-4)	865,792	36,964	-	151	902,907
Medium grade (5-7)	9,011	14,079	-	65	23,155
Low grade (8-9)	154,712	56,013	-	125	210,850
Non performing	-	-	46,175	258	46,433
Total	**1,029,515**	**107,056**	**46,175**	**599**	**1,183,345**

2022			**Accumulated loss allowance**		
	Stage1	**Stage2**	**Stage3**	**POCI**	**Total**
High grade (1-4)	2,041	1,211	-	6	3,258
Medium grade (5-7)	210	1,153	-	2	1,365
Low grade (8-9)	659	2,598	-	4	3,261
Non performing	-	-	8,687	30	8,717
Total	**2,910**	**4,962**	**8,687**	**42**	**16,601**

2021			**Gross carrying amount**		
	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**

2021			**Accumulated loss allowance**		
	Stage1	**Stage2**	**Stage3**	**POCI**	**Total**
High grade (1-4)	1,722	4,018	-	3	5,743
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 31: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

31.1. Credit risk [continued]

Loan portfolio classification by economic activities

Gross loan at amortized cost and finance lease receivable portfolio by economic activities	2022	2021
Retail	1,180,982	1,152,611
Agriculture, forestry and fishing	2,344	3,106
Other services	19	24
Total gross loans and finance lease receivable	**1,183,345**	**1,155,741**

Loss allowance on loans at amortized cost and finance lease receivable by economic activities	2022	2021
Retail	(16,400)	(19,229)
Agriculture, forestry and fishing	(200)	(217)
Other services	(1)	(5)
Total loss allowance on loans and finance lease receivable	**(16,601)**	**(19,451)**

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	2022	2021
Government guarantees	975,437	772,311
Deposit, securities	20,803	20,733
Mortgage	5,050,553	4,271,846
Total	**6,046,793**	**5,064,890**

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	2022	2021
Government guarantees	13,639	17,143
Deposit, securities	14,788	14,488
Mortgage	1,543,688	1,443,303
Total	**1,572,115**	**1,474,934**

NOTE 31: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

31.1. 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

2022	**Gross carrying amount**	**Loss allowance**	**Carrying amount**	**Collateral value**
Mortgage loans	46,522	(8,641)	37,881	140,499
Corporate loans	252	(87)	165	938
Total	**46,774**	**(8,728)**	**38,046**	**141,437**

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

2022	**Gross carrying amount**	**Loss allowance**	**Carrying amount**	**Collateral value**
Mortgage loans	9,497	(1,449)	8,048	26,675
Total	**9,497**	**(1,449)**	**8,048**	**26,675**

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
Total	**6,973**	**(1,669)**	**5,304**	**18,707**

Offsetting

Derivatives:
The Bank does not trade in derivatives or potential derivative transactions are part of designated hedging relationships and as such the Group does not apply offsetting. Derivative transactions are concluded with the Ultimate parent of the Group and this is why based on the Group risk management policies master netting agreements and margin deposits are not applied.

Repo transactions:
The Group has one repo deal with the Ultimate parent of the Group open as at 31 December 2022. This repo deal is backed by one Hungarian Government Bond (2032/A) with a nominal amount HUF 19 billion. For the details of the repo transaction refer to Note 15.

Other balance sheet positions potentially subject to netting arrangements:
The Group does not have netting arrangements in addition to the aforementioned repo transactions.

Collaterals:
The Group's activity is to disburse mortgage loans to its customers. In accordance with the respective act governing the operation of the Group and in accordance with the respective internal risk management policies such mortgage loan exposures are collateralized.

The Group finances its activity by way of issuing mortgage-backed securities (in accordance with the respective act). Such issued bonds are backed by the performing mortgage portfolio.

NOTE 31: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

Restructured loans

	2022		2021	
	Gross portfolio	**Allowance**	**Gross portfolio**	**Allowance**
Retail loans	46,307	(1,706)	211,838	-5,992
Corporate loans	480	(16)	562	(37)
SME loans	718	(83)	918	(97)
Total	**47,505**	**(1,805)**	**213,318**	**-6,126**

The forborne definition used by the Bank is based on EU 2015/227 regulation.
Restructuring (forbearance) is a modification of the contract – initiated by either the client or the bank – that provides a concession or allowance towards the client in respect to the client's current or future financial difficulties. The table of restructured loans contains exposures classified as performing forborne. An exposure is considered performing forborne if the conditions of the non-performing status are not met at the time of the restructuring, or the exposure fulfilled the requirements of the minimum one-year cure period as non-performing forborne.

The loan volume of Mortgage Bank classified as performing forborne exclusively due to moratoria participation decreased significantly due the expiration of the probation period for retail exposures.

At fair value through other comprehensive income securities as at 31 December 2022

	Baa2		**Not rated**		**Total**
Hungarian government bonds	13,544	100.00%	-	0.00%	13,544
Total	**13,544**	**100.00%**	**-**	**0.00%**	**13,544**

Securities at amortised cost as at 31 December 2022

	Baa2		**Not rated**		**Total**
Hungarian government bonds	296,619	100.00%	-	0.00%	296619
Total	**296,619**	**100.00%**	**-**	**0.00%**	**296619**

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**

NOTE 31: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

31.2. 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.

31.2.1. Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. The analysis is prepared assuming the amount of assets and liabilities outstanding at the balance sheet date was outstanding for the whole year. The analysis were prepared by assuming only the adversing 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.
- Deposits with an interest rate lower than 0.3% even at high market rates were assumed to be unchanged for the whole period.
- The sensitivity of interest income to changes in BUBOR is analyzed.

The simulation were prepared by assuming two scenarios:
1. BUBOR increases gradually by 100 bps over the next year (scenario 1)
2. 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, 2023 would be decreased by HUF 293 million (scenario 1) and by HUF 25 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	
		2022	2021
HUF	(0.1%) parallel shift	42	351
HUF	0.1% parallel shift	(41)	(351)

31.2.2. 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 made on the assumption, that the price changes happen as a one-off event, and neither does it take into consideration possible balance sheet dynamics, nor the potential increase or decrease of risk costs related to foreign exchange denominated assets.

The total net open position of OTP Mortgage Bank was 144 million HUF long on 31st December 2022 (compared to 21 million HUF as of 31/12/2021), which consisted of EUR, JPY and CHF 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.

NOTE 31: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

31.3. 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 2022 as well as in 2021.

The Bank's capital adequacy calculation is in line with IFRS and based on Basel III as at 31 December 2022 and 2021. 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	**2022**	**2021**
Core capital	126,719	95,972
Regulatory capital	**126,719**	**95,972**
Credit risk capital requirement	59,853	56,741
Operational risk capital requirement	3,368	1,724
Total required regulatory capital	**63,221**	**58,465**
Surplus capital	**63,498**	**37,507**
Capital ratio	16.0%	13.1%

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 32: OFF-BALANCE SHEET ITEMS (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.

	2022	**2021**
Current litigations	934	755
Loan facilities	101,085	62,693
Contingent and future liabilities	**102,019**	**63,448**

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 11 million and HUF 17 million as at 31 December 2022 and 2021, 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 33: 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.

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. The Bank does not have post-employment benefits plan.

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.

For employee benefits of key management personal other than share-based payment refer to Note 27.

The parameters for the share-based payment relating to ongoing years 2019-2022 by Supervisory Board for periods of each year as follows

	The year 2019	**The year 2020**	**The year 2021**	**The year 2022**	**Total**
OTP Mortgage Bank	1.59	3.2	5.34	21	31.13

NOTE 34: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF million)

As at 31 December 2022

	EUR	CHF	JPY	USD	Total
Assets	12	7	183	-	202
Liabilities	(245)	(6)	(171)	(2)	(424)
Net position	**(233)**	**1**	**12**	**(2)**	**(222)**

As at 31 December 2021

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

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 35: RELATED PARTY TRANSACTIONS (in HUF million)

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

35.1.1. 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	**2022**	**2021**
Cash, amounts due from OTP Bank	15,975	14,568
Placements with OTP Bank	58,703	477
Accrued receivables	99	40

	2022	**2021**
Amounts due to OTP Bank and other banks	(875,761)	(894,390)
Repo liabilities	(13,947)	-
Face value of issued mortgage bonds held by OTP Bank	(316,196)	(150,246)
Accrued interest expense due to OTP Bank	(3,977)	(3,274)
Other liabilities due to OTP Bank	(2,158)	(191)

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

	2022	**2021**
Interest income	544	1,190
Interest expense	(49,192)	(9,765)
Account handling fees paid to OTP Bank	(3,000)	(4,611)
Other fees and commissions relating to lending received from OTP Bank	2,203	877
of which: Revenue from the value appraisal activity from OTP Bank	985	876
Other fees and commissions relating to lending paid to OTP Bank	(2,550)	(3,158)

NOTE 35: RELATED PARTY TRANSACTIONS (in HUF million) [continued]

35.2. 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 4,355 million as at 31 December 2021. These loans were covered by HUF 8,826 million mortgages, which can be categorized into 5 different interest periods:

1 year:	4.76% - 5.36%
5 years:	1.70% - 11.02%
10 years:	2.35% - 8.90%
20 years:	2.49% - 4.24%
25 years:	2.50% - 9.20%

The APR[11] rate at the time the loan is disbursed is based on current market rates.

35.3. Outstanding balances/Transactions related to other related party[12]

35.3.1. Transactions related to OTP Building Society Ltd.

	2022	2021
Face value of issued mortgage bonds held by OTP Building Society Ltd.	64,696	64,696
Accrued interest expense	(1,926)	(1,939)

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

	2022	2021
Book value of non-performing loans sold to OTP Faktoring Ltd.	114	8
Selling price of the non-performing loans related to OTP Faktoring Ltd.	95	8

35.3.3. Transactions related to Merkantil Bank Ltd.

	2022	2021
Face value of issued mortgage bonds held by Merkantil Bank Ltd.	122,665	96,665
Accrued interest expense	(2,248)	(2,223)

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

	2022	2021
Other operating income from other related party	137	1,700
Revenue from the value appraisal activity from OTP Faktoring Ltd. And from other related party	1,051	629

Compensation of key management personnel is shown in Note 27.

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.

[11] Annual Percentage Rate

[12] 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 36: 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.

NOTE 36: INTEREST RATE RISK MANAGEMENT [continued]

As at 31 December 2022	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Subtotal		Total
	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	
Cash, amounts due from banks and balances with the National Banks	**16,132**	**3**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**16,132**	**3**	**16,135**
fixed interest	16,132	3	-	-	-	-	-	-	-	-	-	-	16,132	3	16,135
Placements with other banks	**217,553**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**217,553**	**-**	**217,553**
variable interest	217,553	-	-	-	-	-	-	-	-	-	-	-	217,553	-	217,553
Financial assets at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**13,544**	**-**	**-**	**-**	**13,544**	**-**	**13,544**
fixed interest	-	-	-	-	-	-	-	-	13,544	-	-	-	13,544	-	13,544
Loans at amortised cost	**61,760**	**70**	**129,748**	**124**	**62,822**	**-**	**26,442**	**-**	**885,778**	**-**	**-**	**-**	**1,166,550**	**194**	**1,166,744**
fixed interest	73	-	-	-	-	-	-	-	205,484	-	-	-	205,557	-	205,557
variable interest	61,687	70	129,748	124	62,822	-	26,442	-	680,294	-	-	-	960,993	194	961,187
Loans mandatorily measured at fair value through profit or loss	**8,018**	**-**	**10,882**	**-**	**69,855**	**-**	**49,377**	**-**	**316,041**	**-**	**-**	**-**	**454,173**	**-**	**454,173**
variable interest	8,018	-	10,882	-	69,855	-	49,377	-	316,041	-	-	-	454,173	-	454,173
Securities at amortised cost	**-**	**-**	**-**	**-**	**-**	**-**	**32,686**	**-**	**263,933**	**-**	**-**	**-**	**296,619**	**-**	**296,619**
fixed interest	-	-	-	-	-	-	32,686	-	263,933	-	-	-	296,619	-	296,619
Derivative financial assets designated as hedge accounting relationships	**-**	**-**	**-**	**-**	**11,786**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**11,786**	**-**	**11,786**
fixed interest	-	-	-	-	(2,042)	-	-	-	-	-	-	-	(2,042)	-	(2,042)
variable interest	-	-	-	-	13,828	-	-	-	-	-	-	-	13,828	-	13,828
Other financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,572**		**2,572**	**-**	**2,572**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	2,572		2,572	-	2,572

NOTE 36: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]

As at 31 December 2022	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Subtotal		Total
	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	**-**	**-**	**1,610**	**-**	**99,183**	**185**	**51,309**	**-**	**907,430**	**-**	**-**	**-**	**1,059,532**	**185**	**1,059,717**
fixed interest	-	-	-	-	59,677	185	51,309	-	907,430	-			1,018,416	185	1,018,601
variable interest	-	-	1,610	-	39,506	-	-	-	-	-			41,116	-	41,116
Repo liabilities	**13,947**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**13,947**	**-**	**13,947**
fixed interest	13,947	-	-	-	-	-	-	-	-	-			13,947	-	13,947
Liabilities from issued securities	**371,423**	**-**	**-**	**-**	**45,261**	**-**	**100,800**	**-**	**453,982**	**-**	**-**	**-**	**971,466**	**-**	**971,466**
fixed interest	-	-	-	-	45,261	-	100,800	-	453,982	-			600,043	-	600,043
variable interest	371,423	-	-	-	-	-	-	-	-	-			371,423	-	371,423
Derivative financial liabilities designated as hedge accounting relationships	**4,425**	**-**	**-**	**-**	**-**	**(536)**	**-**	**-**	**-**	**-**	**-**	**-**	**4,425**	**(536)**	**3,889**
fixed interest	-	-	-	-	-	(536)	-	-	-	-			-	(536)	(536)
variable interest	4,425	-	-	-	-	-	-	-	-	-			4,425	-	4,425
Leasing liabilities	**-**	**3**	**-**	**6**	**-**	**28**	**-**	**37**	**-**	**123**	**-**	**-**	**-**	**197**	**197**
variable interest	-	3	-	6	-	28	-	37	-	123			-	197	197
Other financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,792**	**-**	**4,792**	**-**	**4,792**
non-interest-bearing											4,792	-	4,792	-	4,792
Net position	**(86,332)**	**70**	**139,020**	**118**	**19**	**(323)**	**(43,604)**	**(37)**	**117,884**	**(123)**	**(2,220)**	**-**	**124,767**	**43**	**125,118**

NOTE 36: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]

As at 31 December 2021	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Subtotal		Total
	HUF	**FX**	**HUF**	**FX**	**HUF**	**FX**	**HUF**	**FX**	**HUF**	**FX**	**HUF**	**FX**	**HUF**	**FX**	
Cash, amounts due from banks and balances with the National Banks	**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
Financial assets at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**16,037**	**-**	**-**	**-**	**-**	**-**	-	-	**16,037**	**-**	**16,037**
fixed interest	-	-	-	-	16,037	-	-	-	-	-	-	-	16,037	-	16,037
Loans 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	**7,814**	**-**	**11,036**	**-**	**73,064**	**-**	**28,718**	**-**	**285,187**	**-**	-	-	**405,819**	**-**	**405,819**
fixed interest	2	-	-	-	-	-	-	-	-	-	-	-	2	-	2
variable interest	7,812	-	11,036	-	73,064	-	28,718	-	285,187	-	-	-	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 36: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]

As at 31 December 2021	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Subtotal		Total
	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary 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**
variable 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	**100,601**	**83**	**183,893**	**142**	**(397,075)**	**-**	**(409,778)**	**-**	**630,576**	**-**	**(6,632)**	**-**	**101,585**	**225**	**101,810**

NOTE 37: 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.

2022	Within 3 months	Within one year and over 3 month	Within 5 years and over one year	Over 5 years	Total
Cash, due from banks and balances with the National Bank of Hungary	16,277	-	-	-	16,277
Placements with other banks	59,721	-	159,095	-	218,816
Securities at fair value through other comprehensive income	436	-	15,000	-	15,436
Loans measured at amortised cost	50,723	53,995	272,836	866,657	1,244,211
Loans mandatorily measured at fair value through profit or loss	14,172	17,270	98,851	305,781	436,074
Securities at amortised cost	3,658	-	196,365	143,000	343,023
Other financial assets	1,541	-	-	-	1,541
TOTAL ASSETS	**146,528**	**71,265**	**742,147**	**1,315,438**	**2,275,378**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	16,205	85,321	446,625	555,824	1,103,975
Repo liabilities	13,947	-	-	-	13,947
Liabilities from issued securities	9,998	45,000	631,100	295,020	981,118
Leasing liabilities	9	28	160	-	197
Other financial liabilities	4,792	-	-	-	4,792
TOTAL LIABILITIES	**44,951**	**130,349**	**1,077,885**	**850,844**	**2,104,029**
Net position					
Receivables from derivative financial instruments designated as fair value hedge	1,378	2,025	2,334	434	6,171
Liabilities from derivative financial instruments designated as fair value hedge	(618)	(1,354)	(3,631)	(443)	(6,046)
Net position of financial instruments designated as fair value hedge	760	671	(1,297)	(9)	125
Net position of derivative financial instruments total	**760**	**671**	**(1,297)**	**(9)**	**125**
Undrawn credit lines	**101,085**	**-**	**-**	**-**	**101,085**

NOTE 37: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF million) [continued]

2021[13]	**Within 3 months**	**Within one year and over 3 month**	**Within 5 years and over one year**	**Over 5 years**	**Total**
Cash, due from banks and balances with the National Bank of Hungary	14,568	-	-	-	14,568
Placements with other banks	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
Other financial assets	1,142	-	-	-	1,142
TOTAL ASSETS	**85,336**	**101,167**	**623,757**	**1,101,618**	**1,911,878**
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**
Net position					
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**
Undrawn credit lines	**62,693**	**-**	**-**	**-**	**62,693**

[13] In 2021 Property and equipment and intangible assets were disclosed in this table, but in 2022 it was eliminated.

NOTE 38: 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.

Use of modified yield curve

During the year ended 31 December 2022 yield curves derived from hungarian government bonds ("ÁKK curve") have become distorted due to certain market events, which means that real liquidity has concentrated on certain part of the yield curve. Therefore a modified yield curve - which is not observable on the market - has been used at the concerning fair value calculations. This yield curve is based on the relevant yield curve points of the original ÁKK curve. Based on Management's discretion fair value calculated with modified yield curves can represent the perspective of market participants reliable at current market conditions.

Modified yield curve was used for calculating fair value in case of subsidised represented in "Loans mandatorily measured at fair value through profit or loss" line.

NOTE 38: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Fair value of financial assets and liabilities

	2022		2021	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash, due from banks and balances with the National Bank of Hungary	16,135	16,135	14,568	14,568
Placements with other banks	217,553	217,553	151,975	151,975
Securities at amortised cost	296,619	260,553	175,125	178,454
Loans at amortised cost	1,166,744	1,020,141	1,136,290	1,175,594
Other financial assets	1,541	1,541	1,101	1,101
Total assets measured not at fair value	**1,698,592**	**1,515,923**	**1,479,059**	**1,521,692**
Securities at fair value through other comprehensive income – debt instruments	13,544	13,544	16,037	16,037
Loans mandatorily measured at fair value through profit or loss	454,173	454,173	405,819	405,819
Derivative financial assets designated as hedge accounting relationships	11,786	11,786	5,397	5,397
Total assets measured at fair value	**479,503**	**479,503**	**427,253**	**427,253**
FINANCIAL ASSETS TOTAL	**2,178,095**	**1,995,426**	**1,906,312**	**1,948,945**
Amounts due to OTP Bank and other banks	1,059,717	914,351	1,022,772	993,614
Repo liabilities	13,947	13,947	-	-
Liabilities from issued securitites	971,466	849,960	772,011	736,904
Leasing liabilities	197	197	182	182
Other financial liabilities	4,792	4,792	7,733	7,733
Total liabilities measured not at fair value	**2,175,629**	**1,783,247**	**1,802,698**	**1,738,433**
Derivative financial instruments designated as hedging instruments	3,889	3,889	1,804	1,804
Total liabilities measured at fair value	**3,889**	**3,889**	**1,804**	**1,804**
FINANCIAL LIABILITIES TOTAL	**2,054,008**	**1,787,135**	**1,804,502**	**1,740,237**

NOTE 38: 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 2022	Total	Level 1	Level 2	Level 3
Loans mandatorily measured at fair value through profit or loss	454,173	-	-	454,173
Securities at fair value through other comprehensive income – debt instruments	13,544	13,544	-	-
Positive fair value of derivative financial instruments designated as fair value hedge	11,786	-	11,786	-
Negative fair value of derivative financial instruments designated as fair value hedge	(3,889)	-	(3,889)	-
Total	**475,614**	**13,544**	**7,897**	**454,173**

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
Securities at fair value through other comprehensive income – debt instruments	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**

Bonds issued by the Bank are listed on stock exchanges, they are traded in liquid and active market with observable and transparent prices, and therefor they are classified as level 1 in the fair value hierarchy.

Valuation techniques on Level 2 instruments

The fair value of Level 2 instruments is calculated by discounting their expected interest and capital cash flows, Discounting is done with the respective swap curve of each currency.

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.

NOTE 38: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Unobservable inputs used in measuring fair value

Type of financial instrument	Fair values at 31 December 2022	Valuation technique	Significant unobservable input	Range of estimates for unobservable input
Loans mandatory measured at fair value through profit and loss	454,173	Discounted cash flow model	Probability of default	+/- 20%
Loans mandatory measured at fair value through profit and loss	454,173	Discounted cash flow model	Operational costs	+/- 20%

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 2022	Unobservable inputs	Carrying amount	Fair values		Effect on profit and loss	
			Favourable	Unfavourable	Favourable	Unfavourable
Loans mandatory measured at fair value through profit and loss	Probability of default	454,173	454,392	453,945	219	(219)
Loans mandatory measured at fair value through profit and loss	Operational costs	454,173	459,959	448,558	5,786	(5,606)

31 December 2021	Unobservable inputs	Carrying amount	Fair values		Effect on profit and loss	
			Favourable	Unfavourable	Favourable	Unfavourable
Loans mandatory measured at fair value through profit and loss	Probability of default	405,819	406,368	405,266	549	(547)
Loans mandatory measured at fair value through profit and loss	Operational costs	405,819	412,873	399,020	7,054	(6,794)

In the loans mandatory measured at fair value through profit or loss the Bank calculated the favourable and unfavourable effects of using reasonably possible alternative assumptions by modifying the rates of probability of default by +/- 20% as one of the most significant unobservable input.

Reconciliation of the opening and closing balances of Level 3 instruments for the year ended 31 December 2022

	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	405,819	76,401	355	13,792	(42,194)	454,173
Total	**405,819**	**76,401**	**355**	**13,792**	**(42,194)**	**454,173**

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**

NOTE 38: **FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]**

Derivative financial instruments

OTP Mortgage Bank regularly enters into hedging transactions in order to decrease its financial risks.

The assessment of the hedge effectiveness (both for fair value hedges and cash flow hedges) to determine the economic relationship between the hedged item and the hedging instrument is accomplished with prospective scenario analysis via different rate shift scenarios of the relevant risk factor(s) of the hedged risk component(s). The fair value change of the hedged item and the hedging instrument is compared in the different scenarios. Economic relationship is justified if the change of the fair value of the hedged item and the hedging instrument are in the opposite direction and the absolute changes are similar amounts. The hedge ratio is determined as the ratio of the notional of the hedged item and the notional of the hedging instrument. The sources of hedge ineffectiveness are the not hedged risk components (e.g. change of cross currency basis spreads in case of interest rate risk hedges), slight differences in maturity dates and interest payment dates in case of fair value hedges, and differences between the carrying amount of the hedged item and the carrying amount of the hedging instrument (e.g. caused by interest rate risk components in the fair value of the hedging instrument).

Derivatives held for hedging – as at 31 December 2022

	Assets	**Liabilities**
Derivative financial instruments designated as hedge accounting		
Derivatives designated in fair value hedges		
Interest rate swap	-	3,889
Derivatives designated in cash flow hedges		
Interest rate swaps	11,786	-
Total derivatives designated in cash flow hedges	**11,786**	**3,889**

Derivatives held for hedging – as at 31 December 2021

	Assets	**Liabilities**
Derivative financial instruments designated as hedge accounting		
Derivatives designated in fair value hedges		
Interest rate swap	-	1,804
Derivatives designated in cash flow hedges		
Interest rate swaps	5,397	-
Total derivatives designated in cash flow hedges	**5,397**	**1,804**

NOTE 38: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Hedge accounting

Interest rate risk management is centralized at OTP Mortgage Bank. Interest rate risk is measured by simulating NII and EVE under different stress and plan scenarios, the established risk limits are described in „OTP Bank's Group-Level Regulations on the Management of Liquidity Risk and Interest Rate Risk of Banking Book". The interest rate risk management activity aims to stabilize NII within the approved risk limits.

The risk management objective of these hedge relationships is to mitigate the risk of clean fair value (i.e. excluding accrued interest) change of MIRS loans due to the change of interest rate reference indexes (BUBOR) of the respective currency.

Amount, timing and uncertainty of future cash flows - hedging instruments as at 31 December 2022

2022			Maturity		
Interest rate risk- interest rate swap (HUF)	**One to three months**	**Three months to one year**	**One year to five years**	**More than five years**	**Total**
Fair value hedge					
Notional	-	-	15,000	-	15,000
Average Interest Rate	-	-	1.50%	-	
Cash flow hedge					
Notional	1,547	10,647	-	28,027	40,221
Average Interest Rate	4.60%	1.08%	-	1.58%	

Amount, timing and uncertainty of future cash flows - hedging instruments as at 31 December 2021

2021			Maturity		
Interest rate risk- interest rate swap (HUF)	**One to three months**	**Three months to one year**	**One year to five years**	**More than five years**	**Total**
Fair value hedge					
Notional			15,000	-	15,000
Average Interest Rate			1.50%	-	
Cash flow hedge					
Notional			12,194	28,027	40,221
Average Interest Rate			1.01%	1.58%	

NOTE 38: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Hedge accounting– as at 31 December 2022

Interest rate risk	Nominal amount	Carrying amount		Line item in the statement of financial position where the hedging instrument is located	Changes in fair value of hedged item for calculating ineffectiveness for 2022
Interest rate swaps		Assets	Liabilities		
Fair value hedge	15,000	-	3,889	Derivative financial assets designated as hedge accounting relationships	(2,047)
Cash flow hedge	40,221	11,786	-	Derivative financial liabilities designated as hedge accounting relationships	5,592

	Type of risk	Carrying amount of the hedged item for the year ended 31 December 2022		Amount of fair value hadge adjustments on the hedged item included in the carrying amount of the hedged item		Line item in the statement of financial position in which the hedged item is included
		Assets	Liabilities	Assets	Liabilities	
Fair value hedge						
- Other securities	Interest rate risk	-	14,976	-	(3,799)	Liabilities from issued securities

Hedge accounting– as at 31 December 2021

Interest rate risk	Nominal amount	Carrying amount		Line item in the statement of financial position where the hedging instrument is located	Changes in fair value of hedged item for calculating ineffectiveness for 2021
Interest rate swaps		Assets	Liabilities		
Fair value hedge	15,000	-	1,804	Derivative financial assets designated as hedge accounting relationships	(2,125)
Cash flow hedge	40,221	5,397	-	Derivative financial liabilities designated as hedge accounting relationships	6,130

	Type of risk	Carrying amount of the hedged item for the year ended 31 December 2021		Amount of fair value hadge adjustments on the hedged item included in the carrying amount of the hedged item		Line item in the statement of financial position in which the hedged item is included
		Assets	Liabilities	Assets	Liabilities	
Fair value hedge						
- Other securities	Interest rate risk	-	14,961	-	(1,753)	Liabilities from issued securities

NOTE 38: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Change in the fair value of the hedging instrument related to cash flow hedge as at 31 December 2022

	Type of risk	Carrying amount of the hedging instrument for the year ended 31 December 2022		Cash flow hedge reserve year ended 31 December 2022	Line item in the statement of financial position in which the hedged item is included
		Assets	Liabilities		
Cash flow hedge					
- Loans	Interest rate risk	-	41,117	(9,905)	Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks

Change in the fair value of the hedging instrument related to cash flow hedge as at 31 December 2021

	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	Line item in the statement of financial position in which the hedged item is included
		Assets	Liabilities		
Cash flow hedge					
- Loans	Interest rate risk	-	40,357	(3,853)	Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks

For the year ended 31 December 2022 and 31 December 2021 OCI related to cash flow hedges refer to Note 20.

NOTE 39: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2022

Special taxes on financial institutions

Pursuant to Government Decree No. 197/2022 published on 4 June 2022, the Hungarian Government decided to impose a windfall tax on credit institutions and financial enterprises temporarily, that is for 2022 and 2023.
As for 2022, the base of the windfall tax is the net revenues based on the 2021 financial statements, calculated according to local tax law, whereas the tax rate is 10%.
Furthermore, for 2022 the after-tax burden of the windfall tax was HUF 67,8 billion, accounted for in a lump sum in the second quarter.

Prolongation of deadline of loan moratorium and interest rate cap

See Note 4.

Risk relating to the Russian-Ukrainian armed conflict

On 24 February 2022 Russia launched a military operation against Ukraine which is still ongoing at the date of this Report. Until now many countries, as well as the European Union imposed sanctions due to the armed conflict on Russia and Russian businesses and citizens. Russia responded to these sanctions with similar measures.

The armed conflict and the international sanctions influence the business and economic activities significantly all around the world. There are a number of factors associated with the Russian-Ukrainian armed conflict and the international sanctions as well as their impact on global economies that could have a material adverse effect on (among other things) the profitability, capital and liquidity of financial institutions such as the OTP Group.

The armed conflict and the international sanctions cause significant economic damage to the affected parties and in addition they cause disruptions in the global economic processes, of which the precise consequences (inter alia the effects on energy and grain markets, the global transport routes and international trade as well as tourism) are difficult to be estimated at the moment.

It remains unclear how this will evolve through 2022 and the OTP Group continues to monitor the situation closely. However, the OTP Group's ability to conduct business may be adversely affected by disruptions to its infrastructure, business processes and technology services. This may cause significant customer detriment, costs to reimburse losses incurred by the OTP Group’s customers, and reputational damage.

Furthermore, the OTP Group relies on models to support a broad range of business and risk management activities, including informing business decisions and strategies, measuring and limiting risk, valuing exposures, conducting stress testing and assessing capital adequacy. Models are, by their nature, imperfect and incomplete representations of reality because they rely on assumptions and inputs, and as such assumptions may later potentially prove to be incorrect, this can affect the accuracy of their outputs. This may be exacerbated when dealing with unprecedented scenarios, such as the Russian-Ukrainian armed conflict and the international sanctions, due to the lack of reliable historical reference points and data.

Any and all such events mentioned above could have a material adverse effect on the OTP Group’s business, financial condition, results of operations, prospects, liquidity, capital position and credit ratings.

NOTE 40: POST BALANCE SHEET EVENTS

Summary of economic policy measures made and other relevant regulatory changes as post-balance sheet events

In the section below, the measures and developments which have been made since the balance sheet date, and – in OTP Mortgage Bank's view – are relevant and have materially influenced / can materially influence the operation of the Bank.

Pillar1 capital adequacy requirements of OTP Mortgage Bank are (ratios of total risk weighted exposure) the followings: a common equity tier 1 capital ratio of 4.5%, a tier 1 capital ratio of 6.0% and a total capital ratio of 8.0%. Additional capital conservation buffer requirement ratio is 2.5 %. There is no Pillar2 requirement in individual level.

The impact of these legal changes on OTP Mortgage Bank is indirect: the calculation of the voluntary solvency capital buffer level is considering OTP Group guidelines for minimum solvency capital buffers.

On 24 January 2023 the National Bank of Hungary kept the reference rates unchanged. The NBH held a long-term deposit tender on 25 January, and from 1 February discount bill auctions are held on a weekly basis. Furthermore, the Deputy Governor announced that effective from April the mandatory reserve requirement for banks will be increased from 5% to 10%.

On 27 January 2023 S&P Global Ratings lowered the long- and short-term foreign and local currency sovereign credit ratings on Hungary to 'BBB-/A-3' from 'BBB/A-2'. The outlook on the long-term ratings is stable.

According to the press release published on 30 January 2023 by S&P Global Ratings, the rating agency downgraded its long- and short-term issuer credit ratings, as well as the long- and short-term resolution counterparty ratings on OTP Bank Plc. and OTP Mortgage Bank Ltd. to 'BBB-/A-3' from 'BBB/A-2', and the senior preferred debt rating of OTP Bank Plc. was also downgraded by one notch to 'BBB-'. The outlook on the long-term issuer ratings is stable.

According to the press release published on 6 February 2023 by Moody's Investors Service, the rating agency concluded the ratings review initiated in July 2021. The rating agency downgraded OTP Bank's subordinated bond rating by one notch to 'Ba2' from 'Ba1'. All other ratings and assessments of OTP Bank have been affirmed. Outlook is stable.

At the same time, Moody's Investors Service downgraded the backed long-term domestic currency issuer rating of OTP Mortgage Bank to 'Baa3' from 'Baa2'. All other ratings and assessments of OTP Mortgage Bank have been affirmed. Outlook is stable.

One of the main reasons for the current banking crisis is the fact that banks have to recognize significant losses on their fair value measured fixed rate securities that they previously purchased in a low interest rate environment and their fair value has decreased after the sharp increase in rates.
Significant losses can also occur if the low-yield instrument is measured at amortized cost but the bank has to sell it off due to liquidity issues (deposit withdrawals), thus realising the price change losses. The threats described above do not affect OTP Mortgage Bank as a significant part of its securities portfolio is measured at amortized cost, it does not collect any client deposits and has no relationships with the institutions affected by the crisis. The bank's liquidity is stable, it is not expected that the securities measured at amortized cost would have to be sold before maturity, which would mean the realization of any potential losses.

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This is a translation of the Hungarian Report

Independent Auditor's Report

To the Shareholder of OTP Jelzálogbank Zrt.

Report on the audit of the separate financial statements

Opinion

We have audited the accompanying 2022 separate financial statements of OTP Jelzálogbank Zrt. ("the Company") included in the accompanying OJB egyedi HUN Version FINAL 20230403.xhtml[1] digital file, which comprise the separate statement of financial position as at 31 December 2022 - showing a balance sheet total of HUF 2,185,296 million and a total comprehensive loss for the year of HUF 5,485 million -, the related separate statement of profit or loss, separate statement of other 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 2022 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.

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

[1] Digital identification of the above referred digital file, using SHA 256 HASH algorithm is 9437F5966274C922D1E34E2934D8109B4F0E403B4A104F3405FF5A9A10315E4E

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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.

<u>Determination of expected credit losses relating to loans at amortized cost</u>

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 inherently uncertain processes involving various assumptions and factors, including the financial 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	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 relevant from audit perspective related to the determination of ECL. For ECL calculated on collective basis

potential collateral shortfalls. Given the economic uncertainties from the Russian – Ukrainian conflict, risks of the global economy and payment moratoria in place, the estimation of forward-looking information requires significant judgement.

Due to the significance of loans at amortized cost (representing 53% of Total Assets as of 31 December 2022) and the related estimation uncertainty, this is considered a key audit matter.

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 also assessed the management's assumptions on the expected future cash flows, including the value of realisable collateral and estimates of recovery on default based on our own understanding and available market information.

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 23 Risk cost.

General Information Technology controls over the financial reporting process

A significant part of the Company's financial reporting process, including revenue recognition 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.

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

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.
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.

controls in place which included 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 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 information

Other information consists of the 2022 business report and annual 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.

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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.

When fulfilling this responsibility we have considered the following law: Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 on Supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format ("ESEF Regulation"), as such prescribing specific requirements for the business report, in relation with forming our opinion on the business report.

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 2022 is consistent, in all material respects, with the 2022 separate financial statements of the Company and the relevant requirements of the Hungarian Accounting Law and the other law listed above.

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

Report on compliance with the requirements of the regulation on the European Single Electronic Format:

We have undertaken a reasonable assurance engagement on the compliance of the financial statements included in the digital file - identified in our report - prepared by the Company ("financial statements in ESEF format") with the requirements set out in the ESEF Regulation.

Responsibilities of the management and those charged with governance for the financial statements in ESEF format

The Company's management is responsible for preparing the financial statements in ESEF format that comply with the ESEF Regulation. This responsibility includes:

- the preparation of financial statements in the applicable XHTML format; and
- the design, implementation and maintenance of internal control relevant to the application of the ESEF Regulation.

Those charged with governance are responsible for overseeing the Company's financial reporting process including compliance with the ESEF Regulation.

Our responsibility and summary of the work performed

Our responsibility is to express an opinion on whether the financial statements in ESEF format complies, in all material respects, with the requirements of the ESEF Regulation based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with Hungarian National Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000).

A reasonable assurance engagement in accordance with ISAE 3000 involves performing procedures to obtain evidence about compliance with the ESEF Regulation. The nature, timing and extent of procedures selected depend on the auditor's judgment, including the assessment of the risks of material departures from the requirements set out in the ESEF Regulation, whether due to fraud or error. Our reasonable assurance engagement included obtaining an understanding of the Company's internal controls relevant to the application of the requirements of the ESEF Regulation and verifying whether the XHTML format was applied properly.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements in ESEF format of the Company for the year ended 31 December 2022 included in the digital file - identified in our report - complies, in all material respects, with the requirements of the ESEF Regulation.

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 4 April 2022. 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 two years.

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, 4 April 2023

(The original Hungarian version has been signed.)

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