

# Disclosure by institutions

31 December 2021



**OTP Bank Plc. separate and consolidated,**

**OTP Mortgage Bank Ltd.,**

**OTP Building Society Ltd.,**

**Merkantil Bank Ltd.**

In line with Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises, and Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, and EBA/GL/2020/07 of exposures subject to measures applied in response to the COVID-19 crisis

*(English translation of the original report)*

Budapest, 13 April 2022

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# I. OTP GROUP

In accordance with Regulation (EU) No 575/2013 of the European Parliament and the Council on prudential requirements for credit institutions and investment firms and amending regulation (EU) No 648/2012, OTP Bank Plc. ("OTP Bank") - as a supervised institution - is obliged to fulfil prudential regulations at group level.

The principles and methods shown in this chapter of the document can be interpreted at both company and OTP Group ("Group") level except when otherwise indicated. Participant institutions are: OTP Bank Plc., OTP Mortgage Bank Ltd., OTP Building Society Ltd., Merkantil Bank Ltd.

## I.1. Risk management objectives and policies

### I.1.1. OTP Group's risk management strategy and general risk profile

The Risk Strategy covers group member credit and financial institution and other constituent entities of the group which are exposed to counterparty or market risk to the extent that the relevant group members assume material exposure to the types of risk detailed in relevant parts of the Risk Strategy.

The purpose of OTP Group's Risk Strategy is to incorporate the principles for assuming, measuring, managing, monitoring and mitigating risks in the relevant business lines into a unified framework.

The Risk Strategy covers the Group's credit and financial institution members and other entities of the Group which are exposed to counterparty or market risk to the extent that the relevant group members assume material exposure to the types of risk detailed in relevant parts of the Risk Strategy.

The Strategy sets up principles for the most common types of risk (credit risk, country risk, counterparty risk, market risk, operational risk, reputational risk and liquidity risk).

The Risk Strategy is updated continuously, but at least every three years. The current Risk Strategy of OTP Banking Group approved by the Board of Directors in December 2019. The fulfillment of the objectives set out in the Risk Strategy is reviewed annually by the Board of Directors and the Supervisory Board.

The general risk profile of the Banking Group is in line with the risk appetite set out in the Risk Strategy and the Risk Appetite Statement.

The Risk Appetite Framework integrates the Bank's and the Banking Group's risk appetite determination process in line with the EBA's requirements, harmonising with the Bank's lending

policy, strategy, capital and liquidity planning, and the internal capital adequacy assessment process (ICAAP) and internal liquidity adequacy assessment process (ILAAP).

The Risk Appetite Statement of 2021, set up on the basis of the Risk Appetite Framework, covers all material risk types of the Banking Group and their target values (limits). The main features of the limits set up in the Statement are as follows:

- cover the retail and non-retail portfolios of the entire group (including OTP Core and its subsidiaries),
- include limits for forward-looking (vintage) and limits for high-risk segments in terms of credit risk,
- profitability indicators are ROE, and vintage lending limits related to the NPV calculation,
- there are liquidity, capital and leverage ratio indicators derived from the Recovery Plan,
- a new indicator was developed for following the NPL portfolio that takes into account the NPL reduction plan and the plan-fact comparison of the portfolio,
- manage sectoral risk in relation to the credit risk of the sectors, as well.

The frameworks and methods used for a given type of relevant risk are described in the next sections.

### I.1.1.1. General internal control framework

The Bank applies the so-called ‘three lines of defence’ model to manage risks and to implement internal controls. Three lines of defence:

- Functions that are responsible for and manage the risks (first line)
- Functions exercising control over the risks (second line)
- Functions providing independent assurance (third line)

**Chart 1: Three lines of defence**

1. FIRST LINE OF DEFENCE	2. SECOND LINE OF DEFENCE	3. THIRD LINE OF DEFENCE
Operative management Primary internal controls	Risk management Compliance Other control functions	Internal Audit
In-process and management operative controls.	Control functions that monitor and manage risks on an ongoing basis.	Internal audit provides independent and objective assurance on internal governance, risk management and control, including the first and second lines of defence.

The second and third lines of defence jointly constitute the internal control functions. Details of the three lines of defense are as follows:

- The **first line of defense** is primarily responsible for the risks associated with the operation of the organization, so its compliance is primarily ensured by employees and operative managers, either through in-process personal involvement or through the use of automated controls to ensure compliance at the system level.

The proper operation of the first line of defence is ensured by internal governance, which comprises – among others – appropriate organisational structure, regulated roles and responsibilities, rules of ethics, a reporting system, standing committees, management and supervisory bodies etc.

- The **second line of defence** monitors, guides and helps the controls implemented in the first line of defence, thus fulfilling the control duties assigned to it by law and internal regulatory documents.

The core components of the second line of defence:

- risk management
- risk control function
- compliance
- IT and bank security

The objective of the **risk management** (performed by the Credit Approval and Risk Management Division and Strategy and Finance Division) is to identify, measure, regulate and manage the banking risks, provide the necessary reports and take part in the development of the risk strategy and in the decision-taking of risk management.

The **risk control function** that is independent from the operative risk management is responsible for overseeing the risks of the Bank and the Banking Group, and for monitoring the operation of the risk management system. The risk control function during its activities continually monitors the risk exposure of the Bank and the Banking Group and compares it to the strategy, the risk appetite, the risk management policy and the limit system.

The purpose of operating the **compliance** function is to identify and manage compliance risks. Compliance risks are the legal risk that may arise as a result of non-compliance with legal provisions or other (non legal) requirements applicable to the financial organization, internal regulations and the risks of supervisory or other authority measures, significant financial losses and reputational damage.

The **IT and bank security function** is a function that ensures the safe operation and protection of IT systems. In line with the guidelines of the national, group member states, international and European financial supervisory authorities, the function ensures the compliant, legal, secure and prudent operation of the Banking Group and the protection of its information systems.

- As the **third line of defense**, internal audit provides independent and objective assurance. In order to achieve organizational goals internal audit monitors, evaluates, and improves the effectiveness of risk management, control, and governance processes, i.e. the effectiveness of the first and second lines of defense.

In order to strengthen the cooperation of the internal control functions, the Internal Controls Forum (ICF) was established in May 2021, which is a consultative body for knowledge sharing and information exchange of the control functions belonging to the second and third lines of defense. The purpose of the ICF is to facilitate the operational efficiency of the internal control functions through synergies, and thus the continuous prudent operation and long-term development of the Banking Group.



### I.1.1.2. Credit risks

Traditionally, OTP Bank has been characterized by conservative risk assumption. Its fundamental objective is to implement its strategic and business plan through maintaining the balance between risk and return. In order to be able to do so, it has established an independent risk management organizational unit and a uniform and consistent risk management system. OTP Bank operates a risk management process, which guarantees that the Bank complies, at all times, with the CRR, the applicable local regulations and supervisory authority requirements in all of the countries where OTP Bank operates, and at group level as well.

The independent risk management organizational unit performs the following:

In order to identify potential risks, it analyses OTP Bank's credit risk related activities, identifies the major risk factors to which these activities and the positions generated by them are exposed, and indicates the correlations between these positions.

In order to measure risks, it continuously collects data on the main risk factors, on the resulting losses, on the variables that can be used to predict; builds models and validates them.

Monitors the results of the risk measures continuously and prepares regular and up-to-date reports on them in a transparent manner for the various operative and executive levels.

To mitigate risks, the Bank applies a variety of risk mitigation techniques (client/ exposures rating, EWS, limits, collaterals, conservative impairment policy, etc.) as well as in-process controls and management control.

In its regulations on risk mitigation and the use of credit risk collateral, OTP Bank determines:

- the risk management process and methods, including decision-making powers and tasks linked to risk assumption as well as the requirements for the control of risk assumption;
- the types of eligible collateral in connection with contracts entailing banking exposures and the conditions for their acceptance;
- the criteria for the appraisal of the financial position and future capability of paying of current and future clients, internal regulations related to client rating, and the manner in which the findings of the rating procedure are used.

The goal of the OTP Group is to build a diversified portfolio, of which the performance does not depend excessively on the situation of a particular sector, geographical area or group of clients.

In addition to the Risk Appetite Statement set up for significant risks, credit risk appetite is determined annually for the parent bank and all banking and leasing subsidiaries through the development and adoption of the Lending Policy. Regarding the retail segment the Lending Policy contains in detail the main indicators of the lending products, the value of the expected risk

indicators for the portfolio and new disbursements, and the changes in the risk management processes associated with the business development plans. In case of the corporate segment, the Lending Policy defines sectoral preferences and the main expectations for each segment and product. The Lending Policy's expectations and the limits are monitored on a regular basis and reported to different management levels.

By **defining operational-level credit risk appetite**, the Group

- ensures the incorporation of strategic directions and expectations into the day-to-day risk management activity;
- considers profitability aspects by analysing the income-generation potential of each customer segments and product groups in the context of specific risk factors;
- assesses the risk indicators that can best ensure the fulfilment of growth objectives in the context of a prudent, conservative risk assumption practice.

Determining and adhering to the **tolerance levels and the desirable values of the indicators** listed above may ensure the construction of a desired risk profile. The annual Lending Policy – as the manifestation of the operational-level credit risk appetite – summarises the behaviour required for the evolving of this desirable loan portfolio, defining:

- the limits and target values reflecting risk appetite;
- the level, proportion and concentration of the exposures comprising the portfolio and the expectations about the quality of the portfolio;
- preferences and business orientation, potential tightening or exclusions regarding customer base, sectors, collaterals, products and product types and maturity structure.

In order to **monitor the credit risk appetite** defined at the operational level, the Group operates a control system that covers

- internal regulatory tools;
- the risk parameters of products;
- the reporting system, and
- additional, second level controls (e.g. ex post audits of the compliance of specific transactions within the local competence level).

The group members' financing requirements are based on short term projections generated in the course of strategic and financial planning. The funding requirements are detailed in the annual business plans, while their realisation determined by the actual business demand. The general credit risk taking, and risk management principles must be applied in the case of intra-group financing transactions as well.

### I.1.1.3. Market risks

OTP Bank's market risk management strategy is to realize benefit from exchange rate and yield curve movements in compliance with legal requirements, taking the risk exposure the loss from which does not jeopardize profitability and operation safety of the Group. The aim of market risk management is to restrict potential loss arising from unfavourable exchange rate and/or yield curve movements.

- OTP Bank's Global Markets is responsible for market risk management and for keeping risk within the frames approved by the Board.
- Continuous monitoring of market risk exposure, its reporting to the management, and the development of risk measurement methods is the responsibility of an organizational unit in a separate division from Global Markets.
- Group-wide market risk exposures are reviewed monthly by the Asset- Liability Committee (ALCO), based on the monthly report of the Risk Management Department.
- Group-member's ALCO also reviews quarterly the given group-member's risk exposures.
- The local market risk regulations are sent the Risk Management Department of OTP group by the Group member's market risk departments. These departments are responsible to ensure that the local regulation is in line with the group-wide regulation.
- The Board approves the market risk measurement methodologies and the limit system which defines the acceptable risk.

For risk measuring and internal reporting, OTP Bank applies a risk management system that is based on but is independent from the front office system, in order to make the IT implementation of the developing risk measurement techniques efficient. All the concerned organizational areas have access to the risk management system but with different access levels.

The main principles of market risk management regulation:

- OTP Bank is allowed to run market risks within the limits set by the Board of Directors. OTP Bank can open asset and liability management (ALM) positions to hedge strategic risks appearing in the profit plan within the limit approved by the Asset Liability Committee (ALCO), but above that limit the decision of the Board of Directors is required. For the sake of risk management, positions originating from other organizational units (for example home loan payments) are forwarded without delay to the Treasury in compliance with the internal reporting process.
- OTP Bank breaks up the positions exposed to market risk into underlying risk factors (interest rates, foreign exchange rates, stock prices, volatility) and manages them in accordance with the positions calculated in the manner stated above.

- OTP Bank continuously monitors the exposure originating from portfolios exposed to market risk, the value-at-risk of the portfolio and the changes in the values of the portfolio and it sets a limit system for them. To avoid losses incompatible with the risk-taking policy of the Bank, OTP Bank attaches an internal action plan for limit breach.
- Decision-makers of OTP Bank are given information about the Bank's risk exposure and the regarding portfolios' profit-and-loss effects on a regular basis.
- The profit-and-loss effect of ALM deals which intend to hedge the profit-plan-driven market risk exposure and the profit-and-loss effect of the core portfolio in the plan are regularly reported to the management of OTP Bank, in order to make the control of hedging transparent.
- OTP Bank allocates capital to the portfolios exposed to market risk in order to cover the possible losses.

OTP Bank uses the standard model to quantify the capital requirement of market risks.

In case of identification of trading book exposures OTP Group takes into account the 4. Article of CRR (86. paragraph). FOLDER-s lined to trading book transactions are determined in the IT system. A given FOLDER is homogeneous, either trading book or banking book transaction. Limit-monitoring and capital requirement calculation in case of the trading book FOLDER-s are complex.

#### I.1.1.4. Counterparty risks

The Group applies a uniform methodology for the determination of counterparty limits, considering the risk assessment of the given counterparty, the risk absorption capacity of the risk-taking subsidiaries, and the level of expected business requirements.

The limits are allocated to Group Members and to specific sublimits based on a uniform methodology, and a group-level methodology is used for the limit utilization as well.

The limit utilization of derivative deals is determined by risk factors defined by VaR based calculation methods, differentiated by the type, maturity, currency or currency pair of the deal and the available collateral agreements as well.

The Group applies mark-to-market approach for the measurement of counterparty risk.

In the case of non-centrally cleared over-the-counter transactions, the Group mitigates its counterparty risk exposure through ISDA master agreements and the related CSA agreements. In these agreements, OTP Bank strives to impose symmetric conditions and the collateral is pledged and accepted by the counterparties in cash, typically denominated in EUR. In the case of transactions cleared by Central Counterparty (CCP), collateral is provided in accordance with the conditions specified in the relevant business rules.

The Group seeks to minimize wrong-way risks deriving from counterparty risk exposures. The Group Members do not conclude credit derivative type of deals, which are mostly characterized by wrong-way risks. If the risk of the counterparty and the risk of the collateral are closely related in a deal secured by collateral, then the collateral cannot be taken into account as exposure mitigation tool.

Following the entry into force of Commission Regulation (EU) 2016/2251 on risk mitigation techniques for non-centrally cleared derivatives, credit support agreements between financial counterparties shall not include rating-dependent thresholds or independent amount.

In case of tasks related to ISDA/CSA, GMRA and EMA agreements and other ISDA related contracts, involved in the central clearing system that supports OTC transactions, in case of the application of EMIR variable deposit (CSA VM) the amount of it are calculated at least daily as follows:

- The amount of the variation margin in the netting stock for each transaction, credited by the contracting party, is the sum of the value calculated by the Article 11 (2) of Regulation 648/2012/EU, its net value, and all of the variation margins which granted previously.
- The Bank calculates the daily value of the collateral, and on that basis transfer any unused collateral to the collateral providing contracting party.

- If the Bank and the contracting party agree on a minimum transfer amount, the calculation method of the amount of collateral is the variable deposit due since the last collateral collection, taking into account the additional collateral.
- If the amount of collateral due exceeds the minimum transfer amount agreed jointly by the contracting parties, the collateral collecting party shall collect the total amount of the collateral due, without deducting the minimum transfer amount. The minimum transfer amount may not exceed EUR 500,000 or the corresponding amount in other currencies.
- The Bank accepts only funds as defined in Article 4 (1) (a) as variable deposit in ISDA/CSA agreements as defined in Section 2 of the 2016/2251 Delegated Regulation. The acceptable currency of the fund can only be denominated in EUR, HUF and USD and the funds that accepted as collateral are taken into account at 100% in the CSA agreements.

#### I.1.1.5. Operational risk

Operational risk – according to its classical interpretation – means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk. In many respects, operational risks are very diverse and elusive and different from the conventional banking risks, as well. As for the effective operational risk management requires the participation and commitment of the entire organisation, the support from the management body is crucial in order to mobilize and involve the employees who are concerned and responsible for operational risk. As a result of this strong management support the Group has well-designed and trained internal expert network. The Group places great importance on the trainings of this internal expert network and entrants.

The Group manages conduct and model risk within the framework of operational risk management. Conduct risk can arise from the inappropriate, unethical or unlawful behaviour on the part of an organization's management or employees which can be caused by deliberate actions or may be inadvertent and caused by inadequacies in an organization's practices, frameworks or education programs. Potential and incurred losses from conduct risks are continuously monitored and the relative rare but high impact market practices are evaluated in a forward-looking manner during the scenario analyses process. Model risk means the potential loss an institution may incur, as a consequence of decisions that could be principally based on the output of internal models, due to errors in the development, implementation or use of such models. The Group strives to identify all of the models and model-families applied related to both business and support processes. Risk based assessment of models and the evaluation of how the given models comply with the control criteria are essential part of the Group model risk governance framework. The Group has business continuity plans and procedures, as well as, crisis communication plans; in order to sustain operation in case an event exercising a severe impact on its operation and reputation occurs.

Due to the growing importance of responsible banking and the dynamically changing operational environment, including technological development, in the focus of operational risk management there are increased risks, like ICT (e.g. cyber-attacks, data security problems, unauthorised access, etc.), sustainability / ESG risk (Environmental, Social and Governance) and reputational risks.

During operational risk management the most important fundamental principles followed by the Group are summarised below:

- In order for operational risks to be managed, a standardised, easily understood, at time robust framework system must be put in place at group level, covering the definition of operational risks and the methods of identification, measurement, monitoring, management and mitigation thereof;

- The operational risk management system must cover all risks inherent in the activities of the Group, operational risk toolset must be improved and developed according to the changes and both internal and external expectations;
- Strong support of people concerned with operational risk management activities;
- The Bank's management body and the Operational Risk Committee need to be informed on a regular basis of the prevailing operational risk exposure of the Bank Group and any potential and incurred losses, including tendencies, arising from operational risks;
- The Group must strive for high level risk-awareness and must articulate its operational risk appetite;
- Bank must have guidelines, processes and procedures mitigating operational risks;
- Independent operational risk management activities, which are must be fully integrated into the Group's risk management activities and its general management information system.

The Group has been following the principle of "partial use" in calculation of the consolidated capital requirement for operational risks based on Advanced Measurement Approach (AMA) methodology from 31 December 2012.

The consolidated capital requirement is calculated based on the AMA model approved by the National Bank of Hungary. In accordance with the permission, the following subsidiaries are currently involved in the AMA scope: OTP Bank Plc., OTP Mortgage Bank Ltd., OTP Building Society Ltd., OTP Factoring Ltd., Merkantil Bank Ltd., Ukrainian, Russian, Bulgarian, Serbian and Montenegrin subsidiary banks.

The consolidated capital requirement is the sum of the AMA capital requirement and the BIA (Basic Indicator Approach) capital requirement calculated by those subsidiaries that do not fall under the AMA approach.

The stand-alone capital requirement regarding the subsidiaries involved into the AMA scope - that is for OTP Bank as well - is allocated from the consolidated AMA capital requirement.

The Advanced Measurement Approach enables institutions to achieve sophisticated risk management and refined capital calculation regarding operational risks.

The model includes the use of four data elements: historical internal loss data collected by all the management organizations of OTP Bank; risk self-assessment performed by banking experts; scenario analysis that reflects extreme events; and external data that aims to complete the internal loss database. The four basic sources are divided into a subjective (self-assessment, scenario analysis) and an objective (external and internal loss data) group. OTP Bank is member of the ORX (Operational Riskdata Exchange Association) data consortium, thus it takes into account losses of the ORX as external data.



Operational risk events can be divided into two groups according to another aspect: rare events that cause large losses and frequent events that cause smaller losses. The characteristics of the risks that fall into these two groups show different pictures.

The framework of the quantification is determined by the distribution as per the ORCs and the individual loss value. ORCs are designed based on main event types (internal fraud; external fraud; employment practices and workplace safety; clients, products and business practice; damage to physical assets; business disruption and system failures; execution, delivery and process management) and business units. In order to define the group-level capital requirement, within the individual ORCs calculated VaR values must be aggregated taking into account the effect of diversification. Finally, the 99.9th percentile of the aggregated distribution is considered as the operational risk VaR value that is valid for the operational risk capital requirement.

The Group has different type of insurances which aim is to mitigate operational risk losses, but any AMA-compliance insurances or other risk transfer mechanisms are not applied in order to reduce the capital requirement for operational risk.

### I.1.2. Credit risk mitigation

Regulations on the valuation and management of collaterals contain the principle and requirement that OTP Bank considers as a guidance in the case of the acceptance and the valuation of collaterals and the related monitoring activity. The referred internal procedures covers the requirements for the availability, valuation and enforceability of collaterals and the rules governing the regular ex-post evaluation of this items.

The applied collateral management framework includes all the lending, risk management, and legal activities that OTP Bank performs prior to the extension of a loan as well as during the term of the risk assumption in order to obtain information on the availability, value and enforceability of the collateral.

During the term of the contract containing the risk exposure, OTP Bank regularly monitors and documents the fulfilment of the conditions set forth in the contract, including developments in the client's financial and economic position as well as changes in the availability, fair value and enforceability of the collateral and the securities.

In its lending activity OTP Bank uses the following types of eligible securities the most frequently:

- pledge: security deposit, real estate, movable property, receivables;
- guarantee and suretyship.

In case of the valuation of collaterals accepted by OTP Bank the basis of the evaluation is the market value or the collateral value based on the appraisal. Otherwise, depending on the type of collateral, the basis of the evaluation may be purchased price or other initial value.

OTP Bank takes the value of collaterals into account in a reduced value - with a discount of 0-80% depending on the type of collateral - during risk-taking decision. The purpose of this practice is to ensure that the collateral being taken account in the risk-taking decision or in the collateral record at a value that reflects the possible pay-off that can be realized during a collateral enforcement procedure.

Tracking of the value of the collateral takes place at different frequencies depending on the type of collateral. During the monitoring activity, OTP Bank uses various methods, such as valuation update, on-site inspection, statistical evaluation and the checking of the availability and the legal status of collaterals.

OTP Bank – the group of partners is determined by regulatory approval - takes into account the risk reduction potential of the concluded netting agreements, when calculating counterparty credit risk exposures for derivative transactions. OTP has got a regulatory approval for ISDA Master Agreements under English law in case of counterparties which have headquarters in Hungary, Great Britain, France, Germany, Austria, Switzerland, the Netherlands, Italy, Belgium and

Denmark, this enables with 60 active counterparties to apply CRR allowed netting rules as a widely admitted application for risk reduction. As a precondition, OTP Bank regularly monitor, whether these netting clause are enforceable or not according to independent legal opinions. Netting reduces exposure from counterparty credit (in case of affected countries) by 55%.

The issuers of the guarantee must have the appropriate amount of counterparty limit for the whole maturity of the deal. The issuers of the eligible guarantees are dominant participants in domestic and international markets. In the case of the latter, the institutions with investment-grade rating are preferred.

The Group does not conclude credit derivative deals and does not have any securitization positions.

In order to avoid excessive dependency, OTP Bank manages the concentration risks of the portfolio by setting limits for sectors, countries, clients and counterparties at both bank and bank group levels.

In order to restrain the transfer of risk originating from a potential owner-business interest relationship between clients or relationships of business nature or collateral-related relationships, clients that qualify as a client group must be defined and client level concentration limits must be interpreted at a client-group level.

In order to support the recording and maintenance of client groups at bank group level, group-level regulations have been developed together with an IT system.

### I.1.3. Applied stress test methodologies in the OTP Group

In the frame of credit risk management several stress tests are being operated by the Bank with the aim of better understanding what kind of risks can endanger the capital or liquidity position of the Bank. Most of them are independently related to the given risk measurement. Different risk parameters, sensitivity tests related to financial indicators and in order to understand the risk exposures deeper scenario analysis can be found among the applied techniques.

The OTP Group regularly participates in EBA stress test. During these stress tests the expected capital position are presented along predefined “baseline” and “adverse” macro scenarios taking into consideration the significant risks of the Group in a 3-year time horizon with a forward-looking aspect. Additional capital requirement can arise if the Bank performs in a bad way. The Bank has taken part in 2018 in the European stress test, with excellent results.

Moreover, stress tests are conducted regularly within the Group during the annual planning process, the ICAAP and in the Recovery Plan as well. The aim of them is to calculate the impact of those complex scenarios on the balance sheet, profit and loss statement and capital position in an unified model what assume multiple risks (for instance credit-, operational-, interest rate risk, sovereign, etc.).

## I.2. Information regarding corporate governance system

### I.2.1. The number of directorships of OTP Bank's chief executives

**Chart 2: The number of directorships of OTP Bank's chief executives**

Members of the Board of Directors	Number of directorship (according to CRR Art. 435. paragraph (2))		Members of the Supervisory Board	Number of directorship (according to CRR Art. 435. paragraph (2))	
	outside OTP Group	in OTP Group*		outside OTP Group	in OTP Group*
Dr. Sándor CSÁNYI	1	-	Tibor TOLNAY	-	-
Tamás ERDEI	-	1	Dr. Gábor HORVÁTH	-	-
Gabriella BALOGH	2	-	Klára BELLA	-	-
Mihály BAUMSTARK	1	-	Dr. Tamás GUDRA	-	-
Péter CSÁNYI	1	-	András MICHNAI	-	-
Dr. István GRESA	-	-	Olivier Péqueux	-	-
Antal KOVÁCS	-	2			
György NAGY	4	-			
Dr. Márton VÁGI	-	-			
Dr. József VÖRÖS	-	-			
László WOLF	-	1			

\* with the exception of directorships held at OTP Bank.

For the safe operations of the financial institutions of OTP Bank and OTP Group it is critical that the institutions are governed by professionally qualified and financially reliable executives with good business reputation.

Directive 2013/36/EU, defining the capital requirement system of credit institutions (hereinafter: CRD), as well as national legal regulations phrase several requirements in respect of executive officers.

Hungary's Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises ("Hpt.") requires the establishment of a nomination committee in order to ensure the suitability of management bodies, while complying with the principles of proportionality.

The Nomination Committee is a permanent committee established by the Board of Directors, consisting of the members of the Supervisory Board, which forms the principles of Board member candidate selection for OTP Bank and sets candidates accordingly, and proposes principles and framework for the requirements of compliance assessment of the bank and the banking group executives and key position holders.

In respect of the members of the management bodies, executive officers and key function holders of the financial institutions subject to consolidated supervision together with OTP Bank, the coordination and professional support of the compliance assessment process shall be the competence and responsibility of the Human and Organizational Development Directorate of OTP Bank. The group operation is performed with the responsible involvement of the relevant financial institution and the professional units participating in the assessment process.

On the basis of the résumés it can be stated that both the Board and the Supervisory Board members own exceptional professional knowledge, experience and track record in their field of expertise, furthermore, have in-depth proficiency and several years of experience in the management of financial institutions.

## I.2.2. Board members' education data

**Chart 3: Board members' education data**

Board of Directors		Supervisory Board	
<b>Dr. Sándor CSÁNYI</b>		<b>Tibor TOLNAY</b>	
College of Finance and Accounting, Hungary	BSc in Finance (1974)	University of Technology, Hungary	MSc in Civil Engineering (1978)
University of Economics, Hungary	MSc in Economics (1980)	University of Economics, Hungary	economic engineer (1983) economist(1993)
<b>Gabriella BALOGH</b>		<b>Dr. Gábor HORVÁTH</b>	
University of Veszprém, Hungary	Chemical Engineer (1993)	Eötvös Lóránd University, Hungary	Degree in Law (1980)
University of Economics, Hungary	MSc in Marketing Economics (1997)	<b>Klára BELLA</b>	
<b>Mihály BAUMSTARK</b>		College of Finance and Accounting, Hungary	BSc in Finance (1992)
University of Agricultural Sciences, Hungary	MSc in Agricultural Sciences (1973)	University of Economics, Hungary	MSc in Economics (1996)
University of Economics, Hungary	MSc in Economics (1981)	<b>Dr. Tamás GUDRA</b>	
<b>Péter CSÁNYI</b>		College of Commerce and Catering, Hungary	Bsc in Business Administration (1993)
City University London	Bachelor in Economics (2006)	Janus Pannonius University, Hungary	law yer (2010)
IE Business School Madrid	Master in Financial Management	<b>András MICHNAI</b>	
Kellogg School of Management US	Master of Business Administration	College of Finance and Accounting, Hungary	BSc in Finance (1981)
<b>Tamás ERDEI</b>		<b>Olivier Péqueux</b>	
College of Finance and Accounting, Hungary	BSc in Finance (1978)	École Polytechnique	graduate engineer (1998)
<b>Dr. István GRESA</b>		École nationale de la statistique et de l'administration économique	statistician-economist (2000)
College of Finance and Accounting, Hungary	BSc in Finance (1974)		
University of Economics, Hungary	MSc in Economics (1980)		
<b>Antal KOVÁCS</b>			
College of Finance and Accounting, Hungary	MSc in Economics (1985)		
<b>György NAGY</b>			
University of International Relations, Moscow	MSc in Foreign Economics (1989)		
<b>Dr. Márton VÁGI</b>			
University of Economics, Hungary	Msc in Economics (1987)		
<b>Dr. József VÖRÖS</b>			
University of Economics, Hungary	MSc in Economics (1974)		
<b>László WOLF</b>			
University of Economics, Hungary	MSc in Economics (1983)		

For the time being, unambiguous expectations regarding diversity policy have not been announced in the European and Hungarian regulatory environment, nevertheless, the Bank in 2021 disclosed its strategy on the creation of gender diversity.

According to the current practice, when designating members of the management bodies (Board of Directors, Supervisory Board), OTP Bank Plc. considers the existence of professional preparation, the high-level human and leadership competence, the versatile educational background, the widespread business experience and business reputation of the utmost importance, at the same time, it is also highly committed to taking efficient measures in order to ensure diversity with regard to corporate operation, including the gradual improvement in women's participation rate. For that end, it was also expressed as a goal to have at least one woman member both in the Board of Directors and the Supervisory Board of OTP Bank Plc.

### I.2.3. Risk management committees

The Risk Assumption and Risk Management Committee is a standing committee established by the Board of Directors with the purpose to support its decision making activity. The Committee is responsible – among others – for giving preliminary opinion on the group level Risk Strategy and monitoring its implementation. In 2021 the Committee held – beside written votes – nine meetings.

Credit and Limit Committee (CLC) is a standing committee, which meets at least on weekly basis (100 times in 2021). Its main function is to approve the proposals of the Bank Group Risk Strategy, the main lending regulations and the annual Lending Policy to the Board of Directors of OTP Bank. The CLC – in its decision-making power – decides on approval of individual risk assumptions and provides as required proposal to the Board of Directors.

The Group Impairment Committee is a standing committee set up by the Board of Directors. The scope of the Committee's competence includes the adoption of decisions at group level about issues concerning the collective valuation methodology used for provisioning under IFRS 9. In 2021 the Committee held – beside written votes – one meeting.

The Work-out Committee (WOC) is a standing committee, which is responsible for decision-making on OTP Bank's (corporate and retail) exposures under special management; as well as exercising of the right of consent in relation to the special handling of exposures exceeding the agreed limit with respect to foreign subsidiaries, OTP Faktoring Zrt. and its subsidiaries, and Merkantil Bank Zrt. In addition to this WOC is entitled to act as an NPL committee which incorporates the right of the pre-approval of the NPL strategy and the connecting implementation plan, and their yearly revision; furthermore proposing incentives for the implementation of the NPL strategy. The Committee held – beside written votes – 25 meetings in 2021.

Asset-Liability Committee (ALCO) is a standing committee established by the Board of Directors, which makes decisions on separately non-regulated affairs relating to OTP Bank's highest-level asset-liability management. It met – beside written votes – 13 times in 2021.

The Group Operational Risk Management Committee (OPRISK Committee) is a standing committee meeting quarterly. It monitors the changes in the operational risk exposure, the operational risk management activity and the business continuity planning. It also makes sure that both the risk management practises and reporting channels required by the management and prescribed by the law work adequately. In addition to this, the analysis and evaluation of large individual losses place great importance in order to manage operational risk proactively.

Set up by the Board of Directors, the Anti-Money Laundering Committee is a standing committee which, in the event of specific money laundering risks, adopts decisions about the possibility to

maintain the concerned business relationship, or to approve its establishment. In 2021 the Committee held – beside written votes – one meeting.

The ESG Committee is a standing committee set up by the Board of Directors. Its task is to formulate the ESG strategy, plans and policies and support the Bank's governing bodies in performing their ESG duties. The Committee was established in December 2021 and held its inaugural meeting in January 2022.

The top management bodies get frequent information about risks from the Risk Assumption and Risk Management Committee as well as through proposals, regular reports made by competent Divisions.



### I.3. Scope of consolidation in group level reports

#### I.3.1. Associates which are accounted for using the equity method (proportionally consolidated) for the year ended 31 December 2021

In the OTP Group there is not any associate which is accounted for using the equity method (proportionally consolidated) for the year ended 31 December 2021.

#### I.3.2. Not consolidated entities for the year ended 31 December 2021

**Chart 4: Not consolidated entities for the year ended 31 December 2021**

<b>Not consolidated in accordance with IFRS<sup>1</sup></b>	
1	Agro-Szalók Ltd.
2	ÁNT-KER Ltd.
3	Auctioneer s. r. o.
4	BIG-PIG Ltd.
5	Club Hotel Füred Szálloda Ltd.
6	Csillag Csemege Ltd.
7	Diákigazolvány Ltd.
8	Dinghy Sport Club Hungary Ltd.
9	Finservice LLC
10	Govcka Project Company SRL
11	GRELEGER Ltd.
12	HAGE-INVEST Ltd.
13	Ingtatlanvayon Projekt 14. Ltd.
14	Investment Projekt 1. d.o.o.
15	NÁD-ÉP Ltd.
16	NÁD-GÉP Ltd.
17	NAGISZ-Növény Ltd.
18	NAGISZ-TEJ Ltd.
19	"Nemesszalóki Mezőgazdasági" CJSC.
20	OTP Advisors SRL
21	OTP Consulting Romania SRL
22	OTP Immobilien Verwertung GmbH.
23	OTP Nedvizhimost OOO
24	OTP Újlakás Hitelközvetítő Ltd.
25	OTP Vendéglátás és Hotelszolgáltatás Szervező Ltd.
26	Rea Project One Company SRL
27	RESPV s.r.l.
28	SC AS Tourism SRL
29	SC Cefin Real Estate Kappa SRL
30	Terményfeltáró Ltd.
31	Zelena Nektretine d.o.o.
32	ZM-NAGISZ Ltd.
<b>Not consolidated in accordance with CRR<sup>2</sup></b>	

<sup>1</sup> Subsidiaries in which the Bank holds a significant interest have not been consolidated because the effect of consolidating such companies is not material to the Consolidated Financial Statements as a whole.

<sup>2</sup> Entities excluded from the scope of prudential consolidation based on the Article 19 section 1 of the CRR.

**I.3.3. Current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries**

There is no impediment like this in the Group.

**I.3.4. Regulatory capital deficit at subsidiaries not included in the consolidation**

The Group does not have subsidiaries not included in the consolidation that do not fulfil the regulatory CAR minimum.

**I.3.5. Practice of regulations' application**

In none of the Group's subsidiaries have the competent authorities waived prudential requirements on an individual basis.

## I.3.6. Consolidated entities

Chart 5: Consolidated entities for the year-ended 31 December 2021

Number	Entity	Scope of accounting consolidation	Scope of regulatory consolidation	Number	Entity	Scope of accounting consolidation	Scope of regulatory consolidation
1	OTP Bank Plc.	Yes	Yes	57	OTP Financing Solutions B.V.	Yes	Yes
2	AFP Private Equity Invest Ltd.	Yes	No	58	OTP Fund Management Ltd.	Yes	Yes
3	Air-Invest Ltd.	Yes	Yes	59	OTP Funds Servicing and Consulting Ltd.	Yes	Yes
4	AppSense Ltd.	Yes	Yes	60	OTP Holding Ltd.	Yes	Yes
5	Bajon-Polár Center Real Estate Management Ltd.	Yes	Yes	61	OTP Holding Malta Ltd.	Yes	Yes
6	BALANSZ Real Estate Institute Fund	Yes	No	62	OTP Home Solutions Uc.	Yes	No
7	BANK CENTER No. 1. Ltd.	Yes	Yes	63	OTP Hungaro-Project Ltd.	Yes	No
8	Banka OTP Albania SHA	Yes	Yes	64	OTP Immobilien Verwertung GmbH.	Yes	Yes
9	CIL Babér Ltd.	Yes	Yes	65	OTP Ingatlankezelő Ltd.	Yes	Yes
10	CRESCO d.o.o.	Yes	Yes	66	OTP Ingatlanpont Ltd.	Yes	No
11	Crnogorska Komercijalna Banka a.d.	Yes	Yes	67	OTP Ingatlanüzemeltető Ltd.	Yes	Yes
12	DSK Asset Management EAD	Yes	Yes	68	OTP Insurance Broker EOOD	Yes	Yes
13	DSK Auto Leasing EOOD	Yes	Yes	69	OTP Invest d.o.o.	Yes	Yes
14	DSK Bank EAD	Yes	Yes	70	OTP Investments d.o.o. Novi Sad	Yes	Yes
15	DSK DOM EAD	Yes	Yes	71	OTP Leasing d.d.	Yes	Yes
16	DSK Leasing AD	Yes	Yes	72	OTP Leasing EOOD	Yes	Yes
17	DSK Mobile EAD	Yes	Yes	73	OTP Leasing Romania IFN S.A.	Yes	Yes
18	DSK Operating lease EOOD	Yes	Yes	74	OTP Leasing Srbija d.o.o. Beograd	Yes	Yes
19	DSK Tours EOOD	Yes	Yes	75	OTP Life Annuity Real Estate Investment Ltd.	Yes	Yes
20	DSK Trans Security EAD	Yes	Yes	76	OTP Lizing d.o.o.	Yes	Yes
21	EISYS Ltd.	Yes	No	77	OTP Mérnöki Szolgáltató Ltd.	Yes	Yes
22	Georg d.o.o.	Yes	No	78	OTP Mobile Service Ltd.	Yes	No
23	Haga hajdúszáji Agrárpari Ltd.	Yes	No	79	OTP Mortgage Bank Ltd.	Yes	Yes
24	INGA KETTŐ Ltd.	Yes	Yes	80	OTP MRP	Yes	No
25	JSC "OTP Bank" (Russia)	Yes	Yes	81	OTP Nekretnine d.o.o.	Yes	Yes
26	LLC AllianceReserve	No	Yes	82	OTP Osiguranje A.D.O. Beograd	Yes	No
27	LLC AMC OTP Capital	Yes	Yes	83	OTP Pénzügyi Pont Ltd.	Yes	Yes
28	LLC MFO "OTP Finance"	Yes	Yes	84	OTP Real Estate Ltd.	Yes	Yes
29	LLC OTP Leasing	Yes	Yes	85	OTP Real Estate Investment Fund Management Ltd.	Yes	Yes
30	Merkantil Bill and Property Investments Bank Ltd.	Yes	Yes	86	OTP Real Estate Leasing Ltd.	Yes	Yes
31	Merkantil Lease Service LLC	Yes	Yes	87	OTP Services d. o. o.	Yes	Yes
32	MFM Project Investment and Development Ltd.	Yes	Yes	88	OTP Solution Fund	Yes	No
33	MONICOMP Ltd.	Yes	Yes	89	POK DSK-Rodina AD	Yes	Yes
34	Nádudvari Uc.	Yes	No	90	PortoLion Digital Ltd.	Yes	No
35	NAGISZ Ltd.	Yes	No	91	PortoLion Digitális Fund I.	Yes	No
36	"Nemesszalóki Mezőgazdasági" Ltd.	Yes	No	92	PortoLion Venture Capital Fund Management Ltd.	Yes	No
37	NIMO 2002 Ltd.	Yes	Yes	93	PortoLion Partner Fund	Yes	No
38	OTP Asset Management SAI S.A.	Yes	Yes	94	PortoLion Regionális Fund	Yes	No
39	OTP Bank JSC (Ukraine)	Yes	Yes	95	PortoLion Regionális Fund II	Yes	No
40	OTP Bank Romania S.A.	Yes	Yes	96	PortoLion Zöld Fund	Yes	No
41	OTP Bank S.A.	Yes	Yes	97	R.E. Four d.o.o., Novi Sad	Yes	Yes
42	OTP banka dioničko društvo	Yes	Yes	98	Regional Urban Development Fund AD	Yes	Yes
43	OTP banka Srbija akcionarsko društvo Novi Sad	Yes	Yes	99	SB Leasing d.o.o.	Yes	Yes
44	OTP Building Society Ltd.	Yes	Yes	100	SC Aloha Buzz SRL	Yes	Yes
45	OTP Card Factory Ltd.	Yes	Yes	101	SC Favo Consultanta SRL	Yes	Yes
46	OTP Debt Collection d.o.o. Podgorica	Yes	Yes	102	SC Tezaur Cont SRL	Yes	Yes
47	OTP eBIZ Ltd.	Yes	No	103	ShivalForce.com Inc.	Yes	No
48	OTP Factoring Bulgaria EAD	Yes	Yes	104	SKB Banka d.d. Ljubljana	Yes	Yes
49	OTP Factoring Serbia d.o.o.	Yes	Yes	105	SKB Leasing d.o.o.	Yes	Yes
50	OTP Factoring Slovensko s.r.o.	Yes	Yes	106	SKB Leasing Select s.o.o.	Yes	Yes
51	OTP Factoring SRL	Yes	Yes	107	SPLC Property Management Ltd.	Yes	Yes
52	OTP Factoring Ukraine LLC	Yes	Yes	108	SPLC-P Real estate development, Real estate manag	Yes	No
53	OTP Factoring Ltd.	Yes	Yes	109	TOP Collector LLC	Yes	Yes
54	OTP Factoring Management Ltd.	Yes	Yes	110	Velvin Ventures Ltd.	Yes	Yes
55	OTP Financing Malta Ltd.	Yes	Yes	111	ZA-Invest Béta Ltd.	Yes	No
56	OTP Financing Netherlands B.V.	Yes	Yes				

#### I.4. Internal capital requirement calculation

The constant development of capital requirement calculation is a significant activity for the Group, in line with the changing external economic and regulatory environment. The Group applied only adequately stable, sufficiently conservative and well-performing models for the different processes according to prudent approach. During the internal capital adequacy assessment process (ICAAP) the potential risks of the Group are thoroughly reviewed.

The internal model applied for credit risk capital requirement covers a notable part of the credit portfolio. The model, based on the simulation of the macroeconomic environment, determines the loss and the required capital requirement under stress for each portfolio. For credit portfolios not involved in the internal model, the Group applies standardized approach.

The Group applies a historical VAR model to calculate the internal capital requirement of FX, market and interest rate risk.

In the case of operational risk the AMA and BIA methods are applied, after approval by the National Bank of Hungary.

Moreover, the Group intends to identify all the risks not covered in Pillar 1. If it is justified by risk measurement methods, internal models are applied.

**Chart 6: How risk is managed within the ICAAP**

<b>Risk type</b>	<b>How risk is managed within the ICAAP</b>
<b>Credit risk</b>	
<b>Risk of default</b>	Capital
<b>Counterparty risk</b>	Capital/Limit
<b>Issuer risk</b>	Capital
<b>Concentration risk</b>	Capital/Limit/Process
<b>Country risk</b>	Limit/Process
<b>Settlement risk</b>	Limit/Process
<b>Residual risk</b>	Process
<b>Operational risk</b>	Capital
<b>Market risk</b>	Capital/Limit/Process
<b>Interest rate risk for banking book</b>	Capital/Limit/Process
<b>Liquidity risk</b>	Limit/Process
<b>Reputation risk</b>	Process
<b>Strategic risk</b>	Process
<b>Real estate risk</b>	Capital

## I.5. Credit risk adjustments

### I.5.1. Methodology of valuation and provisions

The consolidated financial reports of the Group are based on IFRS regulation. Measurement and provision allocation of assets, investments and off-balance sheet liabilities are realized according to frameworks of relevant IFRS/IAS standards.

The group level assessment standards are determined by "OTP Group's Provisioning policy for loans in accordance with International Financial Reporting Standards (IFRS)". The calculation of credit losses may be carried out collectively or individually.

The recognized provision level reflects to the foreseeable risks and potential losses. The amount of the recognized impairment is the difference between the book value of the outstanding debt and the expected amount of the recovered debt. OTP Group recognizes risk provision for off-balance sheet (pending, future) liabilities on the basis of their assessment. If the measurement process reveals that the amount of the risk provision exceeds the amount required on the basis of the assessment, the excess amount of the risk provision is released.

At initial recognition the financial assets must be tested based on the business model and the contracted cash flow characteristics, based on which it can be determined according to which measurement method, specified in the IFRS9 standard, the given asset is to be managed and valued. The assets can be allocated to the following three categories:

- Assets measured at amortized cost
- Assets valued at fair value through other comprehensive income (FVOCI) – IFRS13,
- Assets valued at fair value through profit and loss (FVPL) – IFRS13.

According to the requirements of the IFRS9 standard, upon the initial recognition and on the reporting dates (last calendar day of the reporting month) the assets measured at amortized cost and the assets valued at fair value through other comprehensive income must be allocated to three stages by their credit risk or POCI category:

- Stage 1 category contains the performing deals.
- Those deals, which are performing, but compared to the initial recognition it shows significant increase in credit risk, must be categorized to Stage 2.
- Stage 3 contains the non-performing (credit-impaired) deals.
- Purchased or originated credit impaired assets are financial assets that are impaired already upon the initial recognition. These assets must be classified as POCI.

In case of the Stage 1 deals 12-month credit losses must be calculated by the expectations of the default probability, for Stage 2 and Stage 3 deals lifetime expected losses must be calculated as impairment.

Depending on the item, assessment based on the following aspects:

- client and counterparty rating – financial situation, stability and income generation capability of the client or counterparty affected by the financial and investment service, and any changes in these factors;
- the repayment schedule (overdue days) – patterns of delay on principal and interest payment related to the amortization of the outstanding debt, regular fulfillment of the payment obligation;
- status of restructuring risk contract;
- sovereign risk and changes in the sovereign risk associated with the client (both political risk and transfer risk);
- value, marketability and availability of the securities pledged as collateral and any changes in them;
- marketability of the item (market demand and supply, achievable market prices, share in the issuer's equity in proportion to the size of the investment),
- future payment obligation, which qualifies as a loss originating from the item,
- significant increase in credit risk compared to the initial recognition.

Probable future losses on the item are determined on a case-by-case basis, in consideration of the above aspects as applicable. If this amount is lower than the amount recognized on the item earlier, it has to be supplemented by the amount of the difference by recognizing a further amount of impairment, or if it is higher, it has to be reduced by the release of the existing amount of impairment.

Delinquent deal: the client doesn't perform his/her payment obligations.

According to the CRR a default shall be considered to have occurred with regard to a particular obligor when either or both of the following events have taken place:

- the institution considers that the obligor is unlikely to pay its credit obligations to the institution, the parent undertaking or any of its subsidiaries in full, without recourse by the institution to actions such as realising security
- the obligor is past due more than 90 days on any material credit obligation to the institution, the parent undertaking or any of its subsidiaries.

If the debts are past due more than 90 days and it derives from non-lending type contracts do not qualify as default event. These exposures are not considered to be impaired.

A credit risk exposure shall be considered as restructured:

- considering the current or future financial difficulties of the client the institution
- provides a concession/allowance in respect of the contract originating the exposure (and this would not be done if the client would not have financial difficulties)

The calculation of credit losses may be carried out on an individual or collective basis.

### **Portfolio (collective) assessment**

The collective assessment based on the following parameters: probability of defaults, cure rate, loss given default. The condition of applying collective assessment is that the assets should be allocable to groups representing similar credit risk based on major credit risk characteristics and their capability to fulfill contractual obligations. The most important variables of the assessment procedure are payment delay, deal/client rating, the restructuring information and the default status.

Upon estimating the future cash flows related to the group(s) of financial assets, the historic credit loss data of the assets representing similar credit risk, the macroeconomic factors and information on the future of financial instruments must be taken into account.

The Group member shall measure expected credit losses of a financial asset 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.

### **Individual assessment**

Receivables that are of significant amount on a stand-alone basis with objective evidence of impairment or that the risk management functional area subjected to individual assessment based on monitoring information must be measured individually:

- The cash flows expected from the financial instruments must be defined, which has to be based on at least two scenarios.
- Valuation and revaluation of collaterals is crucial, discounting the cash-flows from the sale of collaterals is an important part of individual assessment.
- The defined cash flows must be discounted to the present value.
- The impairment of the financial instrument is taking into account the riskiness of cash flows and individual collateralization.

- The individual cash-flow estimation also has to be forward looking, which has to contain the information about the macroeconomic environment and the future of the financial instruments.
- If there is a significant change in the credit risk of a financial asset, the impairment calculation must be reviewed taking into account the new information and risks.

Changes in impairment of loan portfolio are presented in in the following notes of the financial statement:

- changes of impairment regarding “Placements with other banks” in Note 5.
- changes of impairment regarding “Securities at amortised cost” in Note 10.
- changes of impairment regarding “Loans” in Note 8.



## I.6. Exposures in equities not included in the trading book

### I.6.1. Trading purposes, valuation methods

Aspects of classification for trading purposes:

According to the Regulation of OTP Bank Plc. on Keeping of the Trading Book and Determining the Capital Requirements the trading book contains:

- the positions of the financial assets belonging to held-for-trading portfolio, related to investment or financial services, which are exposed primarily to market risks and
- the risk assumption related to them.

**The classification into the trading book has the following criteria:**

- The financial assets have to be classified into the trading book in accordance with the accounting policy.
- Those positions of the financial assets have to be classified into the trading book which are purchased by OTP Bank Plc. for realizing a short term gain due to the price difference between the purchase and selling price or due to changes of the interest rates.
- The repo transactions held for trading have to be classified into the trading book.
- The shares purchased by OTP Bank Plc. with no investment purpose have to be classified into the trading book.

According to the Investment Regulation of the Bank the long-term investments are financial instruments (Interests in Entities) purchased or founded for the purposes of providing the strategic (furthermore gaining ability to influence, direct, control another company) purpose of the Bank, providing the banking activities (as financial enterprise) and the banking operations (as incremental subsidiary), and shares in other financial intermediaries and in financial auxiliaries institutions.

Long-term investments can be classified as it follows:

- The OTP Group which is the complex entirety of the OTP Bank and the enterprises closely affiliated (qualified as dominant influence or participation) with OTP Bank.
- Other capital investments which operate under the direct ownership of the Bank, but not belong to the OTP Group.

In the financial statements of the Bank long-term investments are presented among Investments in subsidiaries and associates. Investments in subsidiaries comprise those investments where the Bank, through direct and indirect ownership interest, controls the investee.

**Accounting and valuation methods:**

Investments in subsidiaries, associates are recorded at the cost of acquisition, less impairment for permanent diminution in value, when appropriate. After initial measurement investments in subsidiaries and associates are measured at cost, in the case of foreign currency denominated investments for the measurement the Bank uses the exchange rate at the date of transaction.

Impairment is determined based on the future economic benefits of the investment and macroeconomic factors. The Bank calculates the fair value based on discounted cash-flow model. The 3 year period explicit cash-flow model serves as a basis for the impairment test by which the Bank defines the impairment need on investment in subsidiaries based on the strategic factors and financial data of its cash-generating units.

I.6.2. Exposures in equities not included in the trading book on 31<sup>st</sup> December 2021

Chart 7: Exposures in equities not included in the trading book according to IFRS on 31st December 2021

Number	Entity	Balance sheet value (In HUF million)	Listed (Exchanged- traded)	Number	Entity	Balance sheet value (In HUF million)	Listed (Exchanged- traded)
1	ABE Clearing SAS	0	No	62	JSC Settlement Center	0	No
2	Agro banka a.d. in bankruptcy	0	No	63	KÖZVIL Első Magyar Kézülgátsi Closed Co. Plc.	0	No
3	Agro-Szalók Ltd.	380	No	64	Lutrija Crme Gore ad	7	No
4	ALGORITHMIO INVEST Ltd.	8 996	No	65	MasterCard Incorporated	349	No
5	ALGORITHMIO, S.R.O.	12 736	No	66	METANOLSKO SIRCETNI KOMBINAT KIKINDA	0	No
6	Alia banka A.D. Beograd	33	No	67	MIN Holding Nis v.a.	0	No
7	ÁNT-KER Ltd.	881	No	68	Montair A.D.	0	No
8	Auctioneer s. r. o.	34	No	69	Montenegroberza ad	38	No
9	AY BANKA LONDON u likvidaciji	0	No	70	NÁDEP Ltd.	121	No
10	BANKART PROCESIRANJE PLACILNIH INSTRUMENTOI	2 648	No	71	NAD-GEP Ltd.	4	No
11	BANKING SOFTWARE COMPANY S.R.O	13 483	No	72	NAGISZ-NÖVENY Ltd.	931	No
12	Barzaí Cloud Ltd.	374	No	73	NAGISZ-TEJ Ltd.	1 694	No
13	BC Banca Sociala SA	0	No	74	NGY Propertiers Investment SRL	11 836	No
14	BC Moldindobank SA	0	No	75	NovakId Inc.	2 006	No
15	BC Moldova-Agroindbank SA	0	No	76	OJSC Saint Petersburg Exchange	0	No
16	BC Victoriabank SA	0	No	77	OneSail Ag.	318	No
17	Beogradska Berza Ad., Beograd	3	No	78	OTP Advisors SRL	9	No
18	BIG-PIG Ltd.	1 040	No	79	OTP Consulting Romania SRL	22	No
19	Biroul de Credit SRL	19	No	80	OTP Nedvizhnosti OOO	57	No
20	Barika Bankservice AD	2 328	No	81	OTP Újjakás Hiteleküzvetés Ltd.	9	No
21	Budapesti Értékúzsde Ltd.	123	No	82	OTP Vendéglás és Hotelszolgáltatás Szervező Ltd.	3	No
22	Bulgarian Stock exchange AD	5	No	83	Overdose Vagyonkezelő Ltd. u.l.	0	No
23	BULGARLEASING JSC	0	No	84	Packhelp Spółka Akcyjna	2 160	No
24	Bursa de Valori a Moldovei SA	0	No	85	Pannon Ltd Ltd.	25	No
25	Central Depository AD	48	No	86	PEKO, TOVARNA OBUTVE, D.D. - V STECAJU	0	No
26	Centralna depository agency a.d.	53	No	87	Pénzügykutató Closed Co. Plc.	0	No
27	Club Hotel Füred Szőloda Ltd.	1 980	No	88	Pepita.hu Closed Co. Plc.	516	No
28	CodeCool Ltd.	1 770	No	89	PHOENIX PLAY INVEST Closed Co. Plc.	3 081	No
29	Company for Cash Services AD	392	No	90	Phoenix Play Ltd.	2 645	No
30	Cursor Insight LTD	148	No	91	Pokojninska družba A d.d.	287	No
31	Csillag Cserege Ltd.	1 088	No	92	Privredna banka a.d. - in bankruptcy	0	No
32	D-EG Thermoset Építésgépészeti Áruház Ltd.	0	No	93	Razvojna banka Vojvodine a.d. - in bankruptcy	0	No
33	Diákigazolvány Ltd.	1	No	94	Rea Project One Company SRL	12	No
34	Dinghy Sport Club Hungary Ltd.	19	No	95	Recreations AD Beograd	13	No
35	DUNAVSKI PROJEK.CENTAR Beograd	0	No	96	REG.AGEN.ALMA MONS N.SAD	0	No
36	Edrone spółka z ograniczoną odpowiedzialnością	779	No	97	RESPV s.r.l.	18	No
37	Elektroprivreda Crne Gore ad Nikšić	62	No	98	S.W.I.F.T. SCRL	185	No
38	Első Alkotmány Utcai Ingatlanhasznosító Ltd.	0	No	99	SC AS Tourism SRL	2 668	No
39	EUROAXIS BANK MOSKVA in bankruptcy	0	No	100	SC Casa de Compensare SA	0	No
40	FABETKER Ltd.	3	No	101	SC Cefin Real Estate Kappa SRL	0	No
41	Finservice LLC	84	No	102	Seon Holdings Ltd.	4 758	No
42	First Ukrainian Credit Bureau LLC	4	No	103	Skład za reševanje bank	4 766	No
43	FrieslandCampina Hungária Commercial and Production Plc	1	No	104	SLOBODNA CARINSKA ZONA NOVI SAD	16	No
44	Garantia Creditguarantee Closed Co. Ltd	280	No	105	SOMBORSATAN DOO SOMBOR	1	No
45	Govcka Project Company SRL	172	No	106	SPC MILENIUM VRŠAC	15	No
46	GRABOPLAST Padőgyártó Closed Co. Ltd.	700	No	107	Sredšnja depozitarna agencija d.d.	8	No
47	GRELEGER Ltd.	736	No	108	Starschema Ltd.	3 944	No
48	HAGE-INVEST Ltd.	450	No	109	SUIS 28. Ltd.	30	No
49	Hajdú Agrárintegrációs Ltd.	0	No	110	Szallas.hu Closed Co. Plc.	8 770	No
50	Hajdusági Gabonáipari Closed Co. Plc.	1	No	111	Terményfeltérő Ltd.	99	No
51	HRÖK d.o.o.	147	No	112	TRŽIŠTE NOVCA AD BEOGRAD	0	No
52	HRVATSKI NOGOMETNI KLUB HAJDUK SPLIT Š.D.D.	0	No	113	VCC Live Group Closed Co. Plc.	1 672	No
53	HUNGAROMEAT Ltd.	0	No	114	Vesta United Regional Registrar OJSC	0	No
54	Ingatlanvagyon Projekt 14. Kft.	36	No	115	Virtuál Soluöion Ltd.	0	No
55	Intreprinderes mixta Tirez Petrol SA	0	No	116	VISA Incorporated	15 940	No
56	Investment Broker Varna JSC	0	No	117	W.J.P Ltd.	5 024	No
57	Investment Company "CG Broker-Dealer" JSC	21	No	118	Yieldigo s.r.o.	78	No
58	Investment Projekt 1. d.o.o.	9	No	119	Zagrebacka burza d.d.	121	No
59	Istarska autocesta d.d.	5	No	120	Zelena Nektretine d.o.o.	0	No
60	JSC PFTS	1	No	121	ZM-NAGISZ Ltd.	14	No
61	JSC Rostov Regional Mortgage Corporation	0	No	122	"13.Julij-Plantaze" a.d. Podgorica	733	No

The consolidated gain realised from sales and liquidations relating to exposures in equities not included in the trading book was HUF 516 million related to 31.12.2021.

## I.7. Remuneration policy

### I.7.1. Decision-making process applied in determining the remuneration policy

**The Supervisory Board of OTP Bank Plc.** – within the framework approved by the Bank's General Meeting – makes a decision about accepting the Bank Group's Remuneration Policy, approves its amendment and takes responsibility for its review. OTP Bank Plc.'s Supervisory Board consults with all the units of OTP Bank that are significant in terms of corporate governance with regard to drafting the Banking Group's Remuneration Policy.

OTP Bank Plc.'s Supervisory Board has the right to modify the Remuneration Policy with the exception of matters that by law are subject to the competence of the General Meeting, with the proviso that it shall notify all the subsidiaries of the OTP Banking Group on the amendment immediately and/or that it shall notify the shareholders at OTP Bank Plc.'s next General Meeting.

**The Board of Directors of OTP Bank Plc.** is responsible for the implementation of the Banking Group's Remuneration Policy.

The provisions of the Banking Group's Remuneration Policy, as well as the regulations related to it and their implementation, must be checked by OTP Bank Plc.'s Internal Audit department at least once a year, no later than by 31 March, and a report on the matter must be prepared for OTP Bank Plc.'s Board of Directors, Supervisory Board and Remuneration Committee.

**OTP Bank Plc.'s Remuneration Committee** oversees the remuneration of the managers who are responsible for risk management and legal compliance – including the employees, who are responsible for internal control - and prepares remuneration decisions by taking into account the long-term interests of shareholders, investors and other stakeholders of the credit institution.

OTP Bank Plc.'s Remuneration Committee makes recommendations to the Supervisory Board of OTP Bank Plc. regarding the remuneration of the Board of Directors of OTP Bank Plc. and provides support and advice with respect to drafting the Bank Group's comprehensive remuneration policy and checking the planning and operation of the remuneration system.

OTP Bank Plc's Remuneration Committee consists of 3-7 members (chairman and at least two other members) appointed by the Board of Directors from among its own members, taking into consideration that the members cannot be employed by the bank. The Remuneration Committee held sessions and voted in writing ten times in 2021 and carried out its activities without an external consultant.

OTP Bank Plc's Risk Assumption and Risk Management Committee's tasks include the examination of the remuneration policy from a perspective where the incentive elements of the designed remuneration system takes into consideration the risks, the capital and liquidity situation

of the credit institution, as well as the probability and sequence of incomes. The Risk Assumption and Risk Management Committee also participates in the identification procedure necessary for the determination of the personal scope of the Banking Group's Remuneration Policy.

OTP Bank Plc's Risk Assumption and Risk Management Committee consists of at least 3 members (chairman and at least two other members) appointed by the Board of Directors from among its own members, taking into consideration that the members cannot be employed by the bank.

The detailed description of the tasks and responsibilities related to the operation of the Bank Group's Remuneration Policy is contained in the effective rules of procedure of the individual bodies.

In 2021 the change in the deferral period of performance remuneration can be considered a significant change, thus, in the case of the managing directors of OTP Bank Plc., the deferral period increased from 4 years to 5 years, while for the other workers identified, it increased from the previous 3 years to at least 4 years. It can also be considered a change that it is now possible to omit the application of the deferral and share-based payment rules where the established performance-based remuneration on a yearly basis does not exceed HUF 17,500,000, provided that the ratio of performance-based remuneration to total remuneration does not exceed 33.33%, as well as in the case of non-significant banking group subsidiaries. Finally, with regard to the form of share-based performance remuneration, virtual share-based payment has been introduced in all countries outside Hungary, noting that the rules for share-based performance remuneration have not changed.

### I.7.2. Scope of the remuneration policy

The rules of the Banking Group's Remuneration Policy shall be applied in OTP Bank Plc and in all Banking Group Subsidiaries under the consolidated supervision of the Hungarian National Bank where identified employees are employed. The identification of the identified employees was based on the provisions of Regulation (EU) No 604/2014 until June 13, 2021 and, from 14 June 2021, Commission Regulation 2021/923 (RTS), with that the Supervisory Board of OTP Bank Plc also takes into consideration additional risk aspects in the identification process. For the sake of proportionality, OTP Bank Plc classifies all the Banking Group Subsidiaries into low, medium or high risk categories based on a combination of balance sheet total, net earnings for the year and the complexity of the business. The Supervisory Board of OTP Bank Plc identifies the managers of the high-risk Banking Group Subsidiaries under the consolidated level personal scope of the Banking Group's Remuneration Policy even if it is not required by RTS regulations. Subconsolidated and local level identification of employees takes place when the employee concerned does not have decision-making power and competence over the entire Banking Group, and his or her professional activities may affect only a particular Banking Group Subsidiary or a sub-consolidated group controlled by that subsidiary. Identified employees employed by OTP Bank Plc – with respect to group responsibility – are identified at consolidated level.

The provisions of the Banking Group's Remuneration Policy shall be applied to the group of persons identified on the basis of the above criteria, having a significant impact on the risk profile through their professional activities. The provisions of the Banking Group's Remuneration Policy (deferral, share-based payment, ex ante and ex post risk adjustment) and the involvement of the Risk Assumption and Risk Management Committee in the development of the incentive elements of the remuneration system facilitate the efficient and effective risk management of OTP Bank Plc.

For proportionate application, those identified employees may be exempted from the application of the deferred and share-based payment rules whose annual performance-based remuneration does not exceed HUF 17 500 000 and 33.33% of the total remuneration. It is not possible to apply this rule to OTP Bank Plc.'s Chairman-CEO, Deputy CEOs, executive directors leading independent directorates, directors and heads of regions, Level 1 and 2 managers of the institutions qualifying as material business units operating in the group, Level 1 managers of institutions that do not qualify as material business units in the group. Employees of banking group subsidiaries that are not significant institutions may also be exempted from the application of deferral and share-based payment rules. A banking group subsidiary is considered to be a significant institution if the average balance sheet total of the institution at the end of the previous four years reaches or exceeds HUF 1,500 billion or it qualifies as a large credit institution according to the CRR.

Banking Group Subsidiaries which are classified as institutions may adopt local remuneration policies based on the Banking Group's Remuneration Policy. As a general rule, the local remuneration policies of the Banking Group Subsidiaries shall not deviate from the rules and principles set forth in the Banking Group's Remuneration Policy, except to the extent required by local laws or regulatory requirements. Approval of the Supervisory Board of OTP Bank Plc. is the precondition of the application of the local remuneration policies deviating from the Banking Group's Remuneration Policy as a general rule, thereby ensuring consistency between the Banking Group's Remuneration Policy and local remuneration policies.

### I.7.3. Relationship between performance and performance-based remuneration

The most important principle of the Bank Group's Remuneration Policy is that the amount of performance-based remuneration – with the ex-ante and ex-post assessment of the associated risks – is tied to the extent by which the objectives of the Bank Group/Bank/subsidiary and the individual are realised. The amount of the performance-based remuneration is determined on the basis of a joint assessment of the objectives.

In respect of the personal scope under the effect of the Banking Group's Remuneration Policy, performance evaluation, as a general rule, is based on individual agreements. Performance expectations are determined in a predefined indicator structure at Banking Group/Bank/subsidiary, organisational, managerial and job level and/or in terms of target tasks, taking into account the differences stemming from the nature of the activities of the Bank's individual units.

In the case of managers employed by OTP Bank Plc., the key performance evaluation indicators include:

the banking group-level (domestic and foreign companies that operated as group members under consolidated supervision in the whole evaluated business year) RORAC+, which indicates the return on equity in relation to the cost of equity, as well as

criteria that measure institutional and individual performance (financial indicators and indicators measuring the quality of work performance).

In the case of the managers of the Banking Group Subsidiaries, performance evaluation is conducted in a differentiated manner based on the nature of the companies' activities.

The key indicator (RORAC+) is based on the prevailing annual financial plan. The proposal about the evaluated business year target value of the key indicator should be submitted to the Supervisory Board of OTP Bank Plc. The target value may be modified in response to a change in the statutory regulations and/or a change in market circumstances that occurs after the target value is determined and that has a significant objective impact on the Bank's profit and/or attainment of the target value.



### I.7.3.1. Ratio of fixed to performance-based remuneration

The members of the Board of Directors and the Supervisory Board in their function get fix honorarium and do not receive performance-based remuneration.

The remuneration of the various positions of additional persons belonging to the scope of the Bank Group Remuneration Policy comprises of a fixed and a performance-based remuneration element. The main elements of fixed remuneration are basic salary and ordinary shares issued by OTP Bank.

The proportion of the fixed and performance-based remuneration is defined in a way so that it properly reflects the function, size and complexity of the managed organisation. The ratio of performance-based remuneration shall not exceed 100 % of the fixed remuneration in the case of any of the individuals concerned.

The minimum and maximum ratios of performance-based remuneration for the Banking Group Subsidiaries, depending on the organizational level – and in the case of institutions, the organizational function as well – are defined in the Remuneration Guidelines of OTP Bank Plc, deviations from these bands may only be made in cases duly justified by labour market reasons. The bands for employees with control functions – in order to make their remuneration less dependent on the performance of the business units they control – are lower than those for employees in business and support functions. The lower bands promote that the remuneration of the employees performing control functions is predominantly or exclusively composed of basic salary. In the case of OTP Bank Plc, the applicable proportion of the performance-based remuneration is individually considered by the Supervisory Board based on the function, size and complexity of the managed organization.

#### I.7.4. Criteria of variable remuneration

At Banking Group level, the maximum amount available for performance-based remuneration in a given year is determined by OTP Bank Plc.'s Supervisory Board. OTP Bank Plc. uses the combined method when determining the amount of the performance-based remuneration (variable remuneration), with the proviso that the maximum amount available for performance-based remuneration is determined in line with the Banking Group's capital position and its expected financial performance. As mentioned above, the Supervisory Board may decide to establish an extraordinary bonus pool in case of an extraordinary business performance in the previous business year. In the case of an exceptional individual performance, the executive or the employee may also receive a payment within the general bonus pool in excess of the performance-based remuneration ratio established for the general bonus pool, but not in excess of the performance-based remuneration ratio determined for the case of the joint establishment of the general and extraordinary bonus pools, provided that such payment is covered by the general bonus pool.

Banking Group level and individual performances are evaluated once a year. At Banking Group level the maximum amount of performance-based remuneration in a given year in relation to the general bonus pool and potentially the extraordinary bonus pool and the amount broken down by individuals are determined within 45 days after the date of the General Meeting of OTP Bank Plc. that closes the evaluated year.

As a general rule, the performance-based variable remuneration is provided in the form of a cash bonus and as share based allowance, in a 50-50% ratio. As a general rule, in the personal scope identified on consolidated level the share based allowance, in accordance with the decision of the individual, is settled as remuneration converted into shares or as preferentially priced share allowance. In the case of subsidiaries outside Hungary, for the consolidated level identified personal scope the share based allowance is provided in the form of such a cash-based payment, as if - in accordance with the decision of the individual - the settlement of the remuneration converted into shares or the preferentially priced share allowance would take place (so called virtual share allocation). In respect of sub-consolidated and local level identified personal scope in Hungary, the share based allowance is provided in the form of remuneration converted into shares. In respect of sub-consolidated and local level identified personal scope in foreign subsidiaries, the share based allowance is provided as such a cash-based payment, as if the settlement of the remuneration converted into shares would take place (so called virtual share allocation). The number of shares available for share allocation as remuneration converted into shares broken down to individuals is to be determined on the basis of the amount of the share-based performance remuneration divided by the share price as at the date of the Supervisory Board decision. The number of shares available for preferentially priced share allowance broken down to individuals is to be determined on the basis of the amount of the share-based performance remuneration divided

by the value of the preferentially priced share allowance as at the date of the Supervisory Board decision.

The share price and the value of the preferentially priced share allowance as at the date of the Supervisory Board decision is established by OTP Bank's Supervisory Board as the average of the daily average prices of the ordinary shares issued by OTP Bank Plc. recorded on the Budapest Stock Exchange on the three trading days preceding the day of the Supervisory Board decision. The due part of the performance based remuneration, not depending on the exercise of the share allocation, must be settled in 10 days counted from the Supervisory Board decision, but not later than until 30th June of the year when the payment is due.

The share allocation at a reduced price may include a maximum allowance of HUF 6,000 per share on the date of Supervisory Board decision and the income content realisable per share shall equal the smaller of the amount specified by the Supervisory Board of OTP Bank Plc. as at the date of the exercising the share allocation or HUF 12,000. The conditions of the share based remuneration are determined by the Supervisory Board of OTP Bank Plc. within the frames defined by the Annual General Meeting. In respect of the personal scope in Hungary, as a general rule, the share-based portion of variable remuneration is provided by OTP Bank Plc. to those concerned, while in the personal scope outside Hungary virtual share allocation is applied.

The identified employees of OTP Bank Plc., OTP Mortgage Bank Ltd., OTP Building Society Ltd., Merkantil Bank Ltd., OTP Asset Management SAI S.A., OTP Factoring Ltd., OTP Real Estate Investment Fund Management Ltd., OTP Real Estate Ltd., OTP Pénzügyi Pont Ltd., Merkantil Bill and Property Investments Bank Ltd. and OTP Real Estate Leasing Ltd. by their own will, are entitled to participate in OTP Bank ESOP Organization, in which case they can acquire a member's share up to the value of their performance-based remuneration under the general bonus pool within the ESOP Organization. For the identified persons participating in OTP Bank ESOP Organization the settlement of the performance based remuneration, in case of the fulfilment of the conditions, is provided by the ESOP Organization, up to the value of the member's share.

Pursuant to the general rule that is in line with the provisions of the Credit Institutions Act, in the consolidated level identified personal scope 60%, while in sub-consolidated and local level personal scope, as a general rule, 40% of the variable remuneration is deferred for 4 years – in the case of the President-CEO and deputy-CEOs of OTP Bank Plc. for 5 year –, within which period the extent of the deferred payment shall be identical every year.

Entitlement to the deferred instalments is determined based on a subsequent assessment of the risks. The assessment of risks takes place, on one hand, on the basis of quantitative criteria pertaining to prudent operations and, on the other hand, on qualitative evaluation criteria. On the basis of the values of the criteria of prudent operation, OTP Bank Plc.'s Supervisory Board resolves

on the possibility to pay deferred instalments. Based on the assessment of the risks related to the activities of those concerned, the deferred portion of the performance-based remuneration may be reduced or cancelled. As a general rule, an additional condition for entitlement to the deferred instalments is the existence of the employment relationship.

If the person in a managerial position or if the employee has been involved in any practice that caused a significant loss, and/or is not up to the requirements pertaining to suitability or conformity, the Supervisory Board of OTP Bank Plc. is entitled to make the required decision on claiming back the performance-based remuneration booked for/paid to the individual concerned in regard to the period affected by the circumstance resulting in the claiming back of the remuneration. In addition to as specified in paragraph performance-based remuneration paid to the individual earlier on is refunded if the individual is found to have committed a criminal act or in the case of such serious omission, abuse or defect that had significantly deteriorated the creditworthiness and/or profitability of the institution. Decisions on claw back shall be taken by the Supervisory Board of OTP Bank Plc.

#### I.7.4.1. Quantitative information on the remuneration policy

Quantitative information on the remuneration policy required by the regulation is provided in the attached excel tables REM1 -REM5.

## I.8. Liquidity risk

The Bank managing the liquidity risk exposure by (i) accumulating appropriate amount of high quality liquidity reserves, (ii) developing advanced risk management methodology that models the relevant risk exposure in a proper and prudent way, (iii) applying transparent processes and workflows that are straightforward from authority and responsibility point of view therefore they minimize operational risks and (iv) exercising frequent high quality management reporting that provides the adequate scale and scope of insight for economically reasoned decision making.

According to the industrial best practice the risk measurement, strategic risk management and the operational risk management are separated functions. The risk measurement, the risk methodology development and the long term strategic risk management functions are the responsibilities of Asset-liability Management Directorate (ALM) in Strategic and Financial Division, while the daily liquidity management process is executed by Treasury in the Commercial Banking Division.

The ALM Directorate prepares liquidity risk related standard reports for ALCO on a monthly basis. The report contains the quantitative and qualitative ex post assessment of risk measurement and management process and contains proposals in connection with the future challenges that require ALCO approved actions to deal with.

The internal regulation on liquidity risk management is approved by ALCO after the standard annual revision process of the risk management methodology.

Monthly report is presented to the Management Committee where the evolution of liquidity risk profile analyzed in a way that makes the management certain of that risk appetite and risk tolerance are in harmony. Management Committee is the body that approves the Asset-liability Strategy.

Annual report is presented to the Board of Directors which contains key topics that affected the risk profile of the bank and the findings of internal and regulatory audits. By approving the annual report the Board of Directors validates the appropriateness of the risk management framework.

The principle of liquidity risk management is that a considerable part of risks is covered by a joint liquidity pool, which offers instant and flexible access for the parent bank and its subsidiaries, while subsidiaries shall build their own liquidity reserve for the risks that are difficult to measure and manage from the center. It is a common feature of the Group's centralized and decentralized methodological framework to compare the quantity of available high-quality reliable liquidity to the risk exposure considered to be relevant.

Liquidity reserve consists of assets that can be quickly converted into cash because of their maturity, or their eligibility for covered financing (repo), therefore they can be used to meet financial obligations, expected or unforeseeable, when they are due. The main components of the liquid

asset portfolio include the central bank placements, government securities and mortgage bonds, a smaller share of corporate bonds eligible for central bank repo and money market placements. Using the conservative approach of liquidity management, the expected cashflows of maturing client loan portfolio are not considered as safe liquidity.

The Group's liquidity reserves appear at two levels of hierarchy: in the liquidity pool, and at the subsidiary banks. The minimum liquid asset volume required at either level depends on the size of the risk exposure to be covered.

According to the liquidity strategy the liquidity reserves have to cover the relevant exposure on multiple time horizons (1 month, 3 months). The reserves have to provide coverage under normal business conditions for debt maturities within one year and for the estimated liquidity need of potential liquidity reducing shocks on the applied time horizons.

Under the applied risk management framework the following risk factors have been identified and assessed: (i) business shock (deposit withdrawal and credit line utilization) (ii) market rate shock (interest rates and FX rates) and (iii) renewal risk (capital market debt maturities).

The declaration about the appropriateness of the liquidity risk management can be found in the Annex 2. The Asset –Liability Committee, approved the declaration. (ref. 2020/51/2.).

Based on the (47) paragraph of the 15/2018.- THH – 6212. internal regulation, the information described in the 2. table of the 2. Annex of 9/2017 (VIII.8) proposal of National Bank of Hungary are not disclosed in this document, because they do not have significant effect due to the following:

- Significantly high LCR ratio
- Significant outflow is not expected
- Significant change in LCT is not expected
- OTP Group does not use fund from the market

OTP uses only the items in the LCR table to calculate the liquidity ratio. The change in the group-level loan-deposit gap increases the liquidity reserves of the Bank Group, therefore, due to individual events affecting the buffer rate during the period, the increase in High Quality Liquid Assets (HQLA) and Inflows lagged behind the increase in Outflows. Such events included: OPUS debt maturity, issuance of a mortgage bond by OTP Mortgage Bank Zrt., Issuance of KMRP, management of the restricted assets of the Bulgarian subsidiary in accordance with regulatory requirements.

The value of the LCR buffer above the 100% regulatory level is EUR 6.4 billion in 2021 Q4.

The characteristic robustness of the financing profile dominated by the Bank Group has been maintained in the recent period, and the financing risk of the low customer concentration on the liabilities side is low.

The reserve requirement due to the call of collateral decreased by EUR 9 million during the last quarter.

The liquidity risk associated with derivative exposures remains low for the size of the Group. With a significant excess of total foreign exchange surplus and a well-functioning foreign exchange swap market, the Group can enforce effective liquid asset portfolio management considerations that do not aim to establish LCR compliance for all currencies on a consolidated basis. It will be kept under review in line with changes in boundary conditions (ample liquidity, convertibility) and regulation.

#### I.8.1. Quantitative information on liquidity risk

Quantitative information on liquidity risk required by the regulation is provided in the attached excel tables LIQ1 – LIQ2.

#### I.9. Disclosure of quantitative information

Quantitative information not included in this document is provided in excel in the Annex.

## II. OTP BANK

Information required to be disclosed regarding OTP Bank is not presented in this chapter separately, only in the OTP Group chapter, if it is the same as OTP Group level publications.

### II.1. Credit risk adjustments

#### II.1.1. Methodology of valuation and provisions

The financial reports of the OTP Bank are based on IFRS regulation. Measurement and provision allocation of assets, investments and off-balance sheet liabilities are realized according to frameworks of relevant IFRS/IAS standards.

In its regulations entitled “International Financing Reporting Standards (IFRS) valuation requirements” OTP Bank provides detailed regulations pertaining to the measurement and provision recognition of outstanding debts, investments and off-balance sheet liabilities.

The recognized provision level reflects to the foreseeable risks and potential losses. The amount of the recognized impairment is the difference between the book value of the outstanding debt and the expected amount of the recovered debt. OTP Bank recognizes risk provision for off-balance sheet (pending, future) liabilities on the basis of their assessment. If the measurement process reveals that the amount of the risk provision exceeds the amount required on the basis of the assessment, the excess amount of the risk provision is released.

At initial recognition the financial assets must be tested based on the business model and the contracted cash flow characteristics, based on which it can be determined according to which measurement method, specified in the IFRS9 standard, the given asset is to be managed and valued. The assets can be allocated to the following three categories:

- Assets measured at amortized cost
- Assets valued at fair value through other comprehensive income (FVOCI) – IFRS13,
- Assets valued at fair value through profit and loss (FVPL) – IFRS13.

According to the requirements of the IFRS9 standard, upon the initial recognition and on the reporting dates (last calendar day of the reporting month) the assets measured at amortized cost and the assets valued at fair value through other comprehensive income must be allocated to three stages by their credit risk or POCI category:

- Stage 1 category contains the performing deals.
- Those deals, which are performing, but compared to the initial recognition it shows significant increase in credit risk, must be categorized to Stage 2.



- Stage 3 contains the non-performing (credit-impaired) deals.
- Purchased or originated credit impaired assets are financial assets that are impaired already upon the initial recognition. These assets must be classified as POCI.

In case of the Stage 1 deals 12-month credit losses must be calculated by the expectations of the default probability, for Stage 2 and Stage 3 deals lifetime expected losses must be calculated as impairment.

Depending on the item, assessment based on the following aspects:

- client and counterparty rating – financial situation, stability and income generation capability of the client or counterparty affected by the financial and investment service, and any changes in these factors;
- the repayment schedule (overdue days) – patterns of delay on principal and interest payment related to the amortization of the outstanding debt, regular fulfillment of the payment obligation;
- status of restructuring risk contract;
- sovereign risk and changes in the sovereign risk associated with the client (both political risk and transfer risk);
- value, marketability and availability of the securities pledged as collateral and any changes in them;
- marketability of the item (market demand and supply, achievable market prices, share in the issuer's equity in proportion to the size of the investment),
- future payment obligation, which qualifies as a loss originating from the item,
- significant increase in credit risk compared to the initial recognition.

Probable future losses on the item are determined on a case-by-case basis, in consideration of the above aspects as applicable. If this amount is lower than the amount recognized on the item earlier, it has to be supplemented by the amount of the difference by recognizing a further amount of impairment, or if it is higher, it has to be reduced by the release of the existing amount of impairment.

Delinquent deal: the client doesn't perform his/her payment obligations.

According to the CRR a default shall be considered to have occurred with regard to a particular obligor when either or both of the following events have taken place:

- the institution considers that the obligor is unlikely to pay its credit obligations to the institution, the parent undertaking or any of its subsidiaries in full, without recourse by the institution to actions such as realising security

- the obligor is past due more than 90 days on any material credit obligation to the institution, the parent undertaking or any of its subsidiaries.

If the debts are past due more than 90 days and it derives from non-lending type contracts do not qualify as default event. These exposures are not considered to be impaired.

A credit risk exposure shall be considered as restructured:

- considering the current or future financial difficulties of the client the institution
- provides a concession/allowance in respect of the contract originating the exposure (and this would not be done if the client would not have financial difficulties)

The calculation of credit losses may be carried out on an individual or collective basis.

### **Portfolio (collective) assessment**

The collective assessment based on the following parameters: probability of defaults, cure rate, loss given default. The condition of applying collective assessment is that the assets should be allocable to groups representing similar credit risk based on major credit risk characteristics and their capability to fulfill contractual obligations. The most important variables of the assessment procedure are payment delay, deal/client rating, the restructuring information and the default status.

Upon estimating the future cash flows related to the group(s) of financial assets, the historic credit loss data of the assets representing similar credit risk, the macroeconomic factors and information on the future of financial instruments must be taken into account.

The OTP Bank shall measure expected credit losses of a financial asset 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.

### **Individual assessment**

Receivables that are of significant amount on a stand-alone basis with objective evidence of impairment or that the risk management functional area subjected to individual assessment based on monitoring information must be measured individually:

- The cash flows expected from the financial instruments must be defined, which has to be based on at least two scenarios.
- Valuation and revaluation of collaterals is crucial, discounting the cash-flows from the sale of collaterals is an important part of individual assessment.
- The defined cash flows must be discounted to the present value.

- The impairment of the financial instrument is taking into account the riskiness of cash flows and individual collateralization.
- The individual cash-flow estimation also has to be forward looking, which has to contain the information about the macroeconomic environment and the future of the financial instruments.
- If there is a significant change in the credit risk of a financial asset, the impairment calculation must be reviewed taking into account the new information and risks.

Changes in impairment of loan portfolio are presented in in the following notes of the financial statement:

- changes of impairment regarding “Placements with other banks” in Note 6.
- changes of impairment regarding “Securities at amortised cost” in Note 12.
- changes of impairment regarding “Loans” in Note 10.

## II.1.2. Equity exposures not included in the trading book on 31 December 2021

**Chart 8: Equity exposures not included in the trading book according to IFRS on 31 December 2021**

Number	Entity	Balance sheet value (in HUF million)	Listed (Exchanged-traded)	Number	Entity	Balance sheet value (in HUF million)	Listed (Exchanged-traded)
1	ABE Clearing SAS	0	No	30	OTP Financing Netherlands B.V.	481	No
2	Air-Invest Ltd.	28 757	No	31	OTP Fund Management Ltd.	1 653	No
3	Balansz Real Estate Institute Fund	23 584	No	32	OTP Funds Servicing and Consulting Ltd.	3 269	No
4	BANK CENTER No. 1. Ltd.	26 063	No	33	OTP Holding Ltd.	2 000	No
5	Banka OTP Albania SHA	11 865	No	34	OTP Holding Malta Ltd.	32 359	No
6	Budapest Stock Exchange Ltd.	123	No	35	OTP Home Solutions Llc.	1 700	No
7	CIL Babér Ltd.	6 824	No	36	OTP Hungaro-Project Ltd.	176	No
8	Crnogorska Komercijalna Banka a.d.	66 087	No	37	OTP Ingatlanüzemeltető Ltd.	15	No
9	DSK Bank EAD	280 692	No	38	OTP Kockázati Fund	585	No
10	Financial Research Corporation.	0	No	39	OTP Life Annuity Real Estate Investment Ltd.	4 331	No
11	Garantiqa Creditguarantee Closed Co. Ltd	270	No	40	OTP Mortgage Bank Ltd.	89 198	No
12	Hage hajdúsági Agráripari Ltd.	135	No	41	OTP Osiguranje A.D.O. Beograd	701	No
13	INGA KETTŐ Ltd.	17 892	No	42	OTP Real Estate Investment Fund Management Ltd.	1 352	No
14	JSC "OTP Bank" (Russia)	74 335	No	43	OTP Real Estate Ltd.	4 466	No
15	KÖZVIL Első Magyar Közvilágítási Closed Co. Plc.	0	No	44	OTP-DayOne Magvető Fund	280	No
16	LLC AllianceReserve	50 074	No	45	Overdose Vagyonkezelő Ltd. u.l.	0	No
18	Merkantil Bill and Property Investments Bank Ltd.	23 663	No	46	PortfoLion Digitális Fund I.	6 365	No
19	MONICOMP Ltd.	602	No	47	PortfoLion Digitális Fund II.	645	No
20	OTP Bank JSC (Ukraine)	103 994	No	48	PortfoLion Venture Capital Fund Management Ltd.	1 450	No
21	OTP Bank Romania S.A.	89 802	No	49	PortfoLion Partner Fund	5 170	No
22	OTP Bank S.A.	24 159	No	50	Portfolion Regionális Fund	4 838	No
23	OTP banka dioničko društvo	205 349	No	51	Portfolion Regionális Fund II.	2 559	No
24	OTP Banka Srbija AD. Beograd	219 282	No	52	Portfolion Zöld Fund	18 700	No
25	OTP Building Society Ltd.	1 950	No	53	R.E. Four d.o.o., Novi Sad	594	No
26	OTP Card Factory Ltd.	450	No	54	SC Cefin Real Estate Kappa SRL	0	No
27	OTP eBIZ Ltd.	2 139	No	55	SKB Banka d.d. Ljubljana	107 689	No
28	OTP Factoring Ltd.	25 411	No	56	S.W.I.F.T. SCRL	0	No
29	OTP Financing Malta Ltd.	31	No	57	VISA Incorporated	6 323	No

OTP Bank's individual losses arising from sales and liquidations relating to exposures in equities not included in the trading book for the year ended 31 December 2021 were 651 million HUF.

## II.2. Shareholders with significant investment in OTP Bank

The OTP Bank had no shareholders with significant investment on 31<sup>st</sup> December 2021.

### II.3. Liquidity risk

The Bank managing the liquidity risk exposure by (i) accumulating appropriate amount of high quality liquidity reserves, (ii) developing advanced risk management methodology that models the relevant risk exposure in a proper and prudent way, (iii) applying transparent processes and workflows that are straightforward from authority and responsibility point of view therefore they minimize operational risks and (iv) exercising frequent high quality management reporting that provides the adequate scale and scope of insight for economically reasoned decision making.

According to the industrial best practice the risk measurement, strategic risk management and the operational risk management are separated functions. The risk measurement, the risk methodology development and the long term strategic risk management functions are the responsibilities of Asset-liability Management Directorate (ALM) in Strategic and Financial Division, while the daily liquidity management process is executed by Treasury in the Commercial Banking Division.

The ALM Directorate prepares liquidity risk related standard reports for ALCO on a monthly basis. The report contains the quantitative and qualitative ex post assessment of risk measurement and management process and contains proposals in connection with the future challenges that require ALCO approved actions to deal with.

The internal regulation on liquidity risk management is approved by ALCO after the standard annual revision process of the risk management methodology.

Monthly report is presented to the Management Committee where the evolution of liquidity risk profile analyzed in a way that makes the management certain of that risk appetite and risk tolerance are in harmony. Management Committee is the body that approves the Asset-liability Strategy.

Annual report is presented to the Board of Directors which contains key topics that affected the risk profile of the bank and the findings of internal and regulatory audits. By approving the annual report the Board of Directors validates the appropriateness of the risk management framework.

The principle of liquidity risk management is that a considerable part of risks is covered by a joint liquidity pool, which offers instant and flexible access for the parent bank and its subsidiaries, while subsidiaries shall build their own liquidity reserve for the risks that are difficult to measure and manage from the center. It is a common feature of the Group's centralized and decentralized methodological framework to compare the quantity of available high-quality reliable liquidity to the risk exposure considered to be relevant.

Liquidity reserve consists of assets that can be quickly converted into cash because of their maturity, or their eligibility for covered financing (repo), therefore they can be used to meet financial obligations, expected or unforeseeable, when they are due. The main components of the liquid

asset portfolio include the central bank placements, government securities and mortgage bonds, a smaller share of corporate bonds eligible for central bank repo and money market placements. Using the conservative approach of liquidity management, the expected cashflows of maturing client loan portfolio are not considered as safe liquidity.

The Group's liquidity reserves appear at two levels of hierarchy: in the liquidity pool, and at the subsidiary banks. The minimum liquid asset volume required at either level depends on the size of the risk exposure to be covered.

According to the liquidity strategy the liquidity reserves have to cover the relevant exposure on multiple time horizons (1 month, 3 months). The reserves have to provide coverage under normal business conditions for debt maturities within one year and for the estimated liquidity need of potential liquidity reducing shocks on the applied time horizons.

Under the applied risk management framework the following risk factors have been identified and assessed: (i) business shock (deposit withdrawal and credit line utilization) (ii) market rate shock (interest rates and FX rates) and (iii) renewal risk (capital market debt maturities).

The declaration about the appropriateness of the liquidity risk management can be found in the **Hiba! A hivatkozási forrás nem található.** Annex 2. The Asset –Liability Committee, approved the declaration. (ref. 2020/51/2.).

Based on the (47) paragraph of the 15/2018.- THH – 6212. internal regulation, the information described in the 2. table of the 2. Annex of 9/2017 (VIII.8) proposal of National Bank of Hungary are not disclosed in this document, because they do not have significant effect due to the following:

- Significantly high LCR ratio
- Significant outflow is not expected
- Significant change in LCT is not expected
- OTP Group does not use fund from the market

OTP uses only the items in the LCR table to calculate the liquidity ratio. The change in the loan-deposit gap increased OTP's liquidity reserves, while net long-term subsidiary financing and market effects had a dampening effect on it, so that the growth of High Quality Liquid Assets (HQLA) and Inflows lags behind the growth of Outflows. The value of the LCR buffer above the 100% regulatory level is EUR 3.3 billion in 2021 Q4. Specific events affecting the buffer during the period: OPUS debt maturity (EUR 514 million), mortgage bond issuance (HUF 80 billion), KMRP issuance.

The robustness inherent in the dominant profile of the client has persisted in the recent past, with low financing costs due to the low cost financing on the source side.

The reserve requirement due to the call of collateral decreased by EUR 21 million during the last quarter.

The liquidity risk associated with derivative exposures remains low relative to the size of OTP. Due to the significant volume of foreign exchange reserves and the well-functioning foreign exchange swap markets, OTP can enforce the criteria of efficient liquid asset portfolio management, based on which OTP LCR compliance by currency is not the goal for all currencies. The position is regularly reviewed in accordance with changes in the boundary conditions (abundance of liquidity, convertibility) and regulations.

#### II.3.1. Quantitative information on liquidity risk

Quantitative information on liquidity risk required by the regulation is provided in the attached excel tables LIQ1 – LIQ2.

#### II.4. Disclosure of quantitative information

Quantitative information not included in this document is provided in excel in the Annex.

### III. OTP MORTGAGE BANK

Information required to be disclosed regarding OTP Mortgage Bank Ltd. ("OTP Mortgage Bank") is not presented in this chapter separately only in the OTP Group Chapter, if it is the same as OTP Group level publications.

#### III.1. Corporate governance

**Chart 9: The number of directorships of OTP Mortgage Bank's chief executives**

Members of the Board of Directors	Number of directorship (according to CRR Art. 435. paragraph (2))		Members of the Supervisory Board	Number of directorship (according to CRR Art. 435. paragraph (2))	
	outside OTP Group	in OTP Group*		outside OTP Group	in OTP Group*
Antal György KOVÁCS	-	5	Győző NYITRAI	2	4
András BECSEI	1	1	Ágota SELYMESI	2	2
Attila KOVÁCS	-	2	Zoltán KORMOS	-	2
Zoltán ROSKÓ	-	-	Beáta dr. MESTERNÉ HALÁSZ	-	-
Csaba NAGY	-	3	*with the exception of directorships held at OTP Mortgage Bank		
Ákos Ferenc FISCHL	-	1			
Anna FLOROVA	-	3			

The number of directorships includes the membership of Executive Board and the Supervisory Board as well.

Chart 10: Board members' education data

Board of Directors		Supervisory Board	
<b>Antal György KOVÁCS</b>		<b>Győző NYITRAI</b>	
University of Economics, Budapest	MSc in Economics (1985)	University of Economics, Budapest	MSc in Economics – finance specialization (1997)
<b>András BECSEI</b>			State broker exam (1996)
University of Economics, Budapest	MSc in Economics (2001)	European Federation of Financial Analyst Societies	Investment Analyst Diploma (2000)
<b>Attila KOVÁCS</b>		<b>Ágota SELYMESI</b>	
University of Economics, Budapest	MSc in Economics (2001)	College of Finance and Accounting	BSc in Finance (1973)
<b>Zoltán ROSKÓ</b>		Ministry of Finance, Budapest	Tax advisor (1989) Chartered accountant (1995)
University of Economics, Budapest	Economics, Law (1995)	Penta Unió Education Centre	Certified Tax expert (International Taxation) (2004)
<b>Csaba NAGY</b>		<b>Kormos Zoltán</b>	
College of Finance and Accounting	BSc in Economics (1993)	University of Economics, Budapest	MSc in Economics (2002)
<b>Ákos Ferenc FISCHL</b>		Controll Training Továbbképző Központ Kft.	IT system specialist (2004)
Szent István University	MSc in Agricultural Engineering (2002)	<b>Beáta dr. MESTERNÉ HALÁSZ</b>	
University of Technology and Economics, Budapest	MSc in Real Estate (2006)	GATE College of Agricultural	economic engineer, finance specialization (1997)
University of Technology and Economics, Budapest	MSc in Construction Industry Judicial Expertise (2009)		
<b>Anna FLOROVA MITKOVA</b>			
G.V. Plehanov University of Economics, Moscow	MSc in Economics (1989)		
University of Economics, Postgradual Department, Budapest	MSc in Economics with bank management specialization (1996)		

### Information on the recruitment policy for the selection of members of the management bodies and the expertise, skills and experience of the members

It is crucial for the security of the OTP Mortgage Bank's operations that it should be managed only by professional and commercially reliable professionals who has a good business reputation. Directive 2013/36/EU on the capital adequacy regime for credit institutions ("CRD IV") as well as domestic legislation also contain several requirements for senior executives. OTP Mortgage Bank has internal regulation regarding the selection of members of the management bodies and the conduct of suitability assessment. Based on the professional CVs, it can be stated that the members of both the Executive Board and the Supervisory Board have excellent professional knowledge, experience and references in their respective fields, as well as thorough proficiency in the management of credit institutions dating back several years.

### Information on the diversity policy to be applied to the members of the management bodies

The OTP Mortgage Bank's regulatory document on the selection of members of management bodies and the conduct of compliance inspections provides for diversity criteria to be applied to members of management bodies. The OTP Mortgage Bank considers it important to aspire for



ensuring the diversity of senior management in order to have the widest possible range of expertise and abilities in order to promote independent positions and prudent decision-making (e.g. based on age, gender, expertise, education, geographical location). The OTP Mortgage Bank shall ensure equal treatment in the composition of the management bodies and seeks to ensure that both gender are represented among the candidates.

**Information indicating whether the institution has a separate risk committee and frequency of meetings**

The OTP Mortgage Bank does not have a separate risk management committee, the tasks related to risk management are performed by the OTP Mortgage Bank's Finance, Accounting and Risk Management Department and under the relevant service contract by the OTP Bank Plc.

**Risk information for management**

The operation of the OTP Mortgage Bank is highly integrated to the operation of the OTP Bank Plc, especially in case of risk management.

The great majority of the tasks of risk management reporting and decision support are performed by employees of OTP Bank Plc with the support and the necessary level of involvement of the relevant organization units of OTP Mortgage Bank.

Board of Directors and Board of Managers are informed on risk issues via regular and ad-hoc reporting and proposals prepared by organization units of the OTP Mortgage Bank, based on the relevant information of group level reporting system for OTP Bank Plc management available for the employees of OTP Mortgage Bank as well.

## III.2. Credit risk adjustments

### III.2.1. Methodology of valuation and provisions

The financial reports of the OTP Mortgage Bank are based on IFRS regulation. Measurement and provision allocation of assets, investments and off-balance sheet liabilities are realized according to frameworks of relevant IFRS/IAS standards.

In its regulations entitled “International Financing Reporting Standards (IFRS) valuation requirements” OTP Mortgage Bank provides detailed regulations pertaining to the measurement and provision recognition of outstanding debts, investments and off-balance sheet liabilities.

The recognized provision level reflects to the foreseeable risks and potential losses. The amount of the recognized impairment is the difference between the book value of the outstanding debt and the expected amount of the recovered debt. OTP Mortgage Bank recognizes risk provision for off-balance sheet (pending, future) liabilities on the basis of their assessment. If the measurement process reveals that the amount of the risk provision exceeds the amount required on the basis of the assessment, the excess amount of the risk provision is released.

At initial recognition the financial assets must be tested based on the business model and the contracted cash flow characteristics, based on which it can be determined according to which measurement method, specified in the IFRS9 standard, the given asset is to be managed and valued. The assets can be allocated to the following three categories:

- Assets measured at amortized cost
- Assets valued at fair value through other comprehensive income (FVOCI) – IFRS13,
- Assets valued at fair value through profit and loss (FVPL) – IFRS13.

According to the requirements of the IFRS9 standard, upon the initial recognition and on the reporting dates (last calendar day of the reporting month) the assets measured at amortized cost and the assets valued at fair value through other comprehensive income must be allocated to three stages by their credit risk or POCI category:

- Stage 1 category contains the performing deals.
- Those deals, which are performing, but compared to the initial recognition it shows significant increase in credit risk, must be categorized to Stage 2.
- Stage 3 contains the non-performing (credit-impaired) deals.

Purchased or originated credit impaired assets are financial assets that are impaired already upon the initial recognition. These assets must be classified as POCI.

In case of the Stage 1 deals 12-month credit losses must be calculated by the expectations of the default probability, for Stage 2 and Stage 3 deals lifetime expected losses must be calculated as impairment.

Depending on the item, assessment based on the following aspects:

- client and counterparty rating – financial situation, stability and income generation capability of the client or counterparty affected by the financial and investment service, and any changes in these factors;
- the repayment schedule (overdue days) – patterns of delay on principal and interest payment related to the amortization of the outstanding debt, regular fulfillment of the payment obligation;
- status of restructuring risk contract;
- sovereign risk and changes in the sovereign risk associated with the client (both political risk and transfer risk);
- value, marketability and availability of the securities pledged as collateral and any changes in them;
- marketability of the item (market demand and supply, achievable market prices, share in the issuer's equity in proportion to the size of the investment),
- future payment obligation, which qualifies as a loss originating from the item,
- significant increase in credit risk compared to the initial recognition.

Probable future losses on the item are determined on a case-by-case basis, in consideration of the above aspects as applicable. If this amount is lower than the amount recognized on the item earlier, it has to be supplemented by the amount of the difference by recognizing a further amount of impairment, or if it is higher, it has to be reduced by the release of the existing amount of impairment.

Delinquent deal: the client doesn't perform his/her payment obligations.

According to the CRR a default shall be considered to have occurred with regard to a particular obligor when either or both of the following events have taken place:

- the institution considers that the obligor is unlikely to pay its credit obligations to the institution, the parent undertaking or any of its subsidiaries in full, without recourse by the institution to actions such as realising security
- the obligor is past due more than 90 days on any material credit obligation to the institution, the parent undertaking or any of its subsidiaries.

If the debts are past due more than 90 days and it derives from non-lending type contracts do not qualify as default event. These exposures are not considered to be impaired.

A credit risk exposure shall be considered as restructured:

- considering the current or future financial difficulties of the client the institution
- provides a concession/allowance in respect of the contract originating the exposure (and this would not be done if the client would not have financial difficulties)

The calculation of credit losses may be carried out on an individual or collective basis.

### **Portfolio (collective) assessment**

The collective assessment based on the following parameters: probability of defaults, cure rate, loss given default. The condition of applying collective assessment is that the assets should be allocable to groups representing similar credit risk based on major credit risk characteristics and their capability to fulfill contractual obligations. The most important variables of the assessment procedure are payment delay, deal/client rating, the restructuring information and the default status.

Upon estimating the future cash flows related to the group(s) of financial assets, the historic credit loss data of the assets representing similar credit risk, the macroeconomic factors and information on the future of financial instruments must be taken into account.

The OTP Mortgage Bank shall measure expected credit losses of a financial asset 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.

### **Individual assessment**

Receivables that are of significant amount on a stand-alone basis with objective evidence of impairment or that the risk management functional area subjected to individual assessment based on monitoring information must be measured individually:

- The cash flows expected from the financial instruments must be defined, which has to be based on at least two scenarios.
- Valuation and revaluation of collaterals is crucial, discounting the cash-flows from the sale of collaterals is an important part of individual assessment.
- The defined cash flows must be discounted to the present value.
- The impairment of the financial instrument is taking into account the riskiness of cash flows and individual collateralization.

- The individual cash-flow estimation also has to be forward looking, which has to contain the information about the macroeconomic environment and the future of the financial instruments.
- If there is a significant change in the credit risk of a financial asset, the impairment calculation must be reviewed taking into account the new information and risks.

Changes in impairment of loan portfolio are presented in in the following notes of the financial statement:

- changes of impairment regarding “Placements with other banks” in Note 5.
- changes of impairment regarding “Loans” in Note 7.

### III.3. Exposures in equities not included in the trading book on 31st December 2021

**Chart 11: Exposures in equities not included in the trading book according to IFRS on 31st December 2021**

Entity	Balance sheet value (in HUF million)	Listed (Exchanged-traded)
OTP Ingatlanpont Ltd.	1 867	No
OTP Pénzügyi Pont Ltd.	1 196	No

### III.4. Liquidity risk

The activity of mortgage banks founded and operating in Hungary is regulated by Act XXX of 1997 on Mortgage Banks and on Mortgage Bonds. OTP Mortgage Bank Ltd. is a specialized credit institution, its most important business activity is retail lending secured by mortgages on real estates located in Hungary. OTP Mortgage Bank is not authorized to collect deposits and it is permitted to engage in derivative transactions for reasons of liquidity and risk management operations only. OTP Mortgage Bank Ltd. defines the following goals in connection with liquidity risk management.

The primary goal is to guarantee the fulfilment of financial obligations at all times: the company has to be able to fulfill its obligations of payments due, in the proper currency, and it has to perform the necessary transactions to maintain the solvency position. The fulfilment of financial obligations compliant with regulatory requirements regarding liquidity is also essential. Besides securing solvency and complying with legal obligations the secondary purpose is to achieve these goals via the best option while taking profitability into account. The target of the risk management policy of OTP Mortgage Bank is risk-aware operation: it is significant to identify, evaluate and continuously monitor liquidity and other forms of financial risk and to share the information with the management of the company.

The Board of Directors of OTP Mortgage Bank Ltd. approved the report of the Treasury, Issuance and Refinancing Department on financial risks and risk management with resolution no. 18/2022 (24 March 2022).

#### **Declaration on liquidity risk**

The Board of Directors of OTP Mortgage Bank makes the below declaration, in accordance with Article 435 of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR) and European Commission Implementing Regulation (EU) No 2021/637.

By its profile and business strategy OTP Mortgage Bank is a specialized credit institution engaged in retail mortgage lending and is regulated by Act XXX of 1997 on Mortgage Banks and on Mortgage Bonds. The Board of Directors believes that the liquidity risk management arrangements of the company are sufficient with regard to the profile and business strategy of the company.

Definition of liquidity risk management policy and regulation of practices regarding evaluation and management of liquidity risk are laid down in OTP Mortgage Bank Ltd's Regulation on liquidity and interest rate risk. It is approved by the Board of Directors of the company and is reviewed at least annually. Being the subsidiary of OTP Bank Plc. OTP Mortgage Bank is a member of OTP Group.

OTP Bank has a group-level regulation on interest- and liquidity risk management. According to this regulation liquidity exposure is monitored and managed on a consolidated basis as well.

The department responsible for liquidity risk management within the company is the Treasury, Issuance and Refinancing Department. The department prepares a quarterly report on the liquidity exposure of the company, the related money and capital market transactions and limit measures for the Management Committee and the Board of Directors. The internal auditor monitors the liquidity risk management operation of the company within its annual program in accordance with the guideline no. 12/2015. (VIII. 24.) of the National Bank of Hungary on the evaluation, management and control of liquidity risk.

In 2021 OTP Mortgage Bank complied with requirements defined by the regulatory framework and met limits with regard to liquidity risk defined by internal regulations, the Board of Directors believes that the liquidity risk exposure of the company complies with the profile of a specialized credit institution and the liquidity risk management policy of the company.

#### III.4.1. Quantitative information on liquidity risk

Quantitative information on liquidity risk required by the regulation is provided in the attached excel tables LIQ1 – LIQ2.

#### III.5. Disclosure of quantitative information

Quantitative information not included in this document is provided in excel in the Annex.

## IV. OTP BUILDING SOCIETY

Information required to be disclosed regarding OTP Building Society Ltd. (“OTP Building Society”) is not presented in this chapter separately only in the OTP Group Chapter, if it is the same as OTP Group level publications.

### IV.1. Corporate Governance

**Chart 12: The number of directorships of OTP Building Society’s chief executives\***

Members of the Board of Directors	Number of directorships (according to CRR Art. 435. paragraph (2))		Member of Supervisory Board	Number of directorships (according to CRR Art. 435. paragraph (2))	
	outside OTP Group	in OTP Group*		outside OTP Group	in OTP Group*
	Antal György KOVÁCS	-		4	Beáta SUKOVICH
Attila KOVÁCS	-	2	Dr. Júlia ERŐS	1	-
Csaba NAGY	-	3	József WINDHEIM	-	2
Anna FLOROVA MITKOVA	-	4			
Árpád SRANKÓ	-	1			
András BECSEI	1	1			

\*with the exception of directorships held at OTP Building Society

\*with the exception of directorships held at OTP Building Society

\*The number of directorships includes the membership of Board of Directors and the Supervisory Board as well



Chart 13: Board members' education data

Board of Directors		Supervisory Board	
<b>Antal György KOVÁCS</b>		<b>Beáta SUKOVICH</b>	
University of Economics, Budapest	MSc in Economics (1985)	University of Miskolc	MSc in Economics (2002)
<b>Attila KOVÁCS</b>			Economics, Law (2006)
University of Economics, Budapest	MSc in Economics (2001)	<b>Dr. Júlia ERŐS</b>	
<b>Csaba NAGY</b>		Eötvös Loránd University, Budapest	MSc in Law (2001)
College of Finance and Accounting, Hungary	BSc in Economics (1993)	<b>József WINDHEIM</b>	
<b>Anna FLOROVA MITKOVA</b>		Janus Pannonius University	MSc in Economics (1983)
G.V. Plehanov University of Economics, Moscow	MSc in Economics (1989)		Economics, Law (1996)
University of Economics, Postgraduate Department, Budapest	MSc in Economics with bank management specialization (1996)	<b>Árpád SRANKÓ</b>	
University of Economics, Budapest	MSc in Economics (2004)	<b>András BECSEI</b>	
University of Economics, Budapest	MSc in Economics (2001)		

OTP Building Society is 100% owned by OTP Bank Plc. As an owner OTP Bank Plc. selects the members of the Management Board according to the aspects of the Banking Group Diversity Policy.

OTP Building Society does not operate a separate Risk Management Committee, the decision-making tasks related to risk management are performed by the Management Meeting.

The informations about risks are presented in monthly and quarterly reports to the Management.

## IV.2. Credit risk adjustments

### IV.2.1. Methods of valuations and provisions

The financial reports of the OTP Building Society are based on IFRS regulation. Measurement and provision allocation of assets, investments and off-balance sheet liabilities are realized according to frameworks of relevant IFRS/IAS standards.

In its regulations entitled “International Financing Reporting Standards (IFRS) valuation requirements” OTP Building Society provides detailed regulations pertaining to the measurement and provision recognition of outstanding debts, investments and off-balance sheet liabilities.

The recognized provision level reflects to the foreseeable risks and potential losses. The amount of the recognized impairment is the difference between the book value of the outstanding debt and the expected amount of the recovered debt. OTP Building Society recognizes risk provision for off-balance sheet (pending, future) liabilities on the basis of their assessment. If the measurement process reveals that the amount of the risk provision exceeds the amount required on the basis of the assessment, the excess amount of the risk provision is released.

At initial recognition the financial assets must be tested based on the business model and the contracted cash flow characteristics, based on which it can be determined according to which measurement method, specified in the IFRS9 standard, the given asset is to be managed and valued. The assets can be allocated to the following three categories:

- Assets measured at amortized cost
- Assets valued at fair value through other comprehensive income (FVOCI) – IFRS13,
- Assets valued at fair value through profit and loss (FVPL) – IFRS13.

According to the requirements of the IFRS9 standard, upon the initial recognition and on the reporting dates (last calendar day of the reporting month) the assets measured at amortized cost and the assets valued at fair value through other comprehensive income must be allocated to three stages by their credit risk or POCI category:

- Stage 1 category contains the performing deals.
- Those deals, which are performing, but compared to the initial recognition it shows significant increase in credit risk, must be categorized to Stage 2.
- Stage 3 contains the non-performing (credit-impaired) deals.
- Purchased or originated credit impaired assets are financial assets that are impaired already upon the initial recognition. These assets must be classified as POCI.

In case of the Stage 1 deals 12-month credit losses must be calculated by the expectations of the default probability, for Stage 2 and Stage 3 deals lifetime expected losses must be calculated as impairment.

Depending on the item, assessment based on the following aspects:

- client and counterparty rating – financial situation, stability and income generation capability of the client or counterparty affected by the financial and investment service, and any changes in these factors;
- the repayment schedule (overdue days) – patterns of delay on principal and interest payment related to the amortization of the outstanding debt, regular fulfillment of the payment obligation;
- status of restructuring risk contract;
- sovereign risk and changes in the sovereign risk associated with the client (both political risk and transfer risk);
- value, marketability and availability of the securities pledged as collateral and any changes in them;
- marketability of the item (market demand and supply, achievable market prices, share in the issuer's equity in proportion to the size of the investment),
- future payment obligation, which qualifies as a loss originating from the item,
- significant increase in credit risk compared to the initial recognition.

Probable future losses on the item are determined on a case-by-case basis, in consideration of the above aspects as applicable. If this amount is lower than the amount recognized on the item earlier, it has to be supplemented by the amount of the difference by recognizing a further amount of impairment, or if it is higher, it has to be reduced by the release of the existing amount of impairment.

Delinquent deal: the client doesn't perform his/her payment obligations.

According to the CRR a default shall be considered to have occurred with regard to a particular obligor when either or both of the following events have taken place:

- the institution considers that the obligor is unlikely to pay its credit obligations to the institution, the parent undertaking or any of its subsidiaries in full, without recourse by the institution to actions such as realising security
- the obligor is past due more than 90 days on any material credit obligation to the institution, the parent undertaking or any of its subsidiaries.

If the debts are past due more than 90 days and it derives from non-lending type contracts do not qualify as default event. These exposures are not considered to be impaired.

A credit risk exposure shall be considered as restructured:

- considering the current or future financial difficulties of the client the institution
- provides a concession/allowance in respect of the contract originating the exposure (and this would not be done if the client would not have financial difficulties)

The calculation of credit losses may be carried out on an individual or collective basis.

### **Portfolio (collective) assessment**

The collective assessment based on the following parameters: probability of defaults, cure rate, loss given default. The condition of applying collective assessment is that the assets should be allocable to groups representing similar credit risk based on major credit risk characteristics and their capability to fulfill contractual obligations. The most important variables of the assessment procedure are payment delay, deal/client rating, the restructuring information and the default status.

Upon estimating the future cash flows related to the group(s) of financial assets, the historic credit loss data of the assets representing similar credit risk, the macroeconomic factors and information on the future of financial instruments must be taken into account.

The OTP Building Society shall measure expected credit losses of a financial asset 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.

### **Individual assessment**

Receivables that are of significant amount on a stand-alone basis with objective evidence of impairment or that the risk management functional area subjected to individual assessment based on monitoring information must be measured individually:

- The cash flows expected from the financial instruments must be defined, which has to be based on at least two scenarios.
- Valuation and revaluation of collaterals is crucial, discounting the cash-flows from the sale of collaterals is an important part of individual assessment.
- The defined cash flows must be discounted to the present value.

- The impairment of the financial instrument is taking into account the riskiness of cash flows and individual collateralization.
- The individual cash-flow estimation also has to be forward looking, which has to contain the information about the macroeconomic environment and the future of the financial instruments.
- If there is a significant change in the credit risk of a financial asset, the impairment calculation must be reviewed taking into account the new information and risks.

Changes in impairment of loan portfolio are presented in in the following notes of the financial statement:

- changes of impairment regarding “Securities at amortised cost” in Note 9.
- changes of impairment regarding “Loans” in Note 7.

#### IV.2.2. Exposures in equities not included in the trading book on 31<sup>st</sup> December 2021

There is no exposures, which are in equities not included in the trading book.

### IV.3. Liquidity risk

The activity of home savings and loan associations founded and operating in Hungary is regulated by Act CXIII of 1996 on Home Savings and Loan Associations. OTP Building Society Ltd. is a specialized credit institution, its principle business activity is to collect deposits and disburse loans pursuant to an agreement in the territory of Hungary. OTP Building Society defines the following goals in connection with liquidity risk management.

The primary goal is to guarantee the fulfilment of financial obligations at all times: the company has to be able to fulfil its obligations of payments due, in the proper currency, and it has to perform the necessary transactions to maintain the solvency position. The fulfilment of financial obligations compliant with regulatory requirements regarding liquidity is also essential. Besides securing solvency and complying with legal obligations the secondary purpose is to achieve these goals via the best option while taking profitability into account. The target of the risk management policy of OTP Building Society is risk-aware operation: it is significant to identify, evaluate and continuously monitor liquidity and other forms of financial risk and to share the information with the management of the company.

The Board of Directors of OTP Building Society Ltd. approved the report of the Finance, Accounting and Risk Management Department on financial risks and risk management with resolution no. 10/2022 (24 March 2022).

#### **Declaration on liquidity risk**

The Board of Directors of OTP Building Society makes the below declaration, in accordance with Article 435 of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR) and European Commission Implementing Regulation (EU) No 2021/637.

By its profile and business strategy OTP Building Society is a specialized credit institution engaged in collection of deposits and loan disbursement and is regulated by Act CXIII of 1996 on Home Savings and Loan Associations. The Board of Directors believes that the liquidity risk management arrangements of the company are sufficient with regard to the profile and business strategy of the company.

Definition of liquidity risk management policy and regulation of practices regarding evaluation and management of liquidity risk are laid down in OTP Building Society Ltd's Regulation on liquidity and interest rate risk. It is approved by the Board of Directors of the company and is reviewed at least annually. Being the subsidiary of OTP Bank Plc. OTP Building Society is a member of OTP Group. OTP Bank has a group-level regulation on interest- and liquidity risk management.

According to this regulation liquidity exposure is monitored and managed on a consolidated basis as well.

The department responsible for liquidity risk management within the company is the Finance, Accounting and Risk Management Department. The department prepares a quarterly report on the liquidity exposure of the company, the related money and capital market transactions and limit measures for the Management Committee and the Board of Directors. The internal auditor monitors the liquidity risk management operation of the company within its annual program in accordance with the guideline no. 12/2015. (VIII. 24.) of the National Bank of Hungary on the evaluation, management and control of liquidity risk.

In 2021 OTP Building Society complied with requirements defined by the regulatory framework and met limits with regard to liquidity risk defined by internal regulations, the Board of Directors believes that the liquidity risk exposure of the company complies with the profile of a specialized credit institution and the liquidity risk management policy of the company.

#### IV.3.1. Quantitative information on liquidity risk

Quantitative information on liquidity risk required by the regulation is provided in the attached excel tables LIQ1 – LIQ2.

#### IV.4. Disclosure of quantitative information

Quantitative information not included in this document is provided in excel in the Annex.

## V. MERKANTIL BANK

Information required to be disclosed regarding Merkantil Bank Ltd. ("Merkantil Bank") is not presented in this chapter separately only in the OTP Group Chapter, if it is the same as OTP Group level publications.

### V.1. Corporate Governance

**Chart 14: The number of directorships of Merkantil Bank's chief executives\***

Members of the Board of Directors	Number of directorships (according to CRR Art. 435. paragraph (2))		Members of the Supervisory Board	Number of directorships (according to CRR Art. 435. paragraph (2))	
	outside OTP Group	in OTP Group*		outside OTP Group	in OTP Group*
dr. László UTASSY	-	2	dr. Ferenc ECSEDI	-	3
Péter KÖNTÖS	-	1	Ágota SELYMESI	-	1
Tibor CSONKA	-	3	Zsuzsanna SZABÓ	-	-
Ibolya dr. RAJMONNÉ VERES	-	1	Árpád SRANKÓ	-	-
dr. Bálint CSERE	-	2	*with the exception of directorships held at Merkantil Bank		
Csaba ELEK	-	-			
István Zs. NAGY	-	-			

\*with the exception of directorships held at Merkantil Bank

\*The number of directorships includes the membership of Board of Directors and the Supervisory Board as well

**Chart 15: Board members' education data**

Board of Directors		Supervisory Board	
<b>dr. László UTASSY</b>		<b>dr. Ferenc ECSEDI</b>	
ELTE University, Faculty of law, Budapest	MA in Law (1978)	University of Horticulture	MSc in Food Engineering (1970)
	Legal advisor (1980)	University of Economics, Budapest	MSc in Economics (1980)
<b>Péter KÖNTÖS</b>		University of Horticulture and Food Industry	University doctor (economics) (1989)
University of Economics, Budapest	MSc in Economics (1979)	University of Szeged, Faculty of Law and Political Sciences	University doctor (food science) (1988)
Post-graduate School of Economics	Complex Company Planning Analyst (1985)	Corvinus University of Budapest	MA in Law (2000)
<b>Tibor CSONKA</b>			MBA (2008)
Szent István University, Gödöllő	MSc in Agricultural Economics (2002)	<b>Ágota SELYMESI</b>	
<b>dr. Ibolya RAJMONNÉ VERES</b>		College of Finance and Accounting, Budapest	BSc in Finance (1973)
College of Szolnok	BSc in Economics (2001)	Ministry of Finance, Budapest	Tax adviser (1989)
University of Economics, Budapest	Economist in Project Management (2004)		Chartered accountant (1995)
<b>dr. Bálint CSERE</b>		Penta Unió Education Centre	International tax adviser (2004)
ELTE University, Faculty of Law, Budapest	MA in Law (2000)	<b>Zsuzsanna SZABÓ</b>	
<b>Csaba ELEK</b>		University of Economics, Budapest	MSc in Economics (1978)
College of Finance and Accounting, Budapest	BSc in Finance (1986)	<b>Árpád SRANKÓ</b>	
<b>István Zs. NAGY</b>		Corvinus University of Budapest	Economist (2004)
University of Szeged	Bachelor of Economics and Management (2000), Chartered Accountant (1999)		



## V.2. Credit risk adjustments

### V.2.1. Methods of valuations and provisions

The financial reports of the Merkantil Bank are based on IFRS regulation. Measurement and provision allocation of assets, investments and off-balance sheet liabilities are realized according to frameworks of relevant IFRS/IAS standards.

In its regulations entitled “International Financing Reporting Standards (IFRS) valuation requirements” Merkantil Bank provides detailed regulations pertaining to the measurement and provision recognition of outstanding debts, investments and off-balance sheet liabilities.

The recognized provision level reflects to the foreseeable risks and potential losses. The amount of the recognized impairment is the difference between the book value of the outstanding debt and the expected amount of the recovered debt. Merkantil Bank recognizes risk provision for off-balance sheet (pending, future) liabilities on the basis of their assessment. If the measurement process reveals that the amount of the risk provision exceeds the amount required on the basis of the assessment, the excess amount of the risk provision is released.

At initial recognition the financial assets must be tested based on the business model and the contracted cash flow characteristics, based on which it can be determined according to which measurement method, specified in the IFRS 9 standard, the given asset is to be managed and valued. The assets can be allocated to the following three categories:

- Assets measured at amortized cost
- Assets valued at fair value through other comprehensive income (FVOCI) – IFRS13,
- Assets valued at fair value through profit and loss (FVPL) – IFRS13.

According to the requirements of the IFRS9 standard, upon the initial recognition and on the reporting dates (last calendar day of the reporting month) the assets measured at amortized cost and the assets valued at fair value through other comprehensive income must be allocated to three stages by their credit risk or POCI category:

- Stage 1 category contains the performing deals.
- Those deals, which are performing, but compared to the initial recognition it shows significant increase in credit risk, must be categorized to Stage 2.
- Stage 3 contains the non-performing (credit-impaired) deals.
- Purchased or originated credit impaired assets are financial assets that are impaired already upon the initial recognition. These assets must be classified as POCI.

In case of the Stage 1 deals 12-month credit losses must be calculated by the expectations of the default probability, for Stage 2 and Stage 3 deals lifetime expected losses must be calculated as impairment.

Depending on the item, assessment based on the following aspects:

- client and counterparty rating – financial situation, stability and income generation capability of the client or counterparty affected by the financial and investment service, and any changes in these factors;
- the repayment schedule (overdue days) – patterns of delay on principal and interest payment related to the amortization of the outstanding debt, regular fulfillment of the payment obligation;
- status of restructuring risk contract;
- sovereign risk and changes in the sovereign risk associated with the client (both political risk and transfer risk);
- value, marketability and availability of the securities pledged as collateral and any changes in them;
- marketability of the item (market demand and supply, achievable market prices, share in the issuer's equity in proportion to the size of the investment),
- future payment obligation, which qualifies as a loss originating from the item,
- significant increase in credit risk compared to the initial recognition.

Probable future losses on the item are determined on a case-by-case basis, in consideration of the above aspects as applicable. If this amount is lower than the amount recognized on the item earlier, it has to be supplemented by the amount of the difference by recognizing a further amount of impairment, or if it is higher, it has to be reduced by the release of the existing amount of impairment.

Delinquent deal: the client doesn't perform his/her payment obligations.

According to the CRR a default shall be considered to have occurred with regard to a particular obligor when either or both of the following events have taken place:

- the institution considers that the obligor is unlikely to pay its credit obligations to the institution, the parent undertaking or any of its subsidiaries in full, without recourse by the institution to actions such as realising security
- the obligor is past due more than 90 days on any material credit obligation to the institution, the parent undertaking or any of its subsidiaries.

If the debts are past due more than 90 days and it derives from non-lending type contracts do not qualify as default event. These exposures are not considered to be impaired.

A credit risk exposure shall be considered as restructured:

- considering the current or future financial difficulties of the client the institution
- provides a concession/allowance in respect of the contract originating the exposure (and this would not be done if the client would not have financial difficulties)

The calculation of credit losses may be carried out on an individual or collective basis.

### **Portfolio (collective) assessment**

The collective assessment based on the following parameters: probability of defaults, cure rate, loss given default. The condition of applying collective assessment is that the assets should be allocable to groups representing similar credit risk based on major credit risk characteristics and their capability to fulfill contractual obligations. The most important variables of the assessment procedure are payment delay, deal/client rating, the restructuring information and the default status.

Upon estimating the future cash flows related to the group(s) of financial assets, the historic credit loss data of the assets representing similar credit risk, the macroeconomic factors and information on the future of financial instruments must be taken into account.

The Merkantil Bank shall measure expected credit losses of a financial asset 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.

### **Individual assessment**

Receivables that are of insignificant amount on a stand-alone basis with objective evidence of impairment or that the risk management functional area subjected to individual assessment based on monitoring information must be measured individually:

- The cash flows expected from the financial instruments must be defined, which has to be based on at least two scenarios.
- Valuation and revaluation of collaterals is crucial, discounting the cash-flows from the sale of collaterals is an important part of individual assessment.
- The defined cash flows must be discounted to the present value.
- The impairment of the financial instrument is taking into account the riskiness of cash flows and individual collateralization.

- The individual cash-flow estimation also has to be forward looking, which has to contain the information about the macroeconomic environment and the future of the financial instruments.
- If there is a significant change in the credit risk of a financial asset, the impairment calculation must be reviewed taking into account the new information and risks.

### V.3. Exposures in equities not included in the trading book on 31<sup>st</sup> December 2021

**Chart 16: Exposures in equities not included in the trading book according to IFRS on 31st December 2021**

Number	Entity	Balance sheet value (in HUF million)	Listed (Exchanged-traded)
1	DSK Leasing AD	209	No
2	Garantiqa Credit Guarantee Closed Co. Ltd.	10	No
3	Merkantil Lease Service LLC	625	No
4	OTP Property Leasing Ltd.	50	No
5	NIMO 2002 Ltd.	1 477	No
6	OTP Bank Romania S.A.	0	No
7	OTP Leasing d.d.	116	No
8	OTP Leasing Romania IFN S.A.	597	No
9	OTP Travel Ltd.	2 614	No
10	SPLC Property Management Ltd.	182	No
11	OTP Lizing d.o.o.	505	No
12	OTP Services	262	No

#### V.4. Liquidity risk

The Merkantil Bank Ltd. was established in 1988 as a specialized credit institution, dealing with bill of exchange and factoring. In 1992 the bank started the vehicle financing business. During the privatization in 1996 OTP Bank acquired 100% ownership of the company. For the time being its most important financial activity is vehicle and equipment leasing. Majority of the liabilities are from the mother company, collection of deposits is limited. It is permitted to engage in derivative transactions only for reasons of liquidity and risk management operations and for hedging purposes.

OTP Group members perform their liquidity management within the liquidity pool concept. According to this, OTP Group set up a common liquidity policy - keeping attention on profitability aspects - of which, group members are able to fulfill their respective payment obligations and complete the necessary transactions. OTP Bank handles the group's liquidity reserves centralized and enables flexible access for the group members.

The Merkantil Bank Ltd. defines the following purposes connected with the liquidity risk management.

The primary purpose is to guarantee the performance of outstanding financial obligations: the company has to be able to comply the obligations of payment at the expiration date, with correct currency, and it has to perform the necessary transactions to maintain the solvency position at all times. Besides this the fulfilment of liquidity obligations specified in law is significant also. Besides securing solvency and complying with legal obligations the secondary purpose is to achieve these goals via the best way from the possible solutions from a profitability point of view. The purpose of risk management politics of Merkantil Bank is the risk-aware operation: it is significant to identify, value and continuous monitor the liquidity and other kind of financial risks of commercial activities and to share the information of monitoring with the management of the company. The Merkantil Bank is the subsidiary of the OTP Bank Plc. and the member of the OTP Group. The OTP Bank Plc. has a group-valid regulation about interest- and liquidity risk management. Based on this regulation the OTP Group is monitoring and managing the liquidity risk in Group level.

Merkantil Bank Ltd's "Regulation on liquidity" – approved by the Managing Committee - contains the relevant regulations in connection with the liquidity management policy. The department responsible for liquidity risk management within the company is the Treasury. The responsible department reporting directly to the management regarding the company's liquidity risk exposure, the related money and capital market transactions.

The Merkantil Bank Ltd's internal auditor controlling the operation of the company's liquidity risk management proceedings in accordance with the guideline no. 12/2015. (VIII. 24.) of the Central Bank of Hungary.

As the Merkantil Bank Ltd complied with requirements of the supervisory entity's liquidity measures and the internal regulations, thus the Managing Committee declared that the adequacy of liquidity risk management arrangements of the company as it is in accordance with the company's profile and its' liquidity management policy.

The above mentioned concept determines Merkantil Bank's liquidity management, liquidity risk management, and it also reflects in liquidity position figures.

Volume of retail and MSE deposits are not significant (4,2 bn HUF in 2021Q4). Majority of refinancing volume is interbank liability from OTP Bank. Other than OTP Bank, MNB (Hungarian National Bank) and Eximbank fundings are mentionable.

LCR buffer above regulatory level is 51,3 bn HUF in 2021Q4, which mainly originates from preferential deposits at MNB. Thanks to the liquidity pool concept, financing risk considered to be low.

#### V.4.1. Quantitative information on liquidity risk

Quantitative information on liquidity risk required by the regulation is provided in the attached excel tables LIQ1 – LIQ2.

#### V.5. Disclosure of quantitative information

Quantitative information not included in this document is provided in excel in the Annex.

## VI. APPENDIX

### VI.1. Declaration about the appropriateness of risk management

#### **Declarations**

1) OTP Bank declares – regarding article 435. (1) e) of CRR – that the applied risk management system is adequate with regard to the OTP Group’s profile and strategy.

OTP Bank’s Board of Directors approved the 2020-2022 Risk Strategy on 10<sup>th</sup> December 2019 (decision no. 2019/220). The fulfilment of the objectives set out in the Risk Strategy is reviewed annually by the Board of Directors and the Supervisory Board.

2) OTP Bank declares – relating to article 435. (1) f) of CRR – that OTP Group’s general risk profile is consistent with the Group’s risk appetite determined by OTP Bank Group’s Risk Strategy and Risk Appetite Statement.

OTP Bank regulates the Risk Appetite Framework at group level, of which last amendment was approved by the Board of Directors at decision no. 2021/315.

In accordance with the regulations on risk appetite, quantitative risk limits are set for domestic and foreign group member banks, which are in line with the Lending Policy and the Group Recovery Plan. In addition to the quantified limits, the risk appetite also includes risk appetite statements for ESG and Compliance risks. These statements set out the minimum standards to be followed at banking group level.

## VI.2. Declaration of the appropriateness of the liquidity risk management framework

***The Declaration of the appropriateness of the liquidity risk management framework has been approved by Asset Liability Committee (Decision number: 2021/41/5)***

### Declaration

The liquidity risk management framework applied by OTP Bank Ltd. explores the risk exposure derived from the risk profile of the institution in a fully comprehensive way. The internal regulation on liquidity risk management contains in detail the organizational units involved in the risk managements process and the tasks, responsibilities and authorities of these units. Considering the findings regulatory audits the liquidity risk management methodology and risk management strategy are revised and approved by the Asset Liability Committee (ALCO) on annual basis.

The responsible organizational unit prepares liquidity risk related standard reports for ALCO on a monthly basis. The report contains an ex post assessment on the changes of the risk profile and the evolution of liquidity reserves available to absorb potential liquidity shocks and the level of standard liquidity risk indicators.

The following table contains the key liquidity risk indicators and their limits as of the end of 2021:

Risk indicator	31.12.2021 fact	Limit
Foreign Exchange Coverage Ratio (regulatory)	4,50%	maximum 15%
Foreign Exchange Funding Adequacy Ratio (regulatory)	172%	minimum 100%
Mortgage Financing Adequacy Ratio (regulatory)	26,80%	minimum 25%
Liquidity Coverage Ratio (regulatory) - OTP standalone	167%	minimum 100%
Liquidity Coverage Ratio (regulatory) - Group	180%	minimum 100%
Net Stable Funding Ratio (regulatory) - OTP standalone	129%	minimum 100%
Net Stable Funding Ratio (regulatory) - Group	135%	minimum 100%
Interbank Funding Ratio (regulatory)	7,10%	maximum 30%
Primary liquidity reserves (internal)	3 447 Mrd Ft	1 203 Mrd Ft
Operative liquidity reserves (internal)	3 341 Mrd Ft	1 482 Mrd Ft

The free liquidity reserves of the Bank exceed permanently and significantly both the standard regulatory requirements and the potential liquidity needs calculated by the internal model which considers the specific risk profile of the institution, thus the harmony between risk appetite and risk profile is ensured.