Credit Rating Report on OTP Bank Plc. 2024 Surveillance

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China Lianhe Credit Rating Co.,Ltd.

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联合〔2024〕2446 号

China Lianhe Credit Rating Co., Ltd. (“Lianhe Ratings”) has affirmed OTP Bank Plc. (“OTP Bank” or “the Bank”) AAA long-term issuer credit rating and maintained stable outlook, based on comprehensive analysis and the assessment of OTP Bank’s credit profile.

China Lianhe Credit Rating Co., Ltd.

20 June, 2024

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Credit Rating Report on OTP Bank Plc.

2024 Surveillance

Current Rating/Outlook	Rating Date
AAA[1]/Stable	2024/06/20

Company Overview	OTP Bank Plc. ("OTP Bank" or "the Bank") is one of the leading multinational banks in Central and Eastern Europe regions (CEE), with a comprehensive financial service system and high coverage of business outlets. As a listed company, OTP Bank has a dispersed shareholding structure, well-established corporate governance and internal control mechanism. OTP Bank solidifies its local competitive advantages in Hungary and meanwhile promotes key businesses by acquiring high-quality commercial banks in other countries and providing professional services. The profitability of OTP Bank has improved, with the capital adequacy maintaining a high level. The quality of loans may face certain pressure and the potential demand for potential provisions may rise. Besides, the cross-border business makes it more vulnerable for OTP Bank to operate when the global economy gets worse. However, considering the leading market share of OTP Bank in Hungarian deposits and loans, and its importance in the Hungarian financial system, the OTP Bank may receive direct or indirect support from the government when caught in trouble.
Rating Outlook	Looking ahead, OTP Bank will expand its operation in other CEE countries, level up market shares and global competitiveness based on its roots in Hungary and maintain favorable peer competitiveness in 12 countries. Moreover, the impact of the downturn in CEE economies and the conflict between Russia and Ukraine on the Bank's development and assets quality need to be paid attention. **Upside Scenario:** N/A. **Downside Scenario:** The economy of global markets or countries where the Bank operates deteriorates significantly, the willingness of external support falls, the market standing diminishes or the businesses shrink due to more intensified competition, the downward spiral in finances, such as deteriorating assets quality, declining profit and insufficient provision or capital.

Strengths

- **Strong competitiveness in Hungary.** OTP Bank enjoys high brand awareness and reputation in CEE countries and has competitive advantages in the Hungarian market, maintaining the largest market share in deposits and loans.
- **Well-established corporate governance and internal control system.** As a listed company, OTP Bank has a sound corporate governance and internal control system, and its risk management system has improved continuously.
- **Strong profitability.** OTP Bank's net interest margin remained at a relatively high level. Meanwhile, benefitting from the business expansion and fall in loss impairment of the Bank and acquisition of commercial banks in other countries, the profitability of OTP Bank improved significantly and indicated favorable profitability.
- **High capital adequacy levels.** Benefitting from sufficient retained earnings, OTP Bank enjoys high capital adequacy levels.
- **Possible support from the government.** OTP Bank has the largest market share in deposits and loans in the Hungary and enjoys certain competitiveness. Besides, the Bank also plays an important role in Hungarian financial system, so it may receive support from the government directly or indirectly when caught in difficulties.

Concerns

- **Cross-border operations require a higher level of management competence.** OTP Bank has been developing business in many CEE countries by acquiring high-quality local banks, and its cross-border operations place higher demands on its management competence.
- **Changes in asset quality should be paid attention to.** OTP Bank's impaired loans (stage 3) are relatively large in amount, while it has a certain amount of restructured loans. Considering the current macroeconomic environment and the ongoing conflict between Russia and Ukraine, its asset quality and provision level may be under pressure in the future.
- **The impact of macroeconomic changes in CEE countries on its future development might be a concern.** The economic slowdown and high inflation in CEE countries may have an adverse impact on OTP Bank's future development.

1 Long-term Issuer Credit Rating in China.

Key Financial Data

Indicator	End-2021	End-2022	End-2023
Total Assets(HUF Bn)	27553.38	32804.21	39609.14
Shareholders' Equity (HUF Bn)	3036.77	3322.31	4094.79
Proportion of Stage 3 Loans (%)	5.28	4.93	4.32
Loan Loss Provisions/Stage 3 Loans(%)	101.43	103.48	105.07
Loan Loss Provision Ratio (%)	5.35	5.11	4.54
Net Stable Funding Ratio (%)	139	137	159
Shareholder' Equity/Total Assets (%)	11.02	10.13	10.34
Capital Adequacy Ratio (%)	19.4	17.8	18.9
Tier-1 Capital Adequacy Ratio (%)	17.8	16.4	16.6
Core Tier-1 Capital Adequacy Ratio(%)	17.8	16.4	16.6

Indicator	End-2021	End-2022	End-2023
Net Interest Income (HUF Bn)	874.31	1026.87	1386.71
*Net Profit (HUF Bn)	456.31	319.08	1011.71
Net Interest Margin (%)	3.51	3.51	3.93
Cost to Income Ratio (%)	49.7	47.6	43.3
Average ROA (%)	1.79	1.06	2.79
Average ROE(%)	16.37	10.04	27.28

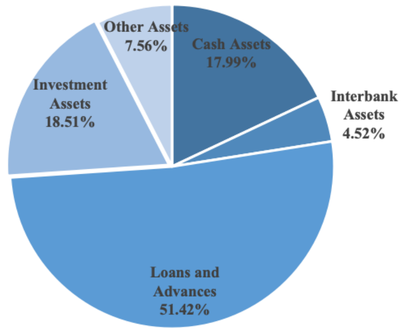
Note: RMB 100≈HUF 4871.05 by the end of 2023

Source: Annual report of OTP Bank

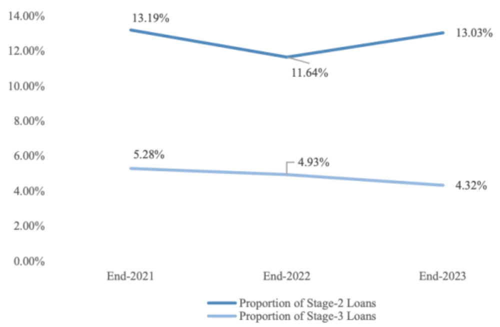
* The net profit is profit after income tax for the period from continuing operations according to OTP's annual report

* *The official rating report is in Chinese and the English version is only for reference. In the event of any conflict between the Chinese version and English version, the Chinese version shall prevail.*

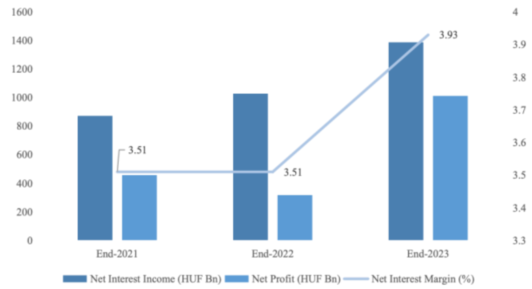
Asset Structure of OTP Bank at End-2023



Asset Quality of OTP Bank



Profitability of OTP Bank



Rating History

Issuer Credit Rating	Rating Date	Analysts	Rating Methodologies/Models	Related Report
AAA/Stable	2023/06/28	Shijie SHENG; Zheming ZHANG	--	Credit Rating Report on OTP Bank Plc. , 28th June, 2023

Note: the methodology and model above have been disclosed on Lianhe Ratings' website

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I. Overview

OTP Bank Plc. (“OTP Bank” or “the Bank”) is a Hungarian bank and its predecessor, called National Savings Bank, was established in 1949 as a nation-wide, state-owned, banking entity. OTP Bank’s privatization began in 1995. As a result of 3 public offers along with the introduction of the Bank’s shares into the Budapest Stock Exchange (“BSE”), the Bank has realized its privatization process. At end-2023, the equity of OTP Bank was HUF 28.0 billion, 81.83% of which was held by domestic and international institution investors, while individual investors (13.42%), employees (0.48%), treasury stock (0.20%) and government-controlled enterprises (0.05%) held the rest, indicating a well-diversified shareholding structure. The entities that own shareholding or voting rights of more than 5% are listed below (Table 1).

Table1 Shareholders with more that 5% of shareholding/voting rights at end-2023

NO.	Shareholder	Shareholding
1	MOL (Hungarian Oil and Gas Company Plc.)	8.57%
2	Groupama Group	5.09%
	Of which: Groupama Gan Vie SA	5.05%
	Groupama Biztosító Ltd.	0.04%
Total		**13.66%**

Source: Annual report of OTP Bank

OTP Bank mainly engages in corporate and retail banking service, funding business, assets management, financial leasing, wealth management and other relevant financing services, and is classified in banking sector according to the classification standards of China Lianhe Credit Rating Co., Ltd. (“Lianhe Ratings”).

OTP Bank operates in other counties and regions of Central and Eastern Europe (CEE) by acquiring local banks or setting up subsidiaries and branches in the Republic of Slovenia (“Slovenia”), the Republic of Croatia (“Croatia”), the Republic of Serbia (“Serbia”), the Republic of Montenegro (“Montenegro”), the Republic of Albania (“Albania”), the Republic of Bulgaria (“Bulgaria”), Romania, the Republic of Moldova (“Moldova”), Ukraine, Uzbekistan and Russian Federation (“Russia”). OTP Bank has established 342 branches in Hungary, and the foreign branches totaled 1,097 at end-2023. The foreign subsidiaries include OTP Bank JSC (Ukraine), DSK Bank EAD (Bulgaria), OTP Banka Srbija akcionarsko drustvo Novi Sad (Serbia) and so on.

OTP Bank’s registered address: 16, Nádor Street, Budapest 1051.

OTP Bank’s chairman: Dr. Sándor Csányi.

II. Macroeconomic and Operating Environment Analysis

OTP Bank’s business operations are mainly concentrated in CEE region. OTP Bank Hungary accounts for around 35% of total consolidated assets and OTP Bank Bulgaria accounts for around 16%, with the latter making a relatively larger contribution to the Bank’s operations outside Hungary.

1 The Overview of Hungarian Macroeconomic Environment and Banking Industry

Due to the deferred payment of the European Union (“EU”) funds, high inflation and other factors, the Hungarian economy met a recession in 2023. However, the Hungarian economy may recover in 2024 with the easing Hungary-EU relation and falling inflation rate and benchmark interest rate.

In 2023, due to the deferred payment of the EU funds, high inflation and other factors, Hungary’s year-on-year (“y-o-y”) GDP growth rates in the first three quarters were all negative. Due to the European Council’s decision to temporarily freeze 55% of the cohesion funds (around EUR6.3 billion) paid to Hungary, the boost to the economy from the fixed investment declined as some infrastructure investment projects were affected. On the other hand, as Hungary depends heavily on energy imported from Russia, the rising prices of energy and raw materials put both the consumption and production sides under pressure, and the decrease in industrial production, construction and retail sales constrained the economic growth to some extent. Considering the economic downward pressure, Magyar Nemzeti Bank

("MNB") cut interest rates three times by 255 basis points ("BP") in 2023, which made the benchmark interest rate stay at 10.75%. The GDP amount of Hungary was USD212.3 billion (HUF 75.0 trillion) in 2023, and the real y-o-y economic growth rate was -0.9%, which is the first recession since 2020.

As the EU has launched rounds of sanctions on Russia after the outbreak of the Russia-Ukraine conflict, Hungary was hit by an energy crisis as the import of natural gas and oil from Russia was hindered. To deal with this problem, the fuel price limit was scrapped at the end of 2022 in Hungary, which propelled the inflation higher. In the first quarter of 2023, the inflation in Hungary hit a historical high of 25.9%. The annual CPI growth of Hungary increased to 17.6% in 2023, which was 3.1 percentage points ("pp") higher compared with that in 2022, and was more than 10 pp higher than that of the EU (6.3%) and the Eurozone (5.4%).

The Hungarian labor market performed well despite the subdued economy. In 2023, the Hungarian unemployment rate increased slightly by 0.5 pp to 4.1%, lower than that of the Eurozone (6.5%) and was at a relatively low level among EU members.

Looking into 2024, as all EU members agreed to provide an extra EUR50 billion in assistance to Ukraine within the budget, the Hungary-EU relation is expected to ease, which enables more financial assistance to Hungary from the EU. Moreover, both consumption and investment will benefit from the declining inflation and benchmark interest rates. The Hungarian economy may recover in 2024, with the GDP growth rate rebounding to about 2.5% and inflation falling around 4.5%.

Table2 Hungarian Macroeconomic Indicators

Indicator	2019	2020	2021	2022	2023
GDP(HUF Tn)	47.7	48.4	55.3	66.6	75.0
GDP(USD Bn)	164.0	157.3	182.2	178.5	212.3
GDP Growth Rate(%)	4.9	-4.5	7.2	4.6	-0.9
CPI(%)	3.4	3.3	5.1	14.5	17.6
Unemployment Rate (%)	3.3	4.1	4.1	3.6	4.1

Source: Hungarian Central Statistical Office, MNB

The Hungarian banking sector maintained sound capital adequacy, with the non-performing loan ("NPL") ratio staying at a relatively low level and profitability remaining relatively strong.

The MNB has introduced various measures to reinforce and keep the banking sector's sound operation since 2021. Except for requiring the Net Stable Fund Ratio ("NSFR") must steadily funding credit institutions for 1 year, the MNB also loosened the regulation of foreign currency coverage ratio to realize the monetary policy target and improve the efficiency of monetary policy conduction. Moreover, the MNB decided to loosen the requirements on mortgage loan adequacy from July 1st, 2022, expanding the investment catalogue of mortgage bond investors and broadening channels for banks to absorb long-term and stable financing.

The key indicators of the Hungarian banking sector stayed at healthy levels in 2023. Benefiting from MNB cutting interest rate three times from 13% to 10.75%, the Hungarian banking sector's capital adequacy ratio increased to 19.0% at end-2023, up by 1.4 pp to that of end-2022, staying at a relatively high level. Moreover, the interest rate cut also alleviated some families and companies' depleted solvency, the banking sector's NPL decreased by 0.6 pp to 3.3% at end-2023 compared with that at end-2022, which stayed at a low level and indicated little pressure for bad loans. Benefited from continuous rising net interest margins in the Hungarian banking sector, the return on assets ("ROA") and return on equity ("ROE") increased to 2.5% and 20.2%, respectively, in 2023, which was 1.2 pp and 8.9 pp higher compared with that in 2022 and indicated a well-established banking system and strong resilience to external shocks.

Looking into 2024, the economy of Hungary is to recover continuously, and the benchmark rate may decline further, which will strengthen the profitability of the Hungarian banking sector. Overall, the quality of assets in the Hungarian banking sector remains favorable, and its resilience to risks remains relatively strong.

Table3 Key Indicators on Hungarian Banking Sector

Indicator	2019	2020	2021	2022	2023
Capital Adequacy Ratio (%)	18.4	19.4	19.6	18.2	19.0
NPL Ratio (%)	4.1	3.5	3.2	3.9	3.3

ROA (%)	1.4	0.6	1.2	1.3	2.5
ROE (%)	13.1	6.4	11.4	11.3	20.2

Source: Hungarian Central Statistical Office, MNB

2 The Overview of Bulgarian Macroeconomic Environment and Banking Industry

Bulgaria experienced turbulent politics in recent years, and the economy slowed down.

In the latest election held in April 2023, the coalition belonging to the former ruling party Bulgarian Civic Party won 69 votes out of 240 and the qualification of government formation, but failed to form a government. The reformist coalition of the We Continue To Change party won 64 votes, and Nikolay Denkov was nominated as the Prime Minister. In June 2023, the new Bulgarian government was formally approved.

However, Nikolay Denkov resigned in March 2023. The Bulgarian President Rumen Radev signed a decree appointing a caretaker cabinet government and announced a snap election in June 2024. This will be the sixth parliamentary election in Bulgaria in recent years, and Bulgaria's political stability may further deteriorate.

The Bulgarian economic growth remains robust amid political instability. In 2023, benefiting from strong private consumption, especially household consumption, the Bulgarian economy recorded a 1.8% y-o-y growth despite the public spending and main export markets being in stagnation. The number of employed people decreased and the unemployment rate rose to 4.4% moderately due to slow down economy. The inflation of Bulgaria was mitigated by the decreasing energy price and the CPI fell to 8.6% in 2023.

Looking into 2024, the financial assistance and other supportive projects from the EU will boost the Bulgarian economy continuously, and the GDP growth rate may accelerate to around 3.0%, with inflation slipping to around 2.5%.

Table4 Bulgarian Macroeconomic Indicators

Indicator	2019	2020	2021	2022	2023
GDP (BGN Bn)	120.4	120.6	139.0	165.4	183.7
GDP (USD Bn)	68.9	70.4	84.1	89.1	84.1
GDP Growth Rate (%)	4.0	-4.0	7.7	3.9	1.8
CPI (%)	2.5	1.2	2.8	13.0	8.6
Unemployment Rate (%)	4.3	5.2	5.3	4.2	4.4

Source: IMF

The capital adequacy of the Bulgarian banking sector stays at a high level in recent years, and the quality of assets and profitability keep improving. Besides, joining the European Single Supervisory Mechanism ("SSM") also benefits the banking sector's development.

The overall risks of Bulgarian banking sector keep stable in recent years. In terms of main regulatory indicators, the capital adequacy of Bulgarian banking was 21.6% at end-2023, up by 0.6 pp compared to 2022 while still staying at a high level. The profitability of banking sector also improved. The ROA and ROE improved to 2.3% and 18.2%, respectively. The NPL ratio of banking sector was 3.6% at end-2023, down by 0.9 pp compared to 2022, indicating better quality of banking assets. Looking forward, although the plan for Bulgaria to join the euro area may be delayed until 2025, the Bulgarian banking industry is still expected to develop steadily under SSM.

Table5 Bulgarian Banking Industry Financial Indicators

Indicator	2019	2020	2021	2022	2023
Capital Adequacy Ratio (%)	20.2	22.7	22.6	21.0	21.6
NPL Ratio(%)	6.6	5.8	5.9	4.5	3.6
ROA(%)	1.5	0.7	1.2	1.6	2.3
ROE(%)	11.3	5.2	8.5	12.3	18.2

Source: IMF, Bulgarian Central Bank

III. Management and Development

OTP Bank has built well-established corporate governance, internal control and risk management system, with all governing bodies performing their responsibilities well. The structure of shareholding is well diversified and the risks from related transactions are under control. The strategies for development are stable and practical, but the impact of rising complexity of operating environment in CEE region on the implementation of strategies still needs to be concerned.

OTP Bank sets up the corporate governance system based on shareholders' meeting, board of directors, supervisory board, and chairman/CEO, according to the Code of Conduct and other requirements. The shareholders' meeting is the ultimate authority, the board of directors, supervisory board and chairman/CEO are responsible for decision-making, supervision and execution, respectively. The responsibilities of governing bodies are clearly divided, which enables them to fulfil their roles in line with established rules and requirements, and the corporate governance runs well. In terms of internal control, OTP Bank built clear corporate governance framework and established Audit Committee and internal audit management framework to enhance the effectiveness of internal audit mechanism. OTP Bank's internal audit department works under the supervisory board's internal audit plans, the audit covers all departments in the head-quarter, branches and group members. In addition, OTP Bank keeps improving company's system of operation and management, with the effectiveness and feasibility enhancing constantly.

OTP Bank was listed on BSE in August 1995. There were 2 institutions or enterprises that owns 5% or above shareholding or votes at end-2023, which held 8.57% and 5.09% of total shares, respectively. The largest shareholder is MOL, a leading company operates oil and natural gas business and headquarters in Budapest, Hungary. MOL runs businesses in over 30 countries and has more than 25,000 employees. The capital stock of MOL was HUF 78.2 billion at end-2023. Overall, OTP Bank's shareholding structure is well diversified and there is no ultimate shareholder.

In terms of related transactions, OTP Bank offers fair transaction terms to affiliates and non-affiliates, and reports to special risk management committee, board of directors and supervisory board of the management of related transactions quarterly. OTP Bank's affiliates include members of the board of directors and supervisory board, middle and senior managers and their relatives and related companies. The outstanding amount of affiliates' loans and deposits were HUF 1025.7 billion and HUF 379.4 billion, respectively, at end-2023. The transaction size is relatively small and the risk is under control.

In terms of risk management, OTP Bank sets up a top-bottom management mode from the head-quarter to branches, the Chief Risk Officer ("CFO") of the headquarter owns the power to appoint, remove and review branches' CFOs. The headquarters' risk management responsibility includes making and maintaining risk strategies and preferences, holding a credit risk management committee, managing and monitoring investment portfolios and credit risk limits, establishing and enhancing the risk management system of market risk, operation risk, counterparty risk and country risk. Concerning credit risk, OTP Bank narrows credit risk exposure by building and monitoring relevant risk limit indicators, and manages credit risk exposure timely by analyzing borrowers' potential solvency regularly. Regarding liquidity management, OTP Bank searches for events that may influence global liquidity constantly, measures their occurring likelihoods and importance, and also factors in deposit withdrawal, currency exchange and yield shocks, global financial system and capital market shocks which may cause liquidity issues. Regarding market risk, OTP Bank matches short-term interest-bearing assets to interest-bearing liabilities with same maturities, or matches repriced long-term assets to liabilities with same maturities, then forecasts the largest expected market risk loss of exposure through the Value at Risk model and monitors relevant indicators. As for operation risk, OTP Bank builds an operational risk management system based on the group's consistency and capital management standards. The operational risk management system includes business operation risk management, self-assessment, loss data collection, scenario analysis, key risk indicators system and so on. Under the operational risk management framework, it also sets up guidelines for operation management and relevant procedures to reduce loss from operation risk effectively.

In terms of development strategies, OTP Bank regards satisfying most demands of clients, investors and employees and setting an international example in the environment, society and governance ("ESG") field as the intention of strategies. Based on Hungary, the Bank enhances its market position in 12 countries in CEE and CIS while expanding its business presence to other CEE countries, thus to enhance its market share in CEE region and its overall competitiveness in the international market. Meanwhile, OTP Bank keeps capital adequacy and liquidity stable, and considers it as the basis of operation and development, follows supervisory requirements of

European countries and holds the transparency and prudence of information disclosure. Additionally, OTP Bank expands its business presence and improves medium- and long-term profitability by improving customer experience and cost-benefit. Combined with business characteristics and competitive advantages, the Bank builds personalized development strategies plan that meets its demand. The strategies plan is highly implementable, while considering the stable competition of developed countries in CEE region, and the rising uncertainty of other emerging markets during expansion, the Bank’s future strategies implementation and the matching of consistent business expansion and corporate operation improvement still need to be concerned.

IV. Business Analysis

OTP Bank enjoys high brand awareness and reputation in CEE countries and has competitive advantages in Hungarian market, maintaining the largest market share in terms of both deposits and loans. The Bank expands its business by acquiring good banks in target countries, and the market positions in some countries are among the top.

As the largest banking conglomerate in CEE region, OTP Bank operates in 12 countries in CEE and CIS, with high coverage of business outlets in the main operating countries, which provides effective channel advantages for its deposit and loan business development and competition. Specifically, as a commercial bank with a long history of local operation, OTP Bank has the largest number of branches in Hungary and has accumulated a good customer base through its long-term local operation, which enables it to maintain a leading market share, with a deposit and loan market share of 28.3% and 26.2%, respectively, at the end of 2023, ranking 1st in Hungary in both deposit and loan business. In countries other than Hungary, OTP Bank has developed its deposit and loan business mainly by acquiring banks with a long history of operation, a good customer base and the highest deposit and loan market share in the target countries as its subsidiaries, and some of its subsidiaries have the highest market share in their home countries due to the brand effect and the inherent competitive advantages of its subsidiaries in their home countries. For example, as of the end of 2023, the Bulgarian subsidiary's total loans had a market share of 22.3% in the Bulgarian banking sector, ranking 1st, the Slovenian subsidiary's total loans had a market share of 27.8% in the Slovenian banking sector, ranking 1st, the Serbian subsidiary's total loans had a market share of 16.8% in the Serbian banking sector, ranking 1st.

Table6　Structure of Deposits and Stage 1 Loans and Stage 2 Loans after Foreign Exchange Adjustment

Indicator	Amount (HUF Tn)				Proportion (%)				Annual Growth Rate (%)	
	End-2021	End-2022	End-2022	End-2023	End-2021	End-2022	End-2022	End-2023	End-2022	End-2023
Deposits										
Retail Deposits	**15.11**	**16.31**	**15.76**	**19.32**	**68.15**	**64.85**	**64.88**	**65.66**	**8.01**	**22.60**
Household Deposits	12.60	13.64	13.17	16.09	56.84	54.21	54.21	54.68	8.26	22.20
Micro and Small Firms Deposits	2.51	2.67	2.59	3.23	11.31	10.63	10.68	10.99	6.70	24.64
Corporate Deposits	**7.06**	**8.84**	**8.53**	**10.11**	**31.85**	**35.15**	**35.12**	**34.34**	**25.28**	**18.48**
Total	**22.16**	**25.16**	**24.29**	**29.43**	**100.00**	**100.00**	**100.00**	**100.00**	**13.51**	**21.15**
Stage 1 Loans and Stage 2 Loans										
Retail Loans	9.04	9.69	9.30	11.65	54.19	51.87	51.80	54.20	7.21	25.31
Personal Housing Loans	4.34	4.79	4.66	5.81	26.02	25.64	25.95	27.02	10.37	24.72
Personal Consumption Loans	3.98	4.09	3.85	4.85	23.86	21.93	21.43	22.58	2.91	26.21
Micro and Small Firms Loans	0.72	0.80	0.79	0.99	4.31	4.31	4.43	4.60	11.94	24.50
Corporate Loans	6.41	7.70	7.40	8.50	38.45	41.22	41.25	39.53	20.05	14.78
Leasing	1.23	1.30	1.25	1.35	7.36	6.91	6.94	6.27	5.06	8.19

Total	**16.68**	**18.67**	**17.95**	**21.50**	**100.00**	**100.00**	**100.00**	**100.00**	**11.99**	**19.78**

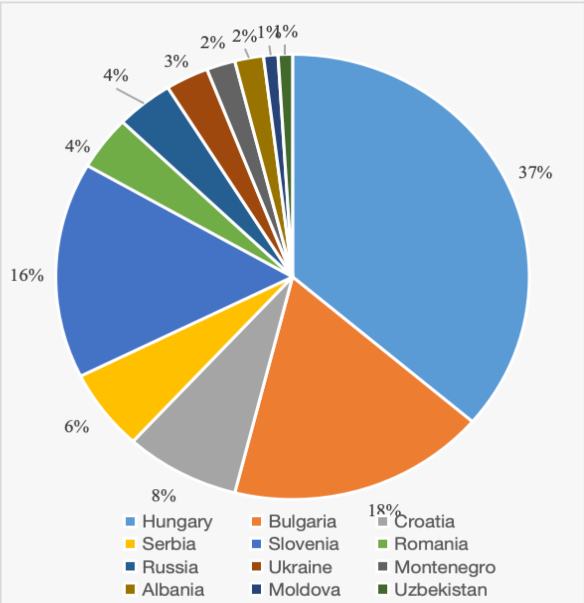
Note: 1. The outstanding amount of deposit at end-2021 and end-2022 are adjusted using the exchange rate at end-2022

2. The outstanding amount of deposit at end-2022 and end-2023 are adjusted using the exchange rate at end-2023

3. Interests are excluded.

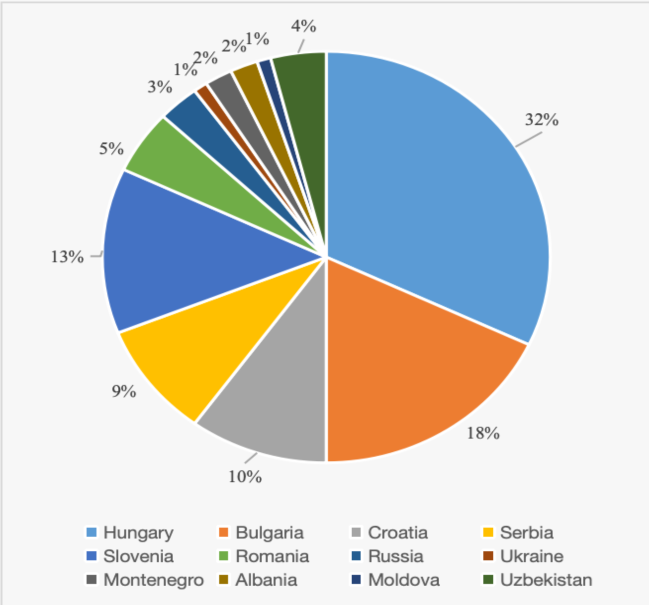
Source: Annual report of OTP Bank

Graph1 OTP Bank's Deposit Balances Structure by Country



Source: OTP Bank

Graph2 OTP Bank's Loan Balances Structure by Country



Source: OTP Bank

1 Corporate Banking Business

OTP Bank continued to improve its coverage of corporate customers in key business areas and refined the corporate banking customer experience by optimizing workflow and providing diversified financial services, resulting in good growth in the scale of the corporate banking business.

OTP Bank has corporate banking operations in Hungary and 11 other countries in CEE and CIS region, and its corporate deposit and loan business in Hungary remains the largest contributor to the overall deposit and loan business regionally. In recent years, OTP Bank's corporate banking business has maintained its partnership with enterprises in the regions where it operates, enhancing its ability to provide comprehensive financial services to corporate customers and strengthening customer bonding by optimizing corporate banking workflow, upgrading online and mobile banking ports and business processing experience, and providing diversified financial services such as factoring and leasing to public customers. Due to the good customer base in the operating regions and the improvement of the comprehensive service capacity for corporate customers, the scale of OTP Bank's corporate deposit business has maintained rapid growth. The contribution of other countries of operation to corporate deposit growth was at a relatively low level.

OTP Bank's corporate customer development is based on the prudent selection of target customers and the ultimate goal of increasing the volume of customer services and the scale of loan business by improving the coverage of customers across the industry in the region where it operates. Meanwhile, OTP Bank uses its CRM customer relationship management system to digitalize its customers, sales network and channels, thereby improving the efficiency of its corporate lending business. In addition, OTP Bank continues to optimize its corporate lending workflow to improve the efficiency of loan approval and placement while enhancing the level of credit risk prevention. In recent years, OTP Bank's corporate loan business has maintained moderate growth, with the growth in Hungary, Bulgaria and Slovenia continuing to be the main driving forces in corporate loan business. On the other hand, the scale of OTP Bank's corporate loan business in Russia, Ukraine and Moldova was on a downward trend.

2 Retail Banking Business

OTP Bank's retail business has good distribution channels, and the layout and promotion of online business channels further enhance the efficiency of retail business expansion, and the retail banking business has maintained a good development trend; attention should be paid to the impact of inflation on personal deposit business in CEE region.

In terms of personal deposit business, OTP Bank has improved its offline network channels and enhanced customer service experience through continuous improvement of its service outlets and the establishment of ATMs and smart counters, while further enhancing the efficiency of customer expansion through the improvement of online banking, mobile banking and other online expansion channels. The market share of OTP Bank's retail deposits was 41.3% in Hungary, 24.6% in Bulgaria, 32.1% in Slovenia, 23.9% in Montenegro, and Croatia, Moldova and Albania all had a market share of around 10% at end-2023, while the Bank had a relatively low market share in Romania, Russia and Ukraine.

In terms of retail loan business, OTP Bank's retail loan business expansion has gradually shifted to online channels in recent years, enabling loan approval and placement through online banking and mobile banking, optimizing customer experience while also allowing effective risk screening and control of loan customers through online big data and online risk control models. In terms of product set-up, OTP Bank will focus on the development of high-yield loans and bank and insurance products to further enhance the revenue level and revenue channels of its retail lending business. In recent years, OTP Bank has maintained growth in retail loan business. OTP Bank has a large market share in the main countries of operation, with market shares of around 30% for personal consumer loans in Hungary, Bulgaria and Slovenia, and around 20% for personal housing loans in Bulgaria, Serbia, Slovenia, Albania and Moldova, and over 30% for personal housing loans in Hungary and Montenegro at the end of 2023.

3 Financial Market Business

OTP Bank carries out its interbank business based on the Bank's liquidity and profitability, with a moderate share of market-integrated funds and relatively open channels for interbank financing. The scale of investment assets continues to grow, and the business structure is dominated by government bonds, with a relatively stable overall investment preference.

OTP Bank carries out interbank business according to interest rate levels, deposit and loan business and liquidity levels. In recent years, the scale of OTP Banks' interbank assets has fluctuated and the scale of market integration has continued to rise. OTP banks' interbank assets are mainly interbank deposits and repo assets, with the maturity of interbank deposits mainly within one year and the average interest rate of interbank deposits in 2023 was 13.89%. The maturity of repo assets was all within one year and repo assets were mainly denominated in foreign currency. The interest range of repo business (HUF) in 2023 was 0.00%-11.00%, the average interest rate was 11.83%, and the interest range of repo business (foreign currency) in 2023 was 0.00%-17.96%, the average interest rate was 6.92%. As for interbank liabilities, OTP's market capitalization has maintained rapid growth, accounting for a moderate proportion of its total liabilities. The market financing channels are mainly government deposits, central bank deposits and interbank deposits, while the rest are repo liabilities and bond issues. As of the end of 2023, OTP Bank's government deposits, central bank deposits and interbank deposits amounted to HUF 1.9 trillion, with average interest rates of 3.25% and 5.65% in HUF and foreign currency respectively; repo liabilities were mainly denominated in foreign currency, with interest rates ranging from 0.00% to 3.65% for foreign currency denominated repo liabilities, and the average interest rate was 4.22%. As of the end of 2023, OTP issued bonds with a balance of HUF 2.1 trillion, and majority with maturity more than 1 year and the with an average interest rate of 8.83% for HUF-denominated bonds payable and 7.14% for foreign currency-denominated bonds payable. OTP Bank had a total of HUF 302 billion in subordinated bonds and loans on deposit at end-2023, with and average interest rate of 6.17%.

In terms of investment business, OTP Bank maintained growth in the size of its investment assets, which were mainly allocated to bonds, with the rest being derivatives, equity assets and investment properties, etc. OTP Bank's bond investments were mainly in government bonds, with the rest being treasury bills, central bank bonds, corporate bonds and mortgage bonds. In terms of the classification of bond assets according to Moody's rating results, in 2023, 70.74% of OTP Bank's securities measured at fair value through other comprehensive income were rated Baa3 and above; 84.43% of securities measured at amortized cost were rated Baa3 and above; securities rated Ba1 and below were mainly government bonds. In terms of country allocation to government bonds, OTP Bank's government bonds are mainly from Hungary, with the remainder mainly comprising Romania, Croatia, Bulgaria and Serbia. OTP Bank holds HUF 195.6 billion in derivatives, mainly in interest rate swaps and currency swaps. In 2023, OTP invested a total of HUF 166.3 billion in equity assets, with mainly unlisted equity investments. Overall, OTP Bank's investment assets are dominated by higher grade bond investments and the overall credit risk of investment assets is relatively manageable.

Table7 Structure of Investment Assets

Indicator	Amount (HUF Bn)			Proportion (%)		
	End-2021	End-2022	End-2023	End-2021	End-2022	End-2023
Bond Investment	6192.32	6738.80	6889.96	93.90	92.41	93.44
Government Bonds	5514.21	5755.16	5815.28	83.62	78.92	78.87
Treasury	176.37	230.14	78.33	2.67	3.16	1.06
Central Bank Bills	109.77	252.55	114.75	1.66	3.46	1.56
Corporate Bonds	261.79	333.31	346.09	3.97	4.57	4.69
Mortgage Bonds	87.53	79.21	55.18	1.33	1.09	0.75
Others	42.65	88.43	480.33	0.65	1.21	6.51
Non-tradable Securities Measured at Fair Value through Profit and Loss	53.40	55.16	67.69	0.81	0.76	0.92
Debt Securities Measured at Fair Value through Profit and Loss	--	--	--	0.00	0.00	0.00
Derivatives	203.24	324.73	195.60	3.08	4.45	2.65
Equity Assets	114.71	126.09	166.31	1.74	1.73	2.26
Investment Property	29.88	47.45	53.38	0.45	0.65	0.72
Equity Instruments and Funds	1.17	0.39	0.51	0.02	0.01	0.01
Total Investment Assets	**6594.73**	**7292.61**	**7373.44**	**100.00**	**100.00**	**100.00**
Impairment Provision	**21.63**	**55.13**	**42.36**	**/**	**/**	**/**
Net Investment Assets	**6573.10**	**7237.48**	**7331.08**	**/**	**/**	**/**

Source: Annual report of OTP Bank

V. Financial Analysis

OTP Bank has provided consolidated financial statements for 2021-2023 covering subsidiaries and other institutions in Bulgaria, Serbia, Croatia, Slovenia, Ukraine and Russia. Ernst & Young Ltd. audited the 2021-2023 consolidated financial statements and issued an unqualified audit report in accordance with EU IFRS and Hungarian Accounting Act requirements. OTP Bank acquired NKBM Bank in Slovenia in February and Ipoteka Bank in Uzbekistan in June 2023, which contributed 11 months and 6 months of profit, respectively. The acquisition of the two banks increased by around EUR 14 billion of OTP Bank's total assets, and the change in consolidation has a limited impact on the financial comparativeness.

1 Quality of Assets

Benefiting from the business expansion and the acquisition of NKBM Bank in Slovenia and Ipoteka Bank in Uzbekistan, OTP Bank's asset size has maintained relatively rapid growth and its asset structure is dominated by loans and investment assets. The proportion of cash assets increased while the proportions of loans and investment assets declined, due to the increase in the ratio of mandatory reserves and the increase in the size of deposits with the central bank.

In terms of the composition of the assets of its subsidiaries, as of the end of 2023, OTP Bank Hungary accounted for around 35% of the total consolidated assets, while OTP Bank Bulgaria accounted for around 16%, OTP Bank Slovenia accounted for around 15%, OTP Bank Croatia accounted for around 8%, and OTP Bank Serbia accounted for around 7%. The other assets increased significantly in 2023 compared with that in 2022, as the OTP Bank planned to sell its operations in Romania and recorded them as held for sale.

Table8 Structure of Assets

Indicator	Amount (HUF Tn)	Proportion (%)	Annual Growth Rate (%)

	End-2021	End-2022	End-2023	End-2021	End-2022	End-2023	End-2021	End-2022
Cash Assets	2.66	4.22	7.13	9.28	12.87	17.99	65.15	68.78
Interbank Assets	1.65	1.39	1.79	5.97	4.24	4.52	-15.42	28.65
Net Loans and Advances	15.74	18.64	20.37	57.14	56.82	51.42	18.40	9.26
Investment Assets	6.57	7.24	7.33	23.86	22.06	18.51	10.11	1.29
Others	1.03	1.31	3.00	3.75	4.00	7.56	26.90	128.20
Total Assets	**27.55**	**32.80**	**39.61**	**100.00**	**100.00**	**100.00**	**19.06**	**20.74**

Source: Annual report of OTP Bank

(1) Loans

In recent years, OTP Bank's credit assets has maintained growth and the industrial concentration risk of its loans is moderate, but loans at stage 3 are at a high level; taking into account that it has placed a certain scale of restructuring loans, coupled with the Russia-Ukraine conflict and the continued weakening of the global economic situation, the quality of OTP Bank's credit assets may face some downward pressure and the level of provisions may come under pressure.

In recent years, the scale of OTP Bank's loans and advances has grown rapidly, while the proportion of total assets declined, with net loans and advances of HUF 20.4 trillion at the end of 2023, accounting for 51.42% of total assets. Regionally, in recent years OTP loans have been predominantly within Hungary, with the contribution of loans from Bulgaria, Slovenia, Croatia and Serbia at a high level. In terms of industry distribution, OTP bank loans are mainly concentrated in wholesale and retail trade, transport and storage accommodation and food services, manufacturing, mining, quarrying and other industries, real estate, construction, forestry and financing and insurance, together accounting for 46.82% of total loans, indicating a moderate industrial concentration risk.

In terms of the regional distribution of the loan portfolio (including loans, finance lease receivables, interbank deposits and repo assets, the same below), as of the end of 2023, OTP Bank's loan portfolio was mainly invested in Hungary, Bulgaria, Croatia, Serbia and Slovenia, of which loans measured at amortized cost, finance lease receivables, interbank deposits and repo assets accounted for 25.98%, 17.62%, 10.83%, 10.73% and 12.81% respectively; loans measured at fair value were invested in Hungary. On the other hand, as of the end of 2023, OTP Bank's loan portfolio exposures to Russia and Ukraine amounted to HUF 1435.7 billion and HUF 408.1 billion, representing 6.63% and 1.88% of the total loan portfolio exposure, impairment provisions were made for HUF 137.7 billion and HUF 85.6 billion respectively. Considering the ongoing conflict between Russia and Ukraine, Lianhe Ratings will continue to monitor changes in the quality of loans to Russia and Ukraine.

OTP Bank has established a credit risk management structure, and all branches and subsidiaries within the group use credit risk models, including rating models and scorecards. In addition, OTP Bank adopted a graded authorization approach to control credit risk for its other branches and subsidiaries. In terms of disposal of non-performing assets, OTP Bank wrote off non-performing loans of HUF 17.9 billion, HUF 67.7 billion and HUF 37.2 billion, respectively, in 2021-2023. In recent years, the proportion of stage 2 loans in OTP banks has been at a high level due to factors such as the international economic downturn. In terms of loans at stage 3, OTP Bank's loans at stage 3 are mainly consumer loans, and medium and large business loans, which accounted for 71.44% of total stage 3 loans. Regionally, at end-2023, the proportion of loans in Hungary classified as stage 2 loan and stage 3 loan was 15.5% and 4.0%, respectively. The proportion of loans in Hungary (MERKANTIL Group) classified as stage 2 loan and stage 3 loan was 7.2% and 2.4%, respectively. The proportion of loans in Bulgaria (DSK Group) classified as stage 2 loan and stage 3 loan was 12.0% and 2.4%, respectively. The proportion of loans in Slovenia classified as stage 2 loan and stage 3 loan was 8.5% and 1.6%, respectively. The proportion of loans in Croatia classified as stage 2 loan and stage 3 loan was 12.5% and 3.9%, respectively. The proportion of loans in Serbia classified as stage 2 loan and stage 3 loan was 13.1% and 2.9%, respectively. Hungary has a relatively large outstanding amount of stage 3 loans compared with other countries, due the loan business scale ranked 1st among all operating countries. In terms of the outstanding amount of stage 3 loans, the proportions of stage 3 loans in Russia and Ukraine were considerably higher than that in other countries. In terms of restructured loans, as of the end of 2023, OTP Bank placed a balance of HUF 325.6 billion in restructured loans, accounting for approximately 1.5% of total loans, and made impairment provisions of HUF 969.9 billion against restructured loans; of which the scale of loans invested in medium and large enterprises was HUF 212.2 billion, with impairment provisions of HUF 24.6 billion. As of the end of 2023, OTP Bank's loans classified as stage 3 loans amounted to HUF 969.9 billion, accounting for 4.32% of total loans, excluding Ukraine and Russia, stage 3 loans accounted for 3.7%. Overall, taking into account the relatively large amount of OTP Bank's stage 2 and stage 3 loans, the size of its restructuring loans, the conflict between Russia and Ukraine and the global economic situation, the quality of OTP Bank's credit assets may face some downward pressure.

OTP Bank has maintained large provisions for impairment in recent years as the size of its loans has grown, and the scale of impairment loss has continued to grow. In terms of the coverage of provision for each stage of the loan, OTP Bank maintained provision levels of around 1%, 10% and 60% for the stage 1, stage 2 and stage 3 loans respectively at end-2023. OTP Bank's provision for stage 3 loan was 105.7% at end-2023. Considering that the credit assets quality is under some downward pressure, its provision level may come under pressure in the future.

Table9 Quality of Loans

Indicator	Amount (HUF Tn)			Proportion (%)		
	End-2021	End-2022	End-2023	End-2021	End-2022	End-2023
Stage 1 Loan	13.56	16.39	18.57	81.53	83.43	82.66
Stage 2 Loan	2.19	2.29	2.93	13.19	11.64	13.03
Stage 3 Loan	0.88	0.97	0.97	5.28	4.93	4.32
Total Loans	**16.63**	**19.64**	**22.47**	**100.00**	**100.00**	**100.00**
Loan Loss Provision	**0.89**	**1.00**	**1.02**	**5.35**	**5.11**	**4.54**
Stage 1 Loan Loss Provision Ratio	**/**	**/**	**/**	**1.0**	**1.0**	**0.9**
Stage 2 Loan Loss Provision Ratio	**/**	**/**	**/**	**10.0**	**10.7**	**9.2**
Stage 3 Loan Loss Provision Ratio	**/**	**/**	**/**	**60.5**	**61.0**	**60.8**
Loan Loss Provision/Stage 3 Loan	**/**	**/**	**/**	**101.43**	**103.48**	**105.07**

Source: Annual report of OTP Bank

(2) Interbank and Investment Assets

In recent years, the scale of OTP Bank's interbank assets has fluctuated and the scale of investment assets has maintained growth. There is a certain scale of interbank and investment assets at stage 3, which are subject to a certain pressure of impairment.

In recent years, the scale of OTP Bank's interbank assets has fluctuated and the allocation of interbank assets is mainly based on interbank deposits and repo assets within 1 year. As of the end of 2023, OTP Bank's total interbank assets amounted to HUF 1790.8 billion and provisions for impairment of HUF 2.8 billion were made. In terms of the quality of interbank assets, OTP Bank's stage 2 and stage 3 interbank assets were HUF 63 million and HUF 15 million, with provisions for impairment of HUF 55 million and HUF 10 million, respectively.

In recent years, the scale of OTP Bank's investment assets has continued to grow, while the proportion to total assets declined to around 19%, as the majority were bond investments. OTP Bank's investment assets mainly consist of financial assets measured at fair value through other comprehensive income and financial assets measured at amortized cost, accounting for 21.84% and 71.60% of investment assets respectively, and are mainly allocated to government bonds. At end-2023, OTP Bank included in the stage classification interest-bearing securities at fair value through other comprehensive income and financial assets measured through other comprehensive income amounting to HUF 6.8 trillion, with provisions for impairment of HUF 67.2 billion, of which HUF 87.1 billion and HUF 30.9 billion were classified as stage 2 and stage 3 interest-bearing securities at fair value through other comprehensive income, with a provision for impairment of HUF 258 million and HUF 22.9 billion, respectively. Financial assets at stage 2 and stage 3 at amortized cost were HUF 12.2 billion and HUF 41.2 billion, with provisions for impairment of HUF 755 million and HUF 14.8 billion, respectively.

(3) Off-Balance Sheet Business

OTP Bank has large off-balance sheet business exposure and needs to be concerned about its exposure to credit risk. OTP Bank's off-balance sheet business is mainly loan commitments, guarantees, factoring and letters of credit. As of the end of 2023, OTP Bank's off-balance sheet business size was HUF7.2 trillion, with loan commitments of HUF 4.8 trillion, guarantees of HUF 1.4 trillion, factoring of HUF 460.5 billion and letters of credit of HUF 62.0 billion, with some exposure to off-balance sheet business.

2 Structure of Liabilities and Liquidity

In recent years, driven by the sound development of the deposit business and market funds, and the acquisition of NKBM Bank in Slovenia and Ipoteka Bank in Uzbekistan in 2023, OTP Bank's liabilities continued to grow rapidly; the OTP Bank's liquidity indicators remains healthy.

Table10 Structure of Liabilities

Indicator	Amount (HUF Tn)			Proportion (%)			Annual Growth Rate (%)	
	End-2021	End-2022	End-2023	End-2021	End-2022	End-2023	End-2022	End-2023
Market Fund	2.36	2.85	4.73	9.63	9.68	13.30	20.84	65.61
Customer Deposit	21.07	25.19	28.33	85.94	85.44	79.78	19.56	12.48
Other Liabilities	1.09	1.44	2.46	4.43	4.88	6.92	32.48	70.63
Total Liabilities	**24.52**	**29.48**	**35.51**	**100.00**	**100.00**	**100.00**	**20.25**	**20.46**

Source: Annual report of OTP Bank

OTP Bank carries out interbank business based on liquidity and funding needs as well as the level of market interest rates. In recent years, the amount and proportion of market funds increased and the proportion to total liabilities has remained at a reasonable level. As of the end of 2023, OTP Bank's market funds were HUF 4.7 trillion, mainly constituted of government deposits, central bank deposits and interbank deposits, and repo liabilities and bond issuance as the rest, making the overall active liability channel relatively smooth.

Customer deposits are the most important source of liabilities for OTP Bank. OTP Bank's customer deposits maintained growth in recent years. While the proportion of customer deposits to total liabilities fell due to the increased market funds in 2023. As of the end of 2023, OTP Bank's customer deposits accounted for 79.78% of total deposits, with the maturities mainly within one year.

In recent years, the relevant liquidity indicators of OTP Bank were at a reasonable level and the liquidity risk was manageable.

Table11 Liquidity

Indicator	End-2021	End-2022	End-2023
Liquidity Coverage Ratio (%)	180	172	246
Net Stable Fund Ratio (%)	139	137	159
Loan/Deposit	79	78	76

Source: Annual report of OTP Bank

3 Operation Efficiency and Profitability

In 2023, OTP Bank's net interest margin remains at a good level, benefiting from the increase in net profit margin, business expansion, the decline in impairment loss, and the acquisition of NKBM Bank in Slovenia and Ipoteka Bank in Uzbekistan and other factors, the profitability of OTP Bank improved significantly.

Table12 Profitability

Indicator	2021	2022	2023
Net Interest Income (HUF Bn)	874.31	1026.87	1386.71
Cost of Risk (HUF Bn)	47.65	199.70	79.28
Net Interest Income after Deduction of Cost of Risk (HUF Bn)	826.67	827.17	1307.43
Net Commission and Fee Income (HUF Bn)	442.17	584.49	691.99
Exchange Gains or Losses (HUF Bn)	-4.08	-16.30	13.83
Net Investment Gains and Losses (HUF Bn)	27.47	22.43	103.90
Management Fee (HUF Bn)	747.61	930.02	1074.34
Net Interest Margin (%)	3.51	3.51	3.93
Cost of Risk + Gross Profit (HUF Bn)	576.08	577.37	1280.46
Net Profit (HUF Bn)	456.31	319.08	1011.71
Cost-to-Income Ratio(%)	49.7	47.6	43.3

Average ROA (%)	1.79	1.06	2.79
Average ROE (%)	16.37	10.04	27.28

Source: Annual report of OTP Bank

OTP Bank’s income mainly consists of net interest income and fee and commission income. OTP Bank’s interest income is mainly from loans, investment assets and financial leasing receivables, while interest expenses are mainly from deposit interest expenses, swaps and interest expenses related to bond issuance. In recent years, OTP Bank’s net interest income has increased due to a faster growth in loan size. In 2023, OTP Bank achieved net interest income of HUF 1.4 trillion. OTP Bank’s net interest margin has shown an upward trend in recent years as a whole, the average loan interest rose due to the interest hike, the cost of liabilities remained stable with a net interest margin level of 3.93% in 2023. In terms of average interest rates on deposits and loans, in 2023, OTP Bank’s average interest rates on loans measured at amortized cost in HUF and foreign currency were 11.36% and 6.23%, respectively. The average interest rates on loans measured at fair value in HUF and foreign currency were 6.96% and 4.68%, respectively, and average interest rates on customer deposits measured in HUF and foreign currency were 3.69% and 0.98%, respectively.

OTP Bank’s net commission and fee income increased year by year, and its contribution to net profit also increased. The income is mainly derived from commissions and fees related to deposit management, bank cards, exchange rate conversion, etc. In 2023, OTP Bank achieved a commission and fee income of HUF 692.0 billion. OTP Bank’s net investment gains and losses mainly consist of gains and losses on bonds, fair value changes, derivatives and profits of affiliated companies. In 2023, the net gains and losses of OTP Bank’s investment increased considerably, and the contribution to profit also rose, mainly due to the increase in trading revenue and fair value revenue.

The cost of risk for OTP Bank is mainly the provision for impairment. In recent years, OTP Bank’s cost of risk has fluctuated. Since 2022, influenced by the change in the global economy and the outbreak of the Russia-Ukraine conflict, OTP added provisions for impairment of loans and investment assets, and the cost of risk escalated in 2022. In 2023, the impairment loss decreased substantially as the impact of the Russia-Ukraine conflict was alleviated. In 2023, OTP Bank’s cost of risk amounted to HUF 79.3 billion, of which HUF 111.5 billion was for loan impairment losses, HUF 2.1 billion was for write-back, HUF 8.3 billion was for bond investment impairment provisions, and HUF19.9 billion was for write-back commitment and guarantee impairment provisions. With the expansion of business and increasing inflation, OTP Bank's management fees continued to rise, but the cost-to-income ratio declined overall. In 2023, OTP Bank incurred management fees of HUF 1.1 trillion, with a cost-to-income ratio of 43.3%.

The overall level of OTP Bank’s net profit has fluctuated in recent years. In 2023, the net profit of OTP Bank improved considerably, mainly due to business expansion, the rise in contribution of investment revenue, the fall in impairment loss and the acquisition of 2 banks. In 2023, OTP Bank achieved a net profit of HUF 1.1 trillion. OTP Bank’s profitability has fluctuated in recent years. In 2023, the profitability of OTP Bank strengthened significantly, benefiting from the increase in net profit margin, business expansion, the decline in impairment loss, and the acquisition of NKBM Bank in Slovenia and Ipoteka Bank in Uzbekistan.

4 Capital Adequacy

In recent years, OTP Bank has replenished its capital mainly through profit retention and debt instrument issuance, with the capital staying at a favorable level.

In recent years, OTP Bank has replenished its capital mainly through profit retention and debt instrument issuance. In 2022, OTP Bank made dividends for 2019-2021 with a total amount of HUF 120.2 billion. In 2023, OTP Bank made cash dividends of HUF 84.0 billion. OPT Bank issued USD 650 million, USD 120 million and EUR 7 million subordinated bonds to replenish capital in February, March and December 2023, respectively. At the end of 2023, OTP Bank’s shareholders' equity was HUF 4.1 trillion, of which HUF 28.00 billion was equity and HUF 4.2 trillion was the size of retained earnings and reserves.

In recent years, with the development of the credit business, OTP Bank’s risk-weighted assets continued to grow. Benefiting from its favorable profit retention and capital instrument issuance, OTP Bank’s capital increased year by year. While the capital adequacy ratio was on a downward trend following the rapid business expansion. OTP Bank’s capital level rose and was at an adequate level in 2023, due to favorable profit retention and capital instrument issuance.

Table13 Capital Adequacy

Indicator	End-2021	End-2022	End-2023
Supervisory Capital (HUF Tn)	3.27	3.67	4.48
Tier-1 Capital (HUF Tn)	3.00	3.38	3.95
Core Tier-1 Capital (HUF Tn)	3.00	3.38	3.95
Risk-weighted Assets (HUF Tn)	16.83	20.61	23.70
Risk Assets Ratio (%)	60.58	62.82	59.84
Shareholders' Equity/Total Assets (%)	11.02	10.13	10.34
Capital Adequacy Ratio (%)	19.4	17.8	18.9
Tier-1 Capital Adequacy Ratio (%)	17.8	16.4	16.6
Core Tier-1 Capital Adequacy Ratio (%)	17.8	16.4	16.6

Source: Annual report of OTP Bank

VI. ESG Analysis

OTP Bank puts emphasis on green finance development, does social responsibilities actively, and runs decent corporate governance and internal control mechanisms, with the ESG governance framework and system improving continuously. Generally, OTP Bank performs well in the ESG aspect and indicates no negative impact on its sustainable operation.

OTP Bank has established ESG strategies focusing on the social responsibilities of financial institutions, supporting green transitions to climate change, encouraging responsible behaviors within the Bank and strengthening positive influences. The Bank chases business opportunities and puts emphasis on ESG risk cases, climate management application, society and corporate governance achievement and sets up key performance indicators. OTP Bank is involved in blunting the direct impact from operation to environment, concerning about cost-benefit, improving efficiency in the use of resources, and paying attention to and responding to climate change and its effects. The Bank sets up a green loans framework, increases investment in projects that are beneficial to society and the environment, and helps enterprises cope with the impact of society and climate change. At end-2023, the outstanding amount of OTP Bank's green loans and green bonds totaled around HUF 656 billion.

OTP Bank has incorporated the ESG risk management framework into its lending business to enhance its ability to identify and manage environmental and social risks and to clarify business boundaries. The Bank formulated the Code of Ethics, the Competition Law, the Anti-Corruption Policy and other relevant mechanisms to ensure fairness and transparency in peer competitions and to safeguard the interests of customers. The Bank also held regular training to enhance employees' professionalism and created welfares for employees to fulfil the employer's responsibility. The Bank has a transparent supplier assessment mechanism, maintains a conscientious and responsible attitude, follows the tax policy in its business expansion area and actively fulfils tax obligations.

OTP Bank runs favorable corporate governance, and the internal control and risk management mechanism weighs heavily on daily operations. The Bank continuously optimizes the establishment of ESG top management and executive systems. Moreover, the Bank has factored the ESG plan and performance into salary performance, and developed policies such as the Human Rights Statement, the Taxation Statement, and the Responsible Marketing Policies to refine the ESG mechanism.

VII. External Support

Hungary is a landlocked country located in the CEE region with a territory of 93,000 square kilometers, two thirds of which are plains and the rest hilly. The administrative region is divided into the capital and 19 states, with Budapest as the political, economic and cultural center of the country. Hungary is an important member of international or regional organizations such as the Visegrad Group, the EU, the North Atlantic Treaty Organization, and the Schengen Convention, but is not yet a member of the Eurozone, and its official currency is the Hungarian forint (HUF). Hungary's GDP reached USD 212.3 billion in 2023, with real GDP growth rate falling to -0.9%.

OTP Bank has a leading market share of deposits and loans in Hungary, with 28.3% and 26.2%, respectively, in 2023. OTP Bank has branches in Bulgaria, Croatia and Serbia, where it also has a certain competitive advantage. In addition, OTP Bank plays an important role in the Hungarian financial system, OTP Bank may receive support from the government directly or indirectly when caught in difficulties.

VIII. Conclusion

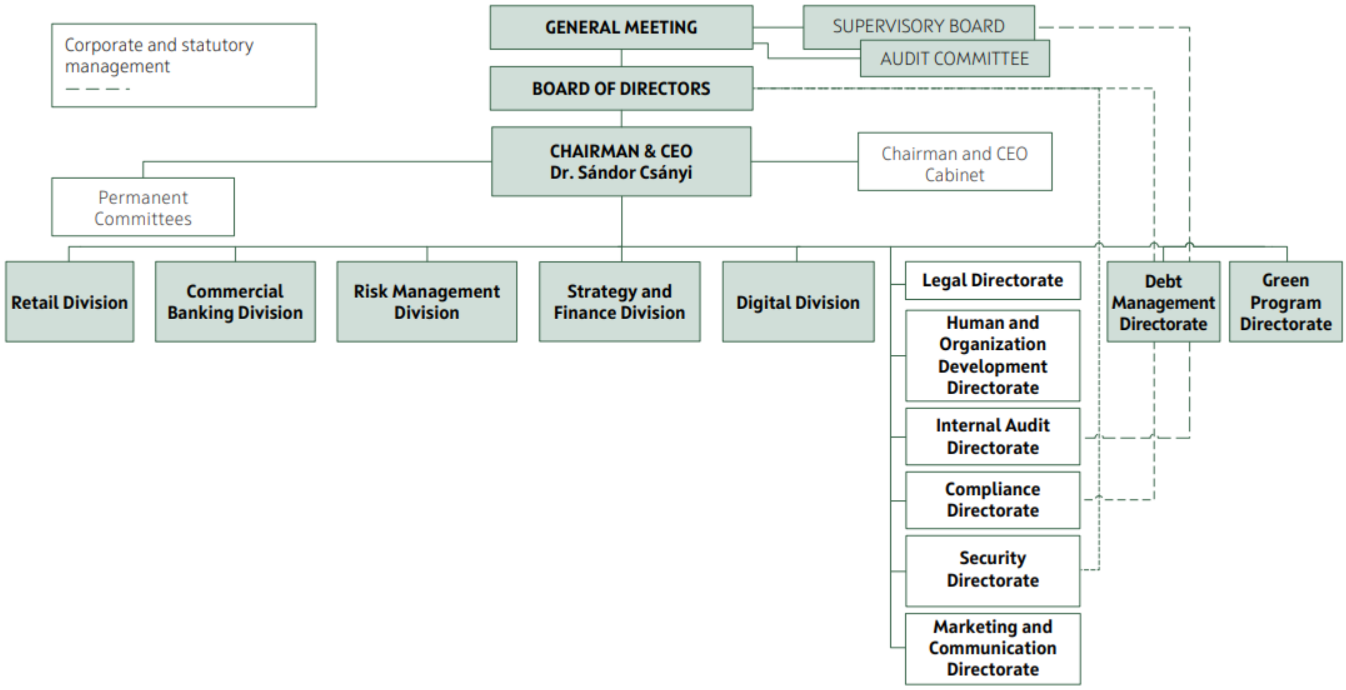
Based on a comprehensive analysis and assessment of OTP Bank's operational risks, financial risks, external support and other aspects, Lianhe Ratings affirmed OTP Banks' AAA long-term issuer credit rating, and stable rating outlook.

Appendix 1 OTP Bank's Shareholding Structure at End-2023

Shareholder	Shares	(%)
Domestic Institutions/Companies	87914205	31.46
Foreign Institutions/Companies	152405042	54.54
Domestic Individual	36217730	12.96
Foreign Individual	1349320	0.48
Employees and Senior Managers	1338715	0.48
Treasury Stock	572746	0.00
Government-Owned Enterprises	139036	0.05
International Development Institutions	28603	0.01
Others	34613	0.01
Total	**280000010**	**100.00**

Source: Annual report of OTP Bank

Appendix 2-1 OTP Bank's Corporate Governance Framework by 1 April, 2024



Source: Annual report of OTP Bank

Appendix 2-2 OTP Bank's Significant Subsidiaries at End-2023

Name	Ownership (Direct and Indirect)		Activity
	31/12/2023	31/12/2022	
DSK Bank AD (Bulgaria)	99.92%	99.92%	commercial banking services
OTP Bank JSC (Ukraine)	100.00%	100.00%	commercial banking services
JSC "OTP Bank" (Russia)	97.92%	97.92%	commercial banking services
OTP banka d.d. (Croatia)	100.00%	100.00%	commercial banking services
OTP Bank Romania S.A. (Romania)	100.00%	100.00%	commercial banking services
OTP banka Srbija a.d. Novi Sad (Serbia)	100.00%	100.00%	commercial banking services
Crnogorska komercijalna banka a.d. (Montenegro)	100.00%	100.00%	commercial banking services
Banka OTP Albania SH.A. (Albania)	100.00%	100.00%	commercial banking services
OTP Bank S.A. (Moldova)	98.26%	98.26%	commercial banking services
SKB Banka d.d. Ljubljana (Slovenia)	100.00%	100.00%	commercial banking services
Nova Kreditna Banka Maribor d.d. (Slovenia)	100.00%	-	commercial banking services
JSCMB 'Ipoteka Bank' (Uzbekistan)	79.58%	-	commercial banking services
OTP Financing Malta Company Ltd. (Malta)	100.00%	100.00%	refinancing activities
OTP Holding Ltd. (Cyprus)	100.00%	100.00%	refinancing activities
OTP Factoring Ltd.	100.00%	100.00%	work-out
OTP Mortgage Bank Ltd.	100.00%	100.00%	mortgage lending
OTP Real Estate Ltd.	100.00%	100.00%	real estate management and development
Merkantil Bank Ltd.	100.00%	100.00%	finance lease
OTP Building Society Ltd.	100.00%	100.00%	housing savings and loan
OTP Fund Management Ltd.	100.00%	100.00%	fund management
Bank Center No. 1. Ltd.	100.00%	100.00%	real estate lease
Inga Kettő Ltd.	100.00%	100.00%	property management
OTP Funds Servicing and Consulting Ltd.	100.00%	100.00%	fund services
OTP Real Estate Leasing Ltd.	100.00%	100.00%	real estate leasing

Source: Annual report of OTP Bank

Appendix 3 Calculation Formulas of Main Financial indicators

Indicators	Calculation Formulas
Cash Assets	Cash+ Deposit in the Central Bank
Interbank Assets	Due from Placements with Banks and Other Financial Institutions + Lendings to Banks and Other Financial Institutions + Redemptory Monetary Capital for Sale
Market Fund	Due to Placements with Banks and Other Financial Institutions + Borrowings from Banks and Other Financial Institutions + Financial Assets Sold for Repurchase + Negotiable certificate of deposit +Bonds
Investment Assets	Financial Derivatives +Tradable Assets + Investment on Bonds+ Other Investment on Bonds + Other Equity Instruments Investment +Investment Property+ Long-term Investment on Stocks +Others
Single Largest Client Loan Ratio	Single Largest Client Loan Balance/Net Capital×100%
Top 10 Clients Loans Ratio	Top 10 Clients Loans Balance/Net Capital×100%
NPL Ratio	NPL Balance/Total Loans Balance×100%
Loss Provision Ratio	Loss Provision Balance/Total Loans Balance×100%
Provision Coverage Ratio	Loss Provision Balance / NPL Balance×100%
Interest Sensitivity	Change in Net Interest Income Due to Interest Rates /Net Interest Income×100%
Excess Reserve Ratio	(Cash on Hand + Excess reserves)/Deposit Balance×100%
Current Ratio	Current Assets/Current Liabilities×100%
Net Stable Fund Ratio	Available Stable Fund/Stable Fund Required for Operation×100%
Liquidity Coverage Ratio	(Current Assets /Net Outflows of Fund in 30 Days)×100%
Liquidity Matching Ratio	Weighted Fund Resources/ Weighted Fund Operation×100%
High-quality Current Assets Adequacy Ratio	High-quality Current Assets/Short-term Net Outflows of Cash×100%
Loans/Deposits Ratio	Loans Balance/Deposits Balance×100%
Risk Assets Ratio	Risk Weighted Assets Balance/Total Assets×100%
Capital Adequacy Ratio	Net Capital/Risk Weighted Assets×100%
Core Capital Adequacy Ratio	Net Core Capital/Risk Weighted Assets×100%
Tier-1 Core Capital Adequacy Ratio	Net Tier-1 Core Capital/Risk Weighted Assets×100%
Tier-1 Capital Adequacy Ratio	Net Tier-1 Capital/ Risk Weighted Assets×100%
Leverage Ratio	(Tier-1 Capital- Tier-1 Capital Deduction)/Adjusted Balance of On- and Off-Sheet Assets×100%
Net Interest Spread	(Interest Income/Interest-bearing Assets- Interest Expense/Interest-bearing Liabilities)×100%
Net Interest Margin	(Gross Interest Income - Gross Interest Expense)/Interest-bearing Assets
Cost/Income Ratio	Operation and Administrative Expense/Revenue×100%
Return on Assets before Provision	Pre-Provision Operating Profit/[(Total Assets at The End of Period + Total Assets at The Beginning of Period)/2] ×100%
Average ROA	Net Profit/[(Total Assets at The End of Period + Total Assets at The Beginning of Period)/2] ×100%
Average ROE	Net Profit/[(Total Net Assets at The End of Period + Total Net Assets at The Beginning of Period)/2]×100%

Appendix 4-1 Setting and Definitions of Long-term Issuer Credit Ratings

Lianhe Ratings classified long-term issuer credit ratings into three levels and nine categories, which are AAA, AA, A, BBB, BB, B, CCC, CC, C. Apart from AAA, CCC and below, all credit ratings may be modified by using the symbol "+" or "-", to show relative standing within the major rating categories.

All credit ratings represent the relative rankings of the rated entities in terms of probability of default. While higher (lower) credit ratings indicate higher (lower) probability of default, the possibility of a default by entities with higher credit ratings can not be excluded.

All credit ratings are defined in the table below:

Ratings	Definitions
AAA	Extremely strong capacity for payment of financial commitment; highly unlikely to be affected by adverse economic conditions; the lowest probability of default.
AA	Very strong capacity for payment of financial commitment; not significantly vulnerable to adverse economic conditions; very low probability of default.
A	Strong capacity for payment of financial commitment; vulnerable to adverse economic conditions; low probability of default.
BBB	Adequate capacity for payment of financial commitment; more likely to be impaired by adverse economic conditions; moderate probability of default.
BB	Weak capacity for payment of financial commitment; significantly vulnerable to adverse economic conditions; high probability of default.
B	Capacity for payment of financial commitment is largely dependent on favorable economic conditions; very high probability of default.
CCC	Capacity for payment of financial commitment is extremely dependent on favorable economic conditions; extremely high probability of default.
CC	Limited protection in the event of bankruptcy or reorganization; highly vulnerable to nonpayment.
C	Nonpayment has occurred.

Appendix 4-2 Setting and Definitions of Rating Outlooks

Rating Outlook assigned by Lianhe Ratings is an opinion regarding the likely rating direction over the next year. Rating Outlooks are defined as follows:

Outlooks	Definitions
Positive	More credit-positive factors exist, indicating a high likelihood of a rating upgrade over the next year
Stable	Stable credit profile with a low likelihood of a rating change over the next year
Negative	More credit-negative factors exist, indicating a high likelihood of a rating downgrade over the next year
Developing	Conditions and implications of a special event are largely unclear, indicating that a rating may be raised, lowered or maintained over the next year

Surveillance Arrangement

China Lianhe Credit Rating Co., Ltd. ("Lianhe Ratings") will carry out regular or ad hoc surveillances during the validity period of the rating in accordance with relevant regulatory laws and regulations and relevant compliance requirements of Lianhe Ratings.

OTP Bank Plc. (the "Bank") shall provide relevant materials in a timely manner in accordance with the requirements of Lianhe Ratings. Lianhe Ratings will complete and release the surveillance credit reports in accordance with the requirements of relevant regulatory policies and the entrusted rating contract within the validity period of the rating.

The Bank shall promptly notify Lianhe Ratings and provide the relevant information, if there are significant changes or events that may have an apparent impact on the credit status of the Bank.

Lianhe Ratings will pay close attention to the operations of the Banks. In case of major changes to the Bank, or any event that may have material impact on the credit status of the Bank, Lianhe Ratings will carry out necessary investigation on the relevant events, conduct timely analysis on them, and affirm or adjust the credit rating results based on its investigation and analysis on such events.

If the Bank fails to provide relevant information required for surveillances in a timely manner, and subsequently prevents Lianhe Ratings from making decisions about of the credit rating changes for the Bank, Lianhe Ratings has the right to withdraw the ratings.