PRODUCT INFORMATION

INTEREST RATE SWAP INSTRUMENT

GLOBAL MARKETS DIRECTORATE OF OTP BANK PLC.

August 01, 2023

Please read this Product Information carefully before concluding a contract on Interest Rate swaps. For further information, please contact our staff.

These documents in English language to the person concerned shall be for information purposes only.
OTP Bank Plc shall fulfil its obligations imposed by the legal regulations or requirement of supervisory authority by the documents in Hungarian language.
In the event of any discrepancy between the English language and Hungarian language versions, the Hungarian language version shall prevail.

TABLE OF CONTENTS

1. How interest rate swap (IRS) transactions work

An interest rate swap ('IRS' or 'product') is an agreement between the customer and OTP Bank Plc. (the 'Bank') to periodically exchange an interest amount pre-specified on the basis of the notional value of the transaction. The transaction is a complex derivate financial instrument concluded between the Bank and the customer outside the regulated market (OTC).

Features

- An interest rate swap can be used to fix a floating interest rate, or to float a fixed interest rate, or to swap different reference rates
- Minimum contract amount is HUF 100 million or foreign currency equivalent
- The typical maturity of the transaction is 1 to 20 years
- Under the interest rate swap transaction, the counterparties settle their obligations (i.e. the two legs of the interest rate swap) on a net basis

Typical customer base

- Interest rate swaps for hedging purposes can provide efficient assistance in interest rate, credit and liquidity risk management by mitigating or eliminating potential losses from adverse shifts in interest rates.
- Interest rate swaps for speculative purposes are typically concluded by investors with a definite expectation about future developments in the yield curve.

2. Risks of interest rate swap transactions

Market value of the product

All interest swap positions have a market value. The price of the interest rate swap during its term is determined by changes in the underlying interest rates, market yields for the given maturity, the volatility of such market yields, the term to maturity and the liquidity of the markets. The higher the fluctuation (volatility) of the underlying interest rates, the riskier the transaction is considered.

Balance sheet effect

As the market value of the interest rate swap depends on interest rate and price developments, the market value of the transaction may continuously change during the term of the contract. It is possible that the customer must recognise a highly negative market value on his balance sheet during the term of the transaction. In addition, the closing of an interest rate swap before expiry could result in a significant loss for the customer. Potential loss on the product is unlimited.

Additional leverage

The product is a leveraged product. The customer is not required to provide the total strike amount at the time of the transaction in order to conclude an interest rate swap transaction; it is sufficient to deposit a pre-determined percentage of the transaction value as collateral. Leveraged trading allows customers to acquire transactions and positions of a higher amount than their invested capital. Leveraged trading has significant risks, including the risk of losing the entire capital and even losses of up to several times the capital invested.

Additional cost of capital, guaranteeing coverage

The Bank applies limits and requests the customer to provide a security deposit against the risks associated with the interest rate swap transaction. The customer is required to provide the security deposit in the form specified by the Bank (cash or security collateral). Normally, the collateral (i.e. security deposit) requirement for the product is a pre-determined percentage of the notional value of the interest rate swap transaction, which may be unilaterally modified by the Bank. In case of an unfavourable shift in the interest rates or exchange rates, the Bank may require additional collateral (additional security deposit). The customer is required to provide the additional collateral in accordance with the contractual terms, and any losses sustained as a result – which could be substantial – will be borne exclusively by the customer. The Bank determines the additional margin requirement of the interest rate swap based on the current fair market value of the swap. The collateral (i.e. the security deposit) may be released if the reason for its blocking has ceased to exist, at the express request of the Customer, on the condition that the Bank’s right concerning the security deposit under the Global Markets Master Agreement with the Customer shall continue to apply to the Customer’s financial instruments and funds over which the Customer has free disposal.

Possibility to unilaterally close a position (forced liquidation)

The Bank requires collateral for the interest rate swap on the basis of the current fair market value of the swap. If, for any reason, the collateral pledged by the customer is deemed insufficient by the Bank to cover the financial risk of the positions opened and held by the customer, the Bank may require the customer to provide additional collateral. Upon the Bank’s call, the customer is required to provide the additional collateral in accordance with the contractual terms, and any resulting losses will be borne exclusively by the customer. If the customer fails to provide the required additional margin in accordance with the contractual terms despite being called upon by the Bank, the Bank may decide to liquidate the position, which could involve substantial losses for the customer. Liquidation costs, potential losses and the consequences of the failure of liquidation shall be borne exclusively by the customer.

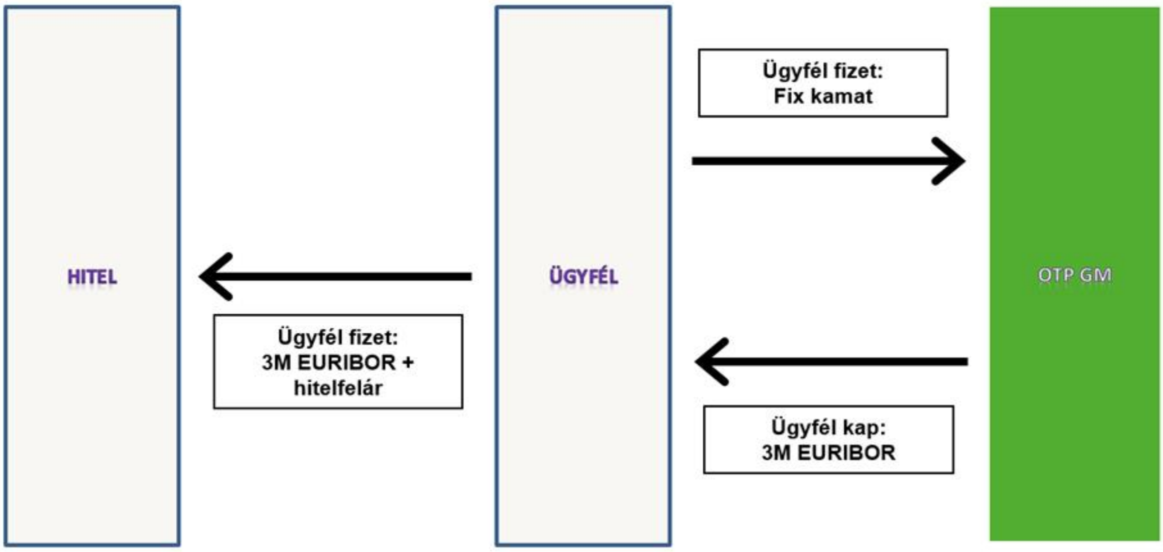
Settlement obligation

Based on the terms and conditions fixed at the time of the conclusion of the interest rate swap, the customer is obliged to meet its payment obligations arising from the transaction on the relevant interest payment dates. If the customer’s liabilities arising from the interest swap transaction are higher than the receivables, s/he will sustain a loss on the transaction.

3. Examples for interest swap transactions

Initial situation

Hedging of interest rate risk on variable rate loans



- The customer took out a loan of EUR 5 million with a floating interest rate and a maturity of 10 years. Interest is paid at the end of the interest period on a quarterly basis, while principal payment is due in a lump sum at maturity. The annual interest rate of the loan is 3-month EURIBOR + 50 bps. With a view to eliminating the risk resulting from the fluctuation of the benchmark EUR interest rate, the customer wishes to fix quarterly interest payment liabilities for the remaining 2-year term of the loan. The customer expects the 3-month EURIBOR to increase over the next two years.

The customer enters into a 2-year interest rate swap (IRS) transaction.

PARAMETERS OF THE INTEREST RATE SWAP TRANSACTION	
Type	Interest Rate Swap
Maturity	2 years
Principal and currency	EUR 5 million
Customer pays	Fixed interest rate
Customer receives	Variable interest rate 3-month Euribor
3-month EURIBOR	3.27%
EUR IRS price (EUR IRS fixed rate)	3.40%
Interest calculation convention	ACT/360 (actual number of days/360)
Interest payment date	at the end of each quarter
Settlement of interest payments	at the end of each quarter, on a net basis
Amortisation	none

The product is presented according to different 3-month EURIBOR scenarios:

1. The 3-month EURIBOR develops as expected, i.e. the benchmark interest rate increases during the term.
2. The 3-month EURIBOR decreases during the term.

If the customer concludes an IRS with a maturity of two years, where a fixed interest rate is paid in the interest rate swap transaction, and a floating interest is paid in exchange; then, if there is an increase in the benchmark interest rate, the customer can realise a profit at the closure of the position. If, however, the benchmark interest rate drops, the customer can incur a loss on the interest rate swap transaction.

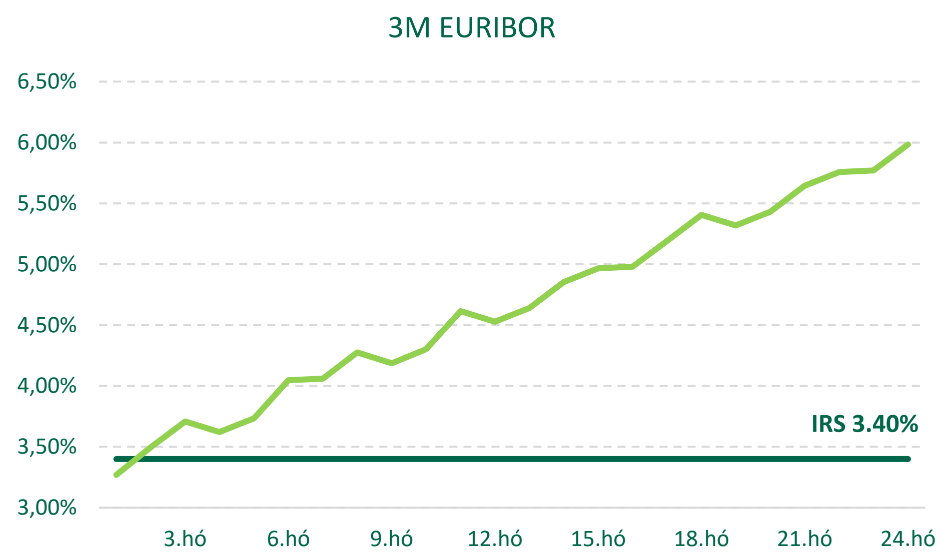
- **Example of a security deposit requirement:**

The Bank's Global Markets customers are required to provide a security deposit in order to take interest rate swap positions against the Bank; in other words, they must provide sufficient collateral (i.e. security deposit) to meet the initial margin requirement upon the execution of the swap contract. The 'initial margin requirement' means the possible loss arising from interest rate or price movements during the period deemed critical by the Bank, which may change during the term of the contract as a result of changes in market conditions.

For instance, if the basic security deposit requirement of the product is 10 per cent of the notional value, the collateral requirement (i.e. the need for a security deposit) upon the conclusion of the contract will be:
5,000,000 * 0.1 = EUR 500,000
The customer is required to provide additional security deposit in the event of an adverse movement in market interest rates/prices. If the interest rate/price moves in an adverse direction, the Bank may require additional margin based on the current fair market value of the interest rate swap, which may significantly increase the collateral requirement. If the customer fails to provide the required additional margin in accordance with the contractual terms despite being called upon by the Bank, the Bank may decide to liquidate the position, which could involve substantial losses for the customer.

1. The 3-month EURIBOR rate changes as expected

Rising reference rate



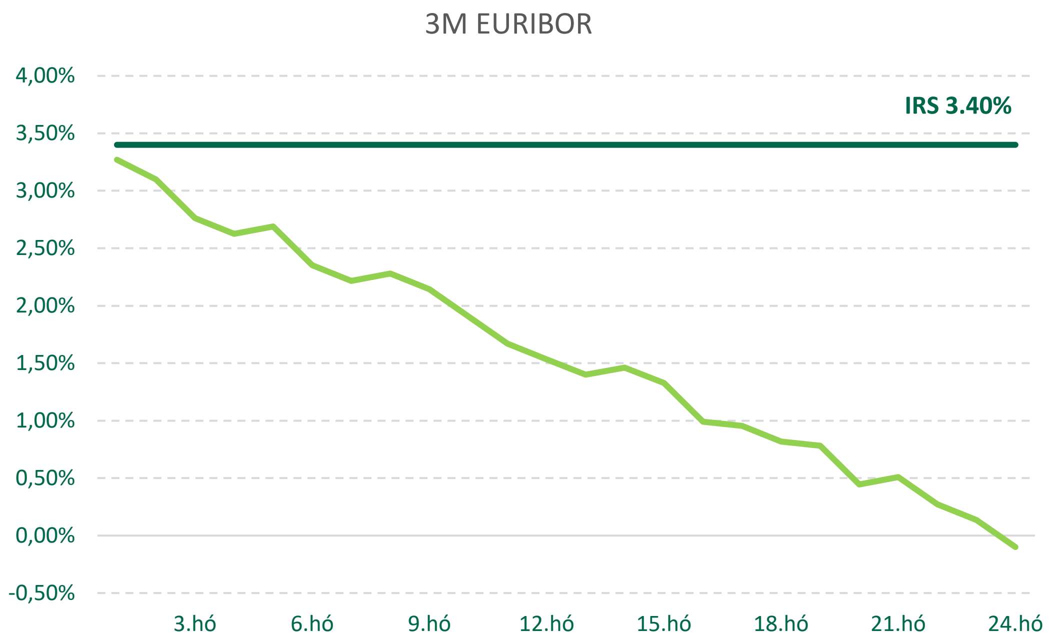
- **Example of an interest rate swap (IRS) settlement:**

IRS fixed leg at the end of each quarter:
3.40% * EUR 5,000,000 * 0.25 = EUR 42,500, paid by the customer to the bank.

The EUR IRS variable rate at the end of Q1:
3 months Euribor at the beginning of Q1* EUR 5,000,000 * 0.25, paid by the bank to the customer.

DATE	3-month EURIBOR at the beginning of Quarter i	IRS FLOATING LEG	IRS FIXED LEG	CUSTOMER RECEIVES (+) / CUSTOMER PAYS (-) at the end of Quarter i
Q1	3.27%	EUR 40,875	EUR 42,500	EUR -1,625
Q2	3.62%	EUR 42,250	EUR 42,500	EUR +2,750
…	…	…	…	…
Q7	5.32%	EUR 66,500	EUR 42,500	EUR +24,000
Q8	5.76%	EUR 72,000	EUR 42,500	EUR +29,500

2. The 3-month EURIBOR rate decreases



- **Example of an interest rate swap (IRS) settlement:**

IRS fixed leg at the end of each quarter:
3.40% * EUR 5,000,000 * 0.25 = EUR 42,500 paid by the customer to the bank.

IRS floating leg at the end of Quarter i:
3 months Euribor at the beginning of Q1* EUR 5,000,000 * 0.25, paid by the bank to the customer.

DATE	3-month EURIBOR at the beginning of Quarter i	IRS FLOATING LEG	IRS FIXED LEG	CUSTOMER RECEIVES (+) / CUSTOMER PAYS (-) at the end of Quarter i
Q1	3.27%	EUR 40,875	EUR 42,500	EUR -1,625
Q2	2.63%	EUR 32,875	EUR 42,500	EUR -9,625
…	…	…	…	…
Q7	0.78%	EUR 9,750	EUR 42,500	EUR -32,750
Q8	0.27%	EUR 3,375	EUR 42,500	EUR -39,125

- **Example for the Collateralisation Requirement:**

The customer is required to provide additional security deposit in the event of an adverse movement in market interest rates/prices.

If the interest rate/price moves in an adverse direction, the Bank may require additional margin based on the current fair market value of the interest rate swap, which may significantly increase the collateral requirement. For instance, if the additional collateral requirement is 40 per cent of the notional value, the collateral requirement will increase to:
5,000,000 * 0.1 + 5,000,000 * 0.4 = EUR 2,500,000.

If the customer fails to provide the required additional margin in accordance with the contractual terms despite being called upon by the Bank, the Bank may decide to liquidate the position, which could involve substantial losses for the customer.

A customer with a long IRS position, who pays a fixed interest rate to the bank and gets a variable interest rate, will face a higher risk if the benchmark interest rate drops. The above calculations are based on a one-time change in the interest rate due to market fluctuations, and do not imply that there is a maximum limit to the collateral requirement or to the potential capital loss on the transaction.

4. Closing the interest rate swap

The customer is entitled to initiate the closing of any interest rate swap. The settlement of the result from the closure of an interest rate swap depends on the current market value of the transaction. By closing the position, the customer realises a result (profit or loss), which is settled at the latest on the second banking business day following the closing date. At the time of the closing event, the Bank is the calculating party and therefore the Bank may at its discretion determine the rules and calculations to be applied and followed when closing an interest rate swap, in particular the amounts to be paid by the customer or the Bank.

Upon closing the transaction, the liability of the parties to pay interest for the remaining term ends. The collateral deposited at the time of the conclusion of the transaction is released at the express request of the customer after the settlement of the closing of the interest rate swap.

Example of closing an IRS at the end of Q4:

For example, in the IRS example above, if the transaction is closed at the end of Q4, when the net present value of the remaining cash flow elements determined by the bank is EUR -23,250, the customer will pay this amount to the bank at the closing of the transaction.

5. Summary of the advantages and disadvantages of interest rate swaps

Main advantages of the transaction

- Interest rate swaps can provide a predictable cash flow in interest, credit or liquidity management activities.
- The hedging of interest rate risk makes financial planning more transparent.
- It can protect the customer against an adverse shift in the underlying yield curve, regardless of the extent if that change.
- Upon the customer's request, an interest rate swap position can be closed by an offsetting contract during the term.

Main risks of the transaction

- Under the swap contract, the customer undertakes an obligation, i.e. s/he must settle with the Bank even if the interest rate is lower/higher than the fixed interest rate, which could involve a substantial loss.
- The market value of an interest rate swap can change significantly as yield curves shift.
- If the customer closes the position during the term, depending on the prevailing market conditions, there is a risk that s/he may lose all of the capital and may even incur significant losses of up to several times the capital invested.
- If, for any reason, the collateral (i.e. security deposit) provided by the customer is deemed insufficient by the Bank to cover the financial risk of the positions opened and held by the customer, the Bank may require the customer to provide additional coverage (i.e. security deposit), which may require additional liquidity from the customer. Upon the Bank's call, the customer is required to provide the additional collateral in accordance with the contractual terms, and any resulting losses will be borne exclusively by the customer. If the customer fails to provide the required additional margin in accordance with the contractual terms despite being called upon by the Bank, the Bank may decide to liquidate the position, which could involve substantial losses for the customer. Liquidation costs, potential capital losses and the

consequences of the failure of liquidation shall be borne exclusively by the customer.

- If the loan covered by the IRS transaction is paid back ahead of time, this may result in the closing/partial closing of the hedging transaction, which may involve significant closing costs where, at the closing of the interest rate swap, the market value of the transaction is negative.

6. Miscellaneous information

Preconditions for using an interest rate swap

- Concluding the Global Markets Master Agreement, which is annexed to OTP Bank Plc.'s Investment Services Business Regulation, with the Bank and signing any other required documents
- Concluding agreements for payment accounts denominated in the settlement currency of the transaction
- Meeting the security deposit requirements as specified by the Bank
- Availability of the declarations on prior information, as required by Act CXXXVIII of 2007 on Investment Firms and Commodity Dealers, and on the Regulations Governing their Activities ('Act on Investment Firms').

Guarantees linked to interest rate swaps

OTC interest rate swaps are not covered by the National Deposit Insurance Fund (OBA) or the Investor Protection Fund (BEVA).

Fees and charges related to interest rate swaps

The Bank's quotation for interest rate swaps includes all direct fees and charges. It does not include any indirect costs related to obtaining and holding the financial instrument or to the conclusion, maintenance and performance of the contract (e.g. fee, commission, tax, account management).

Tax implications of interest rate swaps

OTP Bank Plc. makes the tax payments prescribed by prevailing regulations for the payment agent, which may involve liabilities of various degrees, depending on the taxation law status of the beneficiary (e.g. tax residency) and the legal title of income earning. In performing its tax payment obligations, OTP Bank Plc. issues a voucher on the payment and, in the case of payments made to private individuals, determines and declares, deducts and pays the tax, and submits data to the tax authority, in accordance with the applicable legal provisions.

OTP Bank Plc. does not offer interest rate swap transactions for private individuals subject to Act CXVII of 1995 on Personal Income Tax.

Therefore, it does not fulfil any paying agent tax liability related to the tax liability of the private individual.

Please note that adequate information regarding the tax treatment or the tax implications may only be provided in consideration of the individual circumstances of each customer and may be subject to change in the future.

Miscellaneous information

For general further information, please refer to OTP Bank Plc.'s Uniform Prior Information, OTP Bank Plc.'s Investment Services Business Regulation (Investment Services Business Regulations), including Annex A, constituting an integral part thereof, the General Terms and Conditions for Global Markets Services, the announcements constituting annexes to the Investment Services Business Regulations, the Global Markets Framework Agreement template and the Fees, the MIFID Customer Information, the EMIR announcement and the announcements and annexes referred to therein, which are available on the website http://www.otpbank.hu. Information may also be obtained at the branches of OTP Bank Plc.

7. Notices and disclaimers

1. This product information is complete with the following documents of OTP Bank Plc. as inseparable annexes hereto:

- Uniform Prior Information Prospectus, individual product information materials and any documents attached thereto along with all referenced business terms and notices;
- Information for Clients on MiFID;
- Announcement on compliance with certain provisions of the EMIR – in respect of investment services;
- OTP Bank Plc.'s Investment Services Business Regulation, including, in particular, the Global Markets General Terms and Conditions, which form an integral part thereof, and the business regulations, announcement and annexes referred to therein, the Global Markets Master Agreement template and any other related documents required,
- General Business Terms and Conditions of OTP Bank Plc. and documents attached thereto along with all referenced notices;
- Prospectuses, base prospectuses, notices, as well as regular and extraordinary announcements published by the issuer or the broker in relation to individual financial instruments.

Please read all of the above documents and any other notices referenced or indicated therein in order to ensure that you can make informed decisions, in full awareness of all information pertaining to the transactions presented in this Product Information. Moreover, before making an informed decision about the use of the investment or the service, please be advised to carefully consider the subject and risk of your investment, the associated fees and charges and the possibility of potential losses, and to obtain information regarding the tax regulations pertaining to the product or the investment. Prices of financial instruments and securities are subject to change. Spot transactions are carried out at the current exchange rate, which may involve a significant capital loss.

2. The publication of this Product Information and its transfer to customers do not constitute an offer, investment advise, tender notice, investment consulting, investment or financial analysis, solicitation for the purchase of any financial instrument, or any other kind of advice on legal, tax, or accounting issues, and the data provided herein are provided for informational purposes, intended solely as the provision of advance information to OTP Bank Plc.'s current and future customers as required by law. The contents of this information document are limited to general information and knowledge and as such, it disregards the unique or specific needs of individual customers and their willingness and ability to take risk; therefore, in case of any questions, please contact our staff or refer to your bank consultant before making an investment decision. Should you require investment advice from OTP Bank Plc. prior to making your decision, please contact our staff with a view to concluding an investment counselling agreement and making the necessary statements (particularly a suitability test).

3. Each investment carries certain risks that can affect the outcome of the investment decision, and investors may not necessarily realise their expected investment goal or recover their cost of the investment; accordingly, some or all of the invested capital may be lost, and may also incur additional payment obligations.

4. The information in this prospectus cannot serve as a reliable basis for conclusions concerning prospective future yields, changes or performance. All charts and calculations are intended to be examples, presenting potential future situations. No information contained herein may be perceived as demonstrations of particular transactions even if client is involved in transactions identical or similar to those contained herein. No estimates may be made based on the data contained herein concerning either the current or the future level of interest rates, or expected interest rate developments. The data contained herein cannot be regarded as information on the changes or performance of particular financial instruments, whether past or future. Any risks associated with the specific, individual decisions made in reliance on the contents of this Product Information shall be borne solely by the investor, and OTP Bank Plc. shall not be held liable either for the success of the investment decisions or the achievement of the goals set by the investor.

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9. The business terms, announcements, lists of conditions and product descriptions containing the detailed terms, conditions and fees of the products and services are available at our branches, and on the Bank's website at www.otpbank.hu.

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