PRODUCT INFORMATION

INFLATION SWAPS TRANSACTIONS

GLOBAL MARKETS DEPARTMENT OF OTP BANK PLC.

May 04, 2020

Please read this Product Information carefully before concluding a contract on inflation swaps transactions. 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.

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1. Description of inflation swap transactions

An inflation swap is an agreement between the customer and OTP Bank Plc. (hereinafter: the Bank), under which a variable liability calculated on the basis of the nominal transaction value and pegged to the inflation index specified in the contractual terms is swapped by one of the parties for a liability bearing fixed interest. The transaction is a complex, derivate financial transaction between the Bank and the customer outside the regulated market (OTC).

Features

- The underlying instruments eligible for the variable leg are the inflation indices if the euro area, the US and the UK.
- Settlement may take place on a zero coupon or regular basis.
- Transactions typically mature in 2 to 5 years.
- In an inflation swap the counterparties settle their obligations (i.e. the two legs of the swap) in net terms.

Typical customer base

- Inflation swaps for hedging purposes can provide efficient assistance in mitigating, and possibly eliminating, potential losses from unfavourable shifts in the price level.
- Inflation swaps for speculative purposes are typically concluded by investors with specific expectations for future developments of inflation.

2. Risks in inflation swaps

Market value of the instrument

All inflation swap positions have a market value. The price of the swap is determined by changes in the underlying inflation indices, market yields for the given maturity, the volatility of such market yields, and the term to maturity. The higher the fluctuation (volatility) of the underlying indices, the riskier the investment.

Balance sheet effect

As the market value of the inflation swap depends on price developments, the market value of the transaction can change continuously during the term of the contract. It is possible that the customer will recognise a highly negative market value on his balance sheet during the term of the transaction. In addition, early closure of the position may result in a significant loss for the customer. While the profit achievable on the product is limited, the extent of potential loss is unlimited.

Additional leverage

The product is leveraged. The customer does not need to provide the total principal amount in order to conclude an inflation swap contract; it is enough to deposit a pre-determined percentage of the transaction value as collateral. Market movements unfavourable for the customer may exert additional leverage effects, potentially leading to significant losses.

Additional cost of capital, margining

The Bank applies limits and requests the customer to provide collateral against the risks associated with the inflation swap transaction. The customer is required to post collateral in the form (cash or security collateral) and in the currency specified by the Bank. Normally, the collateral requirement of the instrument is a pre-determined percentage of the nominal value of the inflation swap, which may be modified by the Bank unilaterally. In case of unfavourable rate movements, the Bank may require additional margin. The customer is required to provide the additional margin 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 inflation swap transaction based on the current fair market value of the swap. The collateral may be released as soon as the reason for pledging the collateral ceases to exist.

Possibility of the unilateral liquidation of the position

The Bank requires collateral for the option transaction based on the current fair market value of the inflation 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 additional margin. Upon the Bank's call, the customer is required to provide the additional margin in accordance with the contractual terms, and any losses sustained as a result 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.

Settlement obligation

In accordance with the contractual terms, on the settlement date the customer is required to settle the difference between the two legs of the swap in net terms. If the customer's liabilities arising from the swap are higher than the assets, he will sustain a loss on the transaction.

3. Inflation swaps
Sample transaction

Two starting points – One transaction

- In connection with his production, the customer is planning to purchase a fixed amount of input materials on a quarterly basis over the next two years. The current market price of the commodity is HUF 500 million, which the supplier is set to increase by the rate of inflation. With a view to eliminating the effects of inflation, the customer wishes to fix future acquisition costs.
- The customer expects the Hungarian consumer price index to increase over the next two years.

In both cases, the customer purchases a 2-year inflation swap.

PARAMETERS OF THE INFLATION SWAP TRANSACTION	
Type	Inflation swap
Term	2 years
Nominal value	HUF 500,000,000
Customer pays	Fixed rate of 3.45% per year
Customer receives	Hungarian Consumer Price Index (Bloomberg: HUCPIYY Index)
Settlement	at the end of each quarter

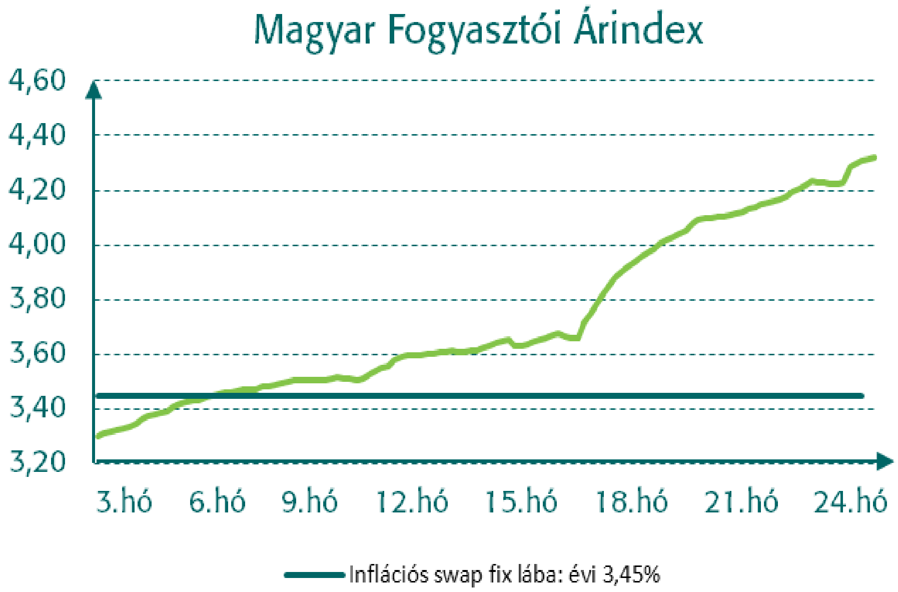
The product is presented according to different inflation index scenarios:

1. The Hungarian consumer price index changes as expected, i.e. it rises during the term.
2. The Hungarian consumer price index falls during the term.
3. There is an extreme rise in the Hungarian consumer price index during the term.
4. There is an extreme fall in the Hungarian consumer price index during the term.

If the customer purchases an inflation swap with a maturity of two years, he pays a fixed interest under the swap, in exchange for which he receives interest calculated on the basis of a variable inflation index; i.e. when the inflation index increases, the customer could realise a profit at the closure of the position. Likewise, should the inflation index drop, the customer could incur a loss.

1. The Hungarian consumer price index changes as expected

Rising inflation index



Magyar Fogyasztói Árindex	Hungarian Consumer Price Index
3.hó	Month 3
Inflációs swap fix lába: évi 3,45%	Inflation swap fixed leg: 3.45% per annum

- **Example for the conventional settlement of the inflation swap:**

Inflation swap fixed leg at the end of each quarter:
3.45% * HUF 500,000,000 * 0.25 = HUF 4,312,500

Inflation swap floating leg at the end of Quarter i:
Hungarian Consumer Price Index at the end of Quarter i–1 * HUF 500,000,000 * 0.25

Time	Consumer Price Index	Inflation swap floating leg	Inflation swap fixed leg	Customer receives (+) / Customer pays
contract date	3.30%			
End of Q1	3.32%	HUF 4,125,000	HUF 4,312,500	HUF –187,500
End of Q2	3.45%	HUF 4,187,500	HUF 4,312,500	HUF –125,000
…	…	…	…	…
End of Q7	4.10%	HUF 4,875,000	HUF 4,312,500	HUF 562,500
End of Q8	4.29%	HUF 5,125,000	HUF 4,312,500	HUF 812,500

- **Example for closing the inflation swap at the end of Q3:**

In the event of early closure, the customer enters into an offsetting contract during the term. For example, if the price of the inflation swap is 3.63% at the end of the Q3, on each settlement date from Q4 onward the customer receives from the Bank:
(3.63% – 3.45%) * HUF 500,000,000 * 0.25 = HUF 225,000.

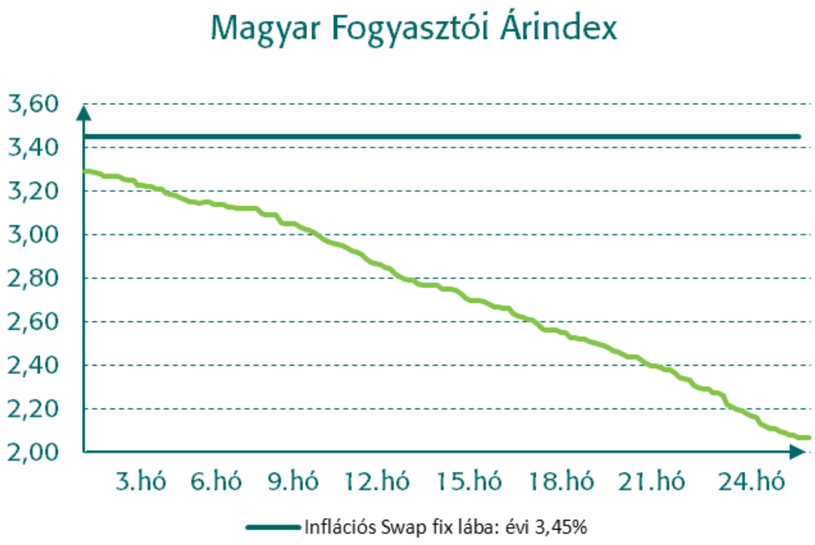
- **Example for the margin requirement:**

Global Markets customers of the Bank are required to post collateral in order to take inflation swap positions against the Bank; in other words, they must provide sufficient collateral for meeting the initial margin requirement upon the execution of the swap contract. The initial margin requirement means the possible loss arising from price movements during the period deemed critical by the Bank, which may change during the term of the contract in response to changes in market conditions.

For instance, if the initial collateral requirement of the instrument is 10 per cent of the nominal value, the collateral requirement at the time of contracting will be:
HUF 500,000,000 * 0.1 = HUF 50,000,000.

The customer will have to provide additional collateral if, due to unfavourable shifts in market prices, the collateral requirement of the customers' transactions that cannot be covered by the pledged collateral exceeds the maximum acceptable limit. In the event of adverse price movements, the Bank may require additional margin based on the current fair market value of the inflation swap transaction, which could increase the collateral requirement significantly. 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.

2. There is a fall in the Hungarian Consumer Price Index



- **Example for the conventional settlement of the inflation swap:**

Inflation swap fixed leg at the end of each quarter:
3.45% * HUF 500,000,000 * 0.25 = HUF 4,312,500

Inflation swap floating leg at the end of Quarter i:
Hungarian Consumer Price Index at the end of Quarter i–1 * HUF 500,000,000 * 0.25

Time	Consumer Price Index	Inflation swap floating leg	Inflation swap fixed leg	Customer receives (+) / pays (–)
contract date	3.30%			
End of Q1	3.20%	HUF 4,125,000	HUF 4,312,500	HUF –187,500
End of Q2	3.15%	HUF 4,000,000	HUF 4,312,500	HUF –312,500
…	…	…	…	…
End of Q7	2.40%	HUF 3,187,500	HUF 4,312,500	HUF –1,125,000
End of Q8	2.20%	HUF 3,000,000	HUF 4,312,500	HUF –1,312,500

- **Example for the margin requirement:**

Global Markets customers of the Bank are required to post collateral in order to take inflation swap positions against the Bank; in other words, they must provide sufficient collateral for meeting the initial margin requirement upon the execution of the swap contract. The initial margin requirement means the possible loss arising from price movements during the period deemed critical by the Bank, which may change during the term of the contract in response to changes in market conditions.

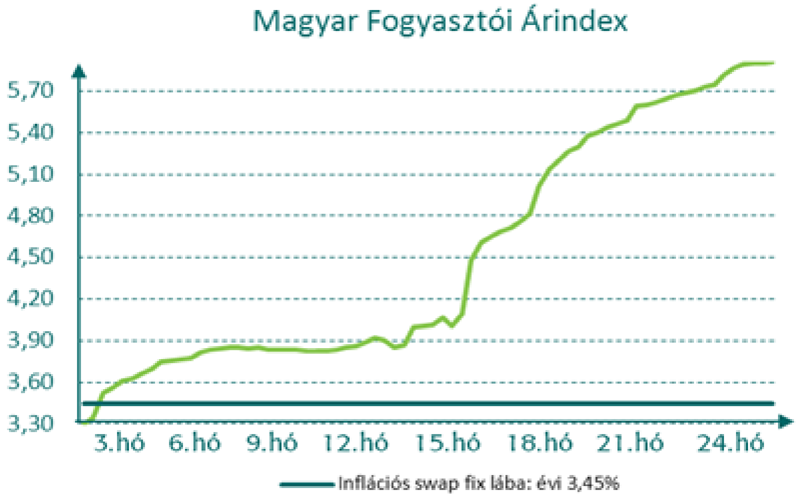
For instance, if the initial collateral requirement of the instrument is 10 per cent of the nominal value, the collateral requirement at the time of contracting will be:
HUF 500,000,000 * 0.1 = HUF 50,000,000.

The customer will have to provide additional collateral if, due to unfavourable shifts in market prices, the collateral requirement of the customers' transactions that cannot be covered by the pledged collateral exceeds the maximum acceptable limit.

In the event of adverse price movements, the Bank may require additional margin based on the current fair market value of the inflation swap transaction, which could increase the collateral requirement significantly. For instance, if the additional margin requirement is 40 per cent of the nominal value, the collateral requirement will be:
HUF 500,000,000 * 0.1 + HUF 500,000,000 * 0.4 = HUF 250,000,000.

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.

3. There is an extreme rise in the Hungarian consumer price index



- **Example for the conventional settlement of the inflation swap:**

Inflation swap fixed leg at the end of each quarter:
3.45% * HUF 500,000,000 * 0.25 = HUF 4,312,500

Inflation swap floating leg at the end of Quarter i:
Hungarian Consumer Price Index at the end of Quarter i–1 * HUF 500,000,000 * 0.25

Time	Consumer Price Index	Inflation swap floating leg	Inflation swap fixed leg	Customer receives (+) / pays (–)
contract date	3.30%			
End of Q1	3.60%	HUF 4,125,000	HUF 4,312,500	HUF –187,500
End of Q2	3.80%	HUF 4,500,000	HUF 4,312,500	HUF 187,500
…	…	…	…	…
End of Q7	5.50%	HUF 6,000,000	HUF 4,312,500	HUF 1,687,500
End of Q8	5.80%	HUF 6,875,000	HUF 4,312,500	HUF 2,562,500

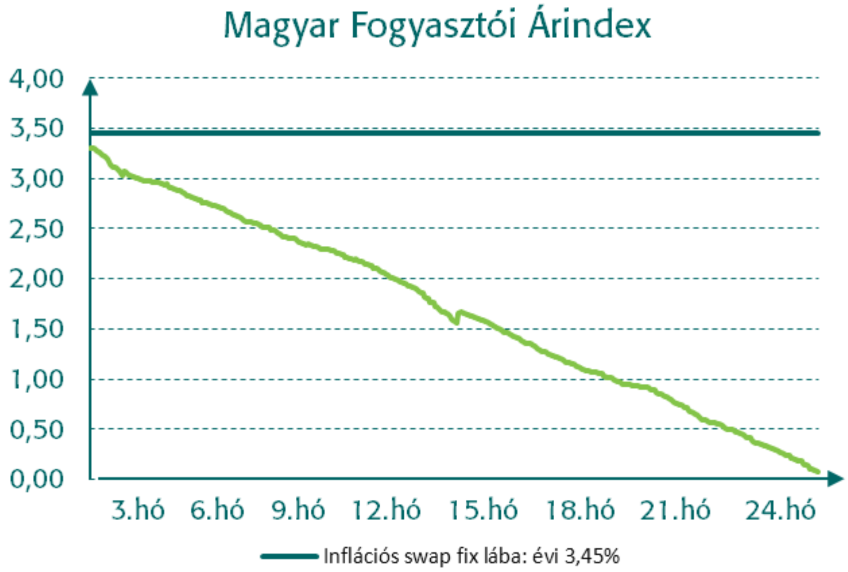
- **Example for the margin requirement:**

Global Markets customers of the Bank are required to post collateral in order to take inflation swap positions against the Bank; in other words, they must provide sufficient collateral for meeting the initial margin requirement upon the execution of the swap contract. The initial margin requirement means the possible loss arising from price movements during the period deemed critical by the Bank, which may change during the term of the contract in response to changes in market conditions.

For instance, if the initial collateral requirement of the instrument is 10 per cent of the nominal value, the collateral requirement at the time of contracting will be:
HUF 500,000,000 * 0.1 = HUF 50,000,000.

The customer will have to provide additional collateral if, due to unfavourable shifts in market prices, the collateral requirement of the customers' transactions that cannot be covered by the pledged collateral exceeds the maximum acceptable limit. In the event of adverse price movements, the Bank may require additional margin based on the current fair market value of the inflation swap transaction, which could increase the collateral requirement significantly. 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.

4. There is an extreme fall in the Hungarian consumer price index



- **Example for the conventional settlement of the inflation swap:**

Inflation swap fixed leg at the end of each quarter:
3.45% * HUF 500,000,000 * 0.25 = HUF 4,312,500

Inflation swap floating leg at the end of Quarter i:
Hungarian Consumer Price Index at the end of Quarter i–1 * HUF 500,000,000 * 0.25

Time	Consumer Price Index	Inflation swap floating leg	Inflation swap fixed leg	Customer receives (+) / Customer pays
contract date	3.30%			
End of Q1	3.00%	HUF 4,125,000	HUF 4,312,500	HUF –187,500
End of Q2	2.80%	HUF 3,750,000	HUF 4,312,500	HUF –562,500
…	…	…	…	…
End of Q7	0.80%	HUF 1,500,000	HUF 4,312,500	HUF –2,812,500
End of Q8	0.35%	HUF 1,000,000	HUF 4,312,500	HUF –3,312,500

- **Example for the margin requirement:**

Global Markets customers of the Bank are required to post collateral in order to take inflation swap positions against the Bank; in other words, they must provide sufficient collateral for meeting the initial margin requirement upon the execution of the swap contract. The initial margin requirement means the possible loss arising from price movements during the period deemed critical by the Bank, which may change during the term of the contract in response to changes in market conditions.

For instance, if the initial collateral requirement of the instrument is 10 per cent of the nominal value, the collateral requirement at the time of contracting will be:
HUF 500,000,000 * 0.1 = HUF 50,000,000.

The customer will have to provide additional collateral if, due to unfavourable shifts in market prices, the collateral requirement of the customers' transactions that cannot be covered by the pledged collateral exceeds the maximum acceptable limit.

In the event of adverse price movements, the Bank may require additional margin based on the current fair market value of the inflation swap transaction, which could increase the collateral requirement significantly. For instance, if the additional margin requirement is 40 per cent of the nominal value, the collateral requirement will be:
HUF 500,000,000 * 0.1 + HUF 500,000,000 * 0.4 = HUF 250,000,000.

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.

From the customer's perspective, a long inflation swap position will carry the greatest risk in the event of an extreme fall in the underlying inflation index. Current estimates are based on a one-off, market stress induced change in the consumer price index, and do not imply a maximum limit either for the collateral requirement or for the potential capital loss of the transaction.

4. Summary of the advantages and disadvantages of inflation swap transactions

Main advantages of the transaction

- In case of favourable market developments, the customer can be protected from any detrimental shifts in the underlying inflation index.
- The customer can typically conclude an inflation swap contract against a low collateral requirement, and control high-value positions with relatively small capital investment.
- Upon the customer’s request, the inflation swap transaction can be closed by an offsetting contract during the term.

Main risks of the transaction

- Under the swap contract the customer undertakes a performance obligation: he must settle with the Bank even if the interest rate proves to be lower/higher than the fixed interest rate, which could involve a substantial capital loss.
- If the customer closes the position with an offsetting contract during the term, depending on the prevailing market conditions, he could incur unlimited losses.
- 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 additional margin. Upon the Bank’s call, the customer is required to provide the additional margin in accordance with the contractual terms, and any losses sustained as a result 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.

5. Miscellaneous information

Prerequisites for access to inflation swap transactions

- Agreeing to the Sales Terms and Conditions of OTP Bank Plc.'s Global Markets Department, concluding the attached Global Markets Framework Agreement, and, for customers subject to EMIR obligations, an ISDA Master Agreement and Credit Support Annex for Variation Margin Agreement with the Bank, and signing any other required documents
- Concluding agreements for payment accounts denominated in the settlement currency of the transaction
- Posting collateral as specified by the Bank
- Providing all data required for obtaining preliminary information pursuant to Act CXXXVIII of 2007 on Investment Firms and Commodity Dealers, and on the Regulations Governing their Activities (hereinafter: Act on Investment Firms), and filling out the fitness/compliance test prescribed by the Act on Investment Firms

Guarantees linked to inflation swap transactions

Coverage available under the National Deposit Insurance Fund (OBA) and the Investor Protection Fund (BEVA) is not applicable to OTC foreign exchange options.

Fees and charges related to inflation swap transactions

The Bank's quotation pertaining to inflation swap transactions 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 inflation swap transactions

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 as a payment agent, OTP Bank Plc. issues a voucher on the payment and, as required by law, calculates, deducts, pays and issues a tax return on the tax liability on the payment, and fulfils its reporting obligation with respect to the payment toward the tax authority. 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 further general information please refer to OTP Bank Plc. Uniform Prior Information, the Sales Terms and Conditions of the Global Markets Department of OTP Bank Plc. and the announcements attached thereto, the Global Markets Framework Agreement and the List of Conditions, the Investment Services Division Business Regulations, the Information for Clients on MiFID, the General Information on Short Selling, the EMIR Announcement and any other notices referenced therein as well as Annexes thereto, all of which are accessible at the Bank’s website at http://www.otpbank.hu or are available upon request at the branches of OTP Bank Plc.

6. Notices and disclaimers

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

- Preliminary Announcement on certain Global Markets services rendered by at the Global Markets Department of OTP Bank Plc.; individual product information materials and any documents attached thereto along with all referenced business terms and notices;
- Uniform Prior Information;
- Information for Clients on MiFID;
- General Information on Short Selling;
- Announcement on compliance with certain provisions of the EMIR – in respect of investment services;
- Sales Terms and Conditions of OTP Bank Plc.'s Global Markets Department, documents attached thereto along with all referenced notices, Global Markets Framework Agreement along with any other relevant and required documents;
- Investment Services Division Business Regulations along with any other business terms and notices referenced therein, as well as annexes thereto;
- 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 trades are transacted at the current exchange rate, which may involve a 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. Before entering into a contract for the execution of the transaction contained in this Product Information, OTP Bank Plc. will provide detailed information in respect of the transactions regarding their risks, market position, volatility and any limitations that may apply to market entry, changes in prices, as well as any other information relating to the transactions contained herein.

5. All data and information contained herein are based on estimates and no reliable conclusions may be made concerning prospective future yields, changes or performance in reliance hereon. 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 do not constitute 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.

6. OTP Bank Plc. does not act as a fiduciary for or an advisor to any prospective purchaser of the financial instruments discussed herein. Please note that the conclusion of a given contract and the submission of orders may involve further obligations, such as the collateral requirement of the transaction or the provision of supplementary collateral, and a failure to meet such obligations in accordance with the relevant provisions of the contract could result in losses upon the closure of the position. If the specific financial instrument is traded on the regulated market, please consult the websites of the competent regulated market and clearing house to obtain further information and data on the applicable trading terms and settlement.

7. In regard to individual products and services, please also consider their consequences on tax treatment or any other tax implications, which can only be determined taking effective regulations and the individual circumstances of the customer into account, and may be subject to changes in the future. Unless otherwise indicated, yields presented in this publication are gross, non-annualised yields, which may be reduced by taxes in accordance with the effective regulations.

8. The products and/or services included in this Product Information may not be available to certain individuals, or their access to such products/services may be restricted. OTP Bank Plc.'s preparation and posting of the Product Information on its website and the presentation of information regarding the specific products and/or services may not be construed, under any circumstances, as an intention on OTP Bank Plc.'s part to make available information pertaining to the products and/or services contained in the Product Information for persons in respect of which some country or another competent state bans or restricts the use, purchase or advertising of the product and/or service.

9. This document has been prepared based on information available to OTP Bank Plc. at the date of preparation. Although this Product Information was prepared in good faith from sources that OTP Bank Plc. believes to be reliable, the Bank does not represent or warrant their accuracy and the data thus obtained may be incomplete or inaccurate.

10. 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, at the Customer Desk while using OTP Bank Plc.'s Global Markets services, and on the Bank's website at www.otpbank.hu.

11. The Bank reserves the right to change the terms contained herein. The contents of this document are subject to change without notice. Please monitor any changes that may be made to this document.

12. OTP Bank Plc. (company registration number: 01-10-041-585; registered seat: H-1051 Budapest, Nádor utca 16; supervisory authority: Magyar Nemzeti Bank – H-1013 Budapest, Krisztina krt. 39; HFSA license numbers: III/41.003-22/2002 and E-III/456/2008).