

# Disclosure by institutions

31 December 2023



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

**OTP Mortgage Bank Ltd.,**

**OTP Building Society Ltd.,**

**Merkantil Bank Ltd.**

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

*(English translation of the original report)*

Budapest, 26 April 2024

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# I. OTP GROUP

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

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

## I.1. Risk management objectives and policies

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

The Risk Strategy (2023-2025) provides a group-level framework, which should address and align with the i) business strategy and ii) support transparent and prudent operation of risk management, iii) the challenges of the volatility and widespread increasing risk, and iv) the governance requirements and enhancements in both credit and non-credit risks, and v) regulatory compliance. It also defines the strategic priorities and programs to ensure effective management of the existing and emerging risk.

The Risk Strategy, in general, summarises

- risk management principles in respect of assuming, measuring, managing, monitoring and mitigating risks, and
- how the principles, objectives, and related initiatives are cascaded down to the subsidiaries.

The Risk Appetite Framework, which is an integral part of the Risk Strategy, defines the following:

- Risk appetite: The aggregate level and types of risk the bank is willing to assume or tolerate, decided in advance and within its risk capacity, to achieve its strategic objectives and business plan.
- Risk Appetite Statement (RAS): The written articulation of the aggregate level and types of risk that the bank will accept, or avoid, in order to achieve its business objectives. It includes – among others – quantitative measures to profitability, capital, credit, market, operational, liquidity and ESG risk. It should also include qualitative statements to address compliance, AML/CFT and Cyber risks.

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

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

The Risk Appetite Statement of 2023, set up on the basis of the Risk Appetite Framework, covers all material risk types of the Banking Group, the risks' target values (limits) and the Risk Appetite Statements. The main features of the limits set up in the Statement are as follows:

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

The Board of Directors and Risk Exposure and Risk Management Committee regularly review the setting of the Group's Risk Appetite Statement and the achievement of the medium-term Risk Strategy.

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

### I.1.1.1. General internal control framework

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

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

**Chart 1: Three lines of defence**

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

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

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

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

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



The core components of the second line of defence:

- risk management
- compliance
- IT and bank security

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

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

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

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

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

### I.1.1.2. Credit risks

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

The independent risk management organizational unit performs the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### I.1.1.3. Market risks

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

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

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

The main principles of market risk management regulation:

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

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

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

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

#### I.1.1.4. Counterparty risks

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

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

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

The Group applies standardized approach for counterparty credit risk (SA-CCR) approach in the measurement of counterparty risk for regulatory reporting purposes.

In order to mitigate the counterparty credit risk, OTP Group strives to enter into netting agreements with its partners and to apply exchange of collaterals to cover risks related to positive fair value. In the case of non-centrally cleared over-the-counter derivative transactions, the Group mitigates its counterparty risk exposure through ISDA master agreements and the related CSA agreements, which are considered as industry standard. In these agreements, OTP Bank strives to impose symmetric conditions and the collateral is pledged and accepted by the counterparties in cash, typically denominated in EUR. In the case of transactions cleared by Central Counterparty (CCP), collateral is provided in accordance with the conditions specified in the relevant business rules.

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

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

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

- The amount of the variation margin in the netting stock for each transaction, credited by the contracting party, is the sum of the value calculated by the Article 11 (2) of Regulation 648/2012/EU, its net value, and all of the variation margins which granted previously.

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

According to Commission Delegated Regulation (EU) 2016/2251 OTP Bank Plc. is in scope of UMR (uncleared margin rules) in terms of initial margin, since the aggregate average notional amount ("AANA") of non-centrally cleared over-the-counter (OTC) derivatives exceeds the AANA threshold (8bIn EUR) predefined by the regulation.

In order to meet the general requirements laid down in Article 14 with regard to applicable initial margin model OTP Bank Plc. adopted the methodology of ISDA Standard Initial Margin Model (SIMM) for calculating the initial margin exposure.

- By way of derogation from Article 2(2), counterparties which are part of different groups may provide in their risk management procedures that initial margin collected is reduced by an amount up to EUR 50 million, which practically means they don't exchange initial margin below that threshold. As a result of that OTP has neither collected nor posted initial margin under Regulation (EU) 2016/2251 until now. At the same time the Bank calculate and monitor the initial margin exposure based on SIMM methodology on daily basis and initiate the set-up of the contractual background and settlement process near below the relevant threshold.

#### I.1.1.5. Operational risk

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

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

Due to the growing importance of responsible banking and the dynamically changing operational environment, including technological development, in the focus of operational risk management there are increased risks, like ICT (e.g. cyber-attacks, data security problems, unauthorised access, etc.), sustainability / ESG risk (Environmental, Social and Governance) and reputational risks. In response to the increasing importance of ICT risks, the Bank has established a separate ICT Risk Department within the Risk Management Division as the second line of defense.

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

- In order for operational risks to be managed, a standardised, easily understood, at time robust framework system must be put in place at group level, covering the definition of



operational risks and the methods of identification, measurement, monitoring, management and mitigation thereof;

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

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

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

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

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

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

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

ORX (Operational Riskdata Exchange Association) data consortium, thus it takes into account losses of the ORX as external data.

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

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

The Bank then adjusts the value of the calculated VaR with the KRI correction factor calculated on the basis of the risk-sensitive Key Risk Indicators.

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

### I.1.2. Credit risk mitigation

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

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

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

In its lending activity OTP Bank uses the following collaterals the most frequently:

- pledge: security deposit, mortgage on immovable and movable property, pledge on receivables;
- guarantee and suretyship.

During the valuation of collaterals accepted by the OTP Bank the basis of the evaluation is the market value or the mortgage lending value which are defined in the appraiser report. In certain cases, depending on the type of collateral, the basis of the evaluation also may be purchased price or other acceptance value as it is defined in internal rules about collateral management.

OTP Bank takes the value of collaterals into account in a reduced value - with a reduction of 0-80% depending on the type of collaterals – during the risk-taking decision. The purpose of this practice is that collaterals to be recorded at such values that reflect the possible pay-off that may be realized during a collateral enforcement procedure.

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

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

of Ireland, Japan, Canada, China, Poland, Latvia, State of New York, Germany, Norway, Italy, Russia, Austria, Romania, Spain, Switzerland, Sweden, Singapore, Slovenia, Turkey and Ukraine, this enables with 70 active counterparties to apply CRR allowed netting rules as a widely admitted application for risk reduction. As a precondition, OTP Bank regularly monitor, whether these netting clause are enforceable or not according to independent legal opinions. Netting reduces exposure from counterparty credit (in case of affected countries) by 60%.

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

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

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

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

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

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

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

The OTP Group regularly participates in EBA stress test. During these stress tests the expected capital position are presented along predefined “baseline” and “adverse” macro scenarios taking into consideration the significant risks of the Group in a 3-year time horizon with a forward-looking aspect. Additional capital requirement can arise if the Bank performs in a bad way. The Bank has taken part in 2023 in the European stress test, with excellent results.

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

## I.2. Information regarding corporate governance system

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

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

| Members of the Board of Directors | Number of directorship (according to CRR Art. 435. paragraph (2)) |               | Members of the Supervisory Board | Number of directorship (according to CRR Art. 435. paragraph (2)) |               |
|-----------------------------------|---|---------------|----------------------------------|---|---------------|
|                                   | outside OTP Group   | in OTP Group* |                                  | outside OTP Group   | in OTP Group* |
| Dr. Sándor CSÁNYI                 | 1   | -             | Tibor TOLNAY                     | -   | -             |
| Tamás ERDEI                       | -   | 1             | Dr. Gábor HORVÁTH                | -   | -             |
| Gabriella BALOGH                  | 2   | -             | Klára BELLA                      | -   | -             |
| Mihály BAUMSTARK                  | 1   | -             | Dr. Tamás GUDRA                  | 3   | -             |
| Péter CSÁNYI                      | 1   | 1             | András MICHNAI                   | -   | -             |
| Dr. István GRESA                  | -   | -             | Olivier Péqueux                  | 8   | -             |
| Antal KOVÁCS                      | -   | 2             |                                  |   |               |
| György NAGY                       | 4   | -             |                                  |   |               |
| Dr. Márton VÁGI                   | -   | -             |                                  |   |               |
| Dr. József VÖRÖS                  | -   | -             |                                  |   |               |
| László WOLF                       | -   | -             |                                  |   |               |

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

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

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

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

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

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

On the basis of the résumés it can be stated that both the Board and the Supervisory Board members own exceptional professional knowledge, experience and track record in their field of

expertise, furthermore, have in-depth proficiency and several years of experience in the management of financial institutions.

## I.2.2. Board members' education data

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

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

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

According to the current practice, when designating members of the management bodies (Board of Directors, Supervisory Board), OTP Bank Plc. considers the existence of professional preparation, the high-level human and leadership competence, the versatile educational background, the widespread business experience and business reputation of the utmost importance, at the same time, it is also highly committed to taking efficient measures in order to

ensure diversity with regard to corporate operation, including the gradual improvement in women's participation rate. For that end, it was also expressed as a goal to have at least one woman member both in the Board of Directors and the Supervisory Board of OTP Bank Plc.

### 1.2.3. Risk management committees

The Risk Exposure and Risk Management Committee is a standing committee established by the Board of Directors with the purpose to support its decision making activity. The Committee is responsible – among others – for giving preliminary opinion on the group level Risk Strategy and monitoring its implementation. In 2023 the Committee held – beside written votes – seven meetings.

Credit and Limit Committee (CLC) is a standing committee, which meets at least on weekly basis (102 times in 2023). Its main function is to approve the proposals of the main lending regulations and the annual Lending Policy to the Board of Directors of OTP Bank. The CLC – in its decision-making power – decides on approval of individual risk assumptions and provides as required proposal to the Board of Directors.

The Group Impairment Committee is a standing committee set up by the Board of Directors. The scope of the Committee's competence includes the adoption of decisions at group level about issues concerning the collective valuation methodology used for provisioning under IFRS 9. In 2023 the Committee held – beside written votes – four meetings.

The Work-out Committee (WOC) is a standing committee, which is responsible for decision-making on OTP Bank's (corporate and retail) exposures under special management; as well as exercising of the right of consent in relation to the special handling of exposures exceeding the agreed limit with respect to foreign subsidiaries, OTP Faktoring Zrt. and its subsidiaries, and Merkantil Bank Zrt. In addition to this WOC is entitled to act as an NPL committee which incorporates the right of the pre-approval of the NPL strategy and the connecting implementation plan, and their yearly revision; furthermore, proposing incentives for the implementation of the NPL strategy. The Committee held – beside written votes – 50 meetings in 2023.

Asset-Liability Committee (ALCO) is a standing committee established by the Board of Directors, which makes decisions on separately non-regulated affairs relating to OTP Bank's highest-level asset-liability management. The Committee's competence includes – among others – issues related to bank-level market risk management, liquidity and liquid asset portfolio management, and capital management. In 2023 the Committee had 22 meetings, and conducted 35 voting processes.

The Group Operational Risk Management Committee (OPRISK Committee) is a standing committee meeting quarterly. It monitors the changes in the operational risk exposure, the operational risk management activity and the business continuity planning. It also makes sure that



both the risk management practices and reporting channels required by the management and prescribed by the law work adequately. In addition to this, the analysis and evaluation of large individual losses place great importance in order to manage operational risk proactively.

Set up by the Board of Directors, the Anti-Money Laundering Committee is a standing committee which, in the event of specific money laundering risks, adopts decisions about the possibility to maintain the concerned business relationship, or to approve its establishment. In 2023 the Committee had three meetings and conducted one voting process.

The ESG Committee is a standing committee set up by the Board of Directors. Its task is to formulate the ESG strategy, plans and policies and support the Bank's governing bodies in performing their ESG duties. In 2023 the Committee held four meetings and conducted one voting process.

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

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

#### I.3.1. Associates which are accounted for using the equity method (proportionally consolidated) for the year ended 31 December 2023

In the OTP Group there is not any associate which is accounted for using the equity method (proportionally consolidated) for the year ended 31 December 2023.

## I.3.2. Not consolidated entities for the year ended 31 December 2023

Chart 4: Not consolidated entities for the year ended 31 December 2023

| Not consolidated in accordance with IFRS <sup>1</sup> |  |
|---|--|
| 1   | Agro-Szalók Ltd.                                   |
| 2   | ÁNT-KER Ltd.                                       |
| 3   | Auctioneer s. r. o.                                |
| 4   | BIG-PIG Ltd.                                       |
| 5   | Dé-Pé Plusz Ltd.                                   |
| 6   | Diákigazolvány Ltd.                                |
| 7   | Dinghy Sport Club Hungary Ltd.                     |
| 8   | FAPEF-PTO Ltd.                                     |
| 9   | Finservice LLC                                     |
| 10  | GM Agrár Ltd.                                      |
| 11  | Govcka Project Company SRL                         |
| 12  | GRELEGER Ltd.                                      |
| 13  | HAGE-INVEST Ltd.                                   |
| 14  | Hello Pay IT and Service Plc.                      |
| 15  | i-gen.hu Ltd                                       |
| 16  | IMKON Sugurta JSC.                                 |
| 17  | Ingatlanvagyon Projekt 14. Ltd.                    |
| 18  | Investment Projekt 1. d.o.o.                       |
| 19  | IPHY GÉNA Ltd.                                     |
| 20  | İpoteka Leasing LLC                                |
| 21  | NÁDÉP Ltd.   |
| 22  | NÁD-GÉP Ltd.                                       |
| 23  | NAGISZ-Növény Ltd.                                 |
| 24  | NAGISZ-TEJ Ltd.                                    |
| 25  | OTP Advisors SRL                                   |
| 26  | OTP Consulting Romania SRL                         |
| 27  | OTP Immobilien Verwertung GmbH.                    |
| 28  | OTP Nedvizhimost OOO                               |
| 29  | OTP Újlakás Hitelközvetítő Ltd.                    |
| 30  | OTP Vendéglátás és Hotelszolgáltatás Szervező Ltd. |
| 31  | Rea Project One Company SRL                        |
| 32  | SC AS Tourism SRL                                  |
| 33  | SC Cefin Real Estate Kappa SRL                     |
| 34  | SIÓVÖLGYE Ltd.                                     |
| 35  | Szajkmenti Gazda limited partnership               |
| 36  | Szekszárdi Liszt Pincészet Ltd.                    |
| 37  | Terményfeltáró Ltd.                                |
| 38  | ÚJBEREK Ltd.                                       |
| 39  | ZA Gamma-Agro Ltd.                                 |
| 40  | Zelena Nektretine d.o.o.                           |
| 41  | ZM-NAGISZ Ltd.                                     |
| Not consolidated in accordance with CRR <sup>2</sup>  |  |

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

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

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

From 2022 the following sanctions/countersanctions and restrictions were imposed which may affect the operation of Ukrainian and Russian subsidiaries:

1. US/EU sanctions: At the time of Disclosure there is no restrictive measures imposed by EU that would prohibit the funding of Joint Stock Company OTP Bank (Russia) by OTP Bank Plc. Furthermore at the time of Disclosure there is no economic sanction imposed by US applicable to the parties that would completely restrict the fulfilment of financing agreements concluded by OTP Bank Plc. and Joint Stock Company OTP Bank (Russia) with each other, prior to the come into force of certain sanctions. The amount of payments resulting from contracts concluded between OTP Bank Plc. and Joint Stock Company OTP Bank (Russia) is not subject to asset freeze measures or there are no sectoral sanctions imposed by EU or US which would generally prohibit the repayment of the capital amount and/or interest provided to Joint Stock Company OTP Bank (Russia).
2. Countersanctions of Russian authorities which may affect Russian subsidiaries:
  - a. Prohibition of (special presidential license required to) transactions with shares of Russian banks owned by persons from unfriendly states has been extended until 31 December 2023, which has direct effect to OTP Bank's ownership rights. Businesses could only possibly be sold at significant discount of fair value, and that the other terms of the sale are also expected to be disadvantageous for the seller.
  - b. Possibility of paying dividend depends on capital adequacy ratios.
  - c. As from 05/03/2022 residents can fulfil their obligations on loans and financial instruments (in the amount of more than RUB 10 million per month) to non-residents from unfriendly states and persons controlled by them only in RUB to special accounts type "C" opened in Russian credit institutions, unless otherwise is permitted by CBR.
  - d. As from 15/10/2022 payments related to a) the reduction of the authorized capital of resident legal entities, b) the liquidation of resident legal entities, c) bankruptcy procedures of resident legal entities, have to be carried out in accordance with the Russian President's Decree No. 95 (using a type "C" account) if these payments are being executed by Russian residents to persons of unfriendly states.
  - e. As from 25/04/2023 temporary company management can be introduced for Russian companies whose owners are from unfriendly states and adverse measures are taken that affect Russian assets in these unfriendly states, or that violate Russia's national, economic or defense-security interests.

f. As from 12/12/2023 Russia has unilaterally suspended its agreements on the avoidance of double taxation with 38 countries, including Hungary.

3. Restrictions in Ukraine: Due to restrictions of National Bank of Ukraine the LLC OTP Leasing (Ukraine) subsidiary is not allowed to convert its cash-flow denominated in UAH to EUR or USD therefore fulfilment of its principal and interest payment obligations towards OTP Bank Plc. is currently not possible in these currencies.

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

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

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

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

## I.3.6. Consolidated entities

Chart 5: Consolidated entities for the year-ended 31 December 2023

| Number | Entity  | Scope of accounting consolidation | Scope of regulatory consolidation | Number | Entity   | Scope of accounting consolidation | Scope of regulatory consolidation |
|--------|---|-----------------------------------|-----------------------------------|--------|--|-----------------------------------|-----------------------------------|
| 1      | OTP Bank Plc.                                     | Yes                               | Yes                               | 63     | OTPHungaro-Project Ltd.                        | Yes                               | No                                |
| 2      | AFP Private Equity Invest Ltd.                    | Yes                               | No                                | 64     | OTPImmobilien Verwertung GmbH.                 | No                                | Yes                               |
| 3      | AGROMAG-PLUSZ Ltd.                                | Yes                               | No                                | 65     | OTPReal Estate Investment Fund Management Ltd. | Yes                               | Yes                               |
| 4      | Air-Invest Ltd.                                   | Yes                               | Yes                               | 66     | OTPReal Estate Ltd.                            | Yes                               | Yes                               |
| 5      | ALEJA FINANCE, FINANCNE IN DRUGE STORI            | Yes                               | Yes                               | 67     | OTPIngatlankezelő Ltd.                         | Yes                               | Yes                               |
| 6      | Aranykalász 1955. Ltd.                            | Yes                               | No                                | 68     | OTPReal Estate Leasing Ltd.                    | Yes                               | Yes                               |
| 7      | ARANYMEZŐ 2001. Ltd.                              | Yes                               | No                                | 69     | OTPIngatlanpont Ltd.                           | Yes                               | No                                |
| 8      | Bajor-Polár Center Real Estate Management Lt      | Yes                               | Yes                               | 70     | OTPIngatlanüzemeltető Ltd.                     | Yes                               | Yes                               |
| 9      | BALANSZ Real Estate Institute Fund                | Yes                               | No                                | 71     | OTPInsurance Broker EOOD                       | Yes                               | Yes                               |
| 10     | BANK CENTER No. 1. Ltd.                           | Yes                               | Yes                               | 72     | OTPIvest d.o.o.                                | Yes                               | Yes                               |
| 11     | Banka OTP Albania SHA                             | Yes                               | Yes                               | 73     | OTPINVEST DRUŠTVO ZA UPRAVLJANJE UCIT          | Yes                               | Yes                               |
| 12     | CL Babér Ltd.                                     | Yes                               | Yes                               | 74     | OTPMortgage Bank Ltd.                          | Yes                               | Yes                               |
| 13     | Club Hotel Füred Szálloda Ltd.                    | Yes                               | No                                | 75     | OTPCard Factory Ltd.                           | Yes                               | Yes                               |
| 14     | CRESCO d.o.o.                                     | Yes                               | Yes                               | 76     | OTPBuiding Society Ltd.                        | Yes                               | Yes                               |
| 15     | Crnogorska Komercijalna Banka a.d.                | Yes                               | Yes                               | 77     | OTPLeasing d.d.                                | Yes                               | Yes                               |
| 16     | DSK Asset Management EAD                          | Yes                               | Yes                               | 78     | OTPLeasing EOOD                                | Yes                               | Yes                               |
| 17     | DSK Bank EAD                                      | Yes                               | Yes                               | 79     | OTPLeasing Romania IFN S.A.                    | Yes                               | Yes                               |
| 18     | DSK DOM EAD                                       | Yes                               | Yes                               | 80     | OTPLeasing Srbija d.o.o. Beograd               | Yes                               | Yes                               |
| 19     | DSK Leasing AD                                    | Yes                               | Yes                               | 81     | OTPLizing d.o.o.                               | Yes                               | Yes                               |
| 20     | DSK Ventures EAD                                  | Yes                               | Yes                               | 82     | OTPLuxembourg S.à.r.l.                         | Yes                               | Yes                               |
| 21     | Foglajorvost Online Ltd.                          | Yes                               | No                                | 83     | OTPMérnöki Szolgáltató Ltd.                    | Yes                               | Yes                               |
| 22     | Georg d.o.o                                       | Yes                               | Yes                               | 84     | OTPMobile Service Ltd.                         | Yes                               | Yes                               |
| 23     | Hage hajdúsági Agráripari Ltd.                    | Yes                               | No                                | 85     | OTPNekretreine d.o.o.                          | Yes                               | Yes                               |
| 24     | JN Parkoló Ingatlanhasznosító Ltd.                | Yes                               | No                                | 86     | OTPNekretreine doo Novi Sad                    | Yes                               | Yes                               |
| 25     | JSC "OTP Bank" (Russia)                           | Yes                               | Yes                               | 87     | OTPMRP   | Yes                               | No                                |
| 26     | JSCMB "POTBKA BANK"                               | Yes                               | Yes                               | 88     | OTPOsiguranje A.D.O. Beograd                   | Yes                               | No                                |
| 27     | LLC Alliance Reserve                              | Yes                               | Yes                               | 89     | OTPHome Solutions Llc.                         | Yes                               | No                                |
| 28     | LLC AMC OTP Capital                               | Yes                               | Yes                               | 90     | OTPFunds Servicing and Consulting Ltd.         | Yes                               | Yes                               |
| 29     | LLC MFO "OTP Finance"                             | Yes                               | Yes                               | 91     | OTPPénzügyi Pont Ltd.                          | Yes                               | Yes                               |
| 30     | LLC OTP Leasing                                   | Yes                               | Yes                               | 92     | OTPServices d. o. o.                           | Yes                               | Yes                               |
| 31     | Mendota Invest, Nepremicninska druzba, d.o.o      | Yes                               | No                                | 93     | OTPT Travel Ltd.                               | Yes                               | No                                |
| 32     | Merkantil Bill and Property Investments Bank Ltd. | Yes                               | Yes                               | 94     | OTX-Partner Ltd.                               | Yes                               | No                                |
| 33     | Merkantil Lease Service LLC                       | Yes                               | Yes                               | 95     | POK DSK-Rodina AD                              | Yes                               | Yes                               |
| 34     | MFM Project Investment and Development Ltd.       | Yes                               | No                                | 96     | PortfoLion Digital Ltd.                        | Yes                               | No                                |
| 35     | MONICOMP Ltd.                                     | Yes                               | Yes                               | 97     | PortfoLion Digitális Fund I.                   | Yes                               | No                                |
| 36     | Nádudvari Llc.                                    | Yes                               | No                                | 98     | PortfoLion Digitális Fund II.                  | Yes                               | No                                |
| 37     | NAGISZ Ltd.                                       | Yes                               | No                                | 99     | PortfoLion Venture Capital Fund Management Ltc | Yes                               | Yes                               |
| 38     | "Nemesszalóki Mezőgazdasági" Ltd.                 | Yes                               | No                                | 100    | PortfoLion Partner Fund                        | Yes                               | No                                |
| 39     | NIMO 2002 Ltd.                                    | Yes                               | Yes                               | 101    | PortfoLion Regionális Fund II                  | Yes                               | No                                |
| 40     | NORB Digital Ltd.                                 | Yes                               | No                                | 102    | PortfoLion Zöld Fund                           | Yes                               | No                                |
| 41     | Nova Kreditna Banka Maribor d.d.                  | Yes                               | Yes                               | 103    | RE Four d.o.o., Novi Sad                       | Yes                               | Yes                               |
| 42     | OD Ltd.   | Yes                               | No                                | 104    | Regional Urban Development Fund AD             | Yes                               | Yes                               |
| 43     | OTP Fund Management Ltd.                          | Yes                               | Yes                               | 105    | SC Aloha Buzz SRL u.l.                         | Yes                               | Yes                               |
| 44     | OTP Asset Management SAI S.A.                     | Yes                               | Yes                               | 106    | SC Favo Consultanta SRL                        | Yes                               | Yes                               |
| 45     | OTP Bank JSC (Ukraine)                            | Yes                               | Yes                               | 107    | SC Tezaur Cont SRL u.l.                        | Yes                               | Yes                               |
| 46     | OTP Bank Romania S.A.                             | Yes                               | Yes                               | 108    | SEH-PARTNER Ltd.                               | Yes                               | No                                |
| 47     | OTP Bank S.A.                                     | Yes                               | Yes                               | 109    | Shiw aForce.com Inc.                           | Yes                               | No                                |
| 48     | OTP banka dioničko društvo                        | Yes                               | Yes                               | 110    | SKB Banka d.d. Ljubljana                       | Yes                               | Yes                               |
| 49     | OTP banka Srbija akcionarsko društvo Novi Se      | Yes                               | Yes                               | 111    | SKB Leasing d.o.o.                             | Yes                               | Yes                               |
| 50     | OTP Debt Collection d.o.o. Podgorica              | Yes                               | Yes                               | 112    | SKB Leasing Select s.o.o.                      | Yes                               | Yes                               |
| 51     | OTP Ecosystem Ltd.                                | Yes                               | No                                | 113    | Sky Towers Partner Ltd.                        | Yes                               | No                                |
| 52     | OTP Life Annuity Real Estate Investment Ltd.      | Yes                               | Yes                               | 114    | SPLC Property Management Ltd.                  | Yes                               | Yes                               |
| 53     | OTP Factoring Serbia d.o.o.                       | Yes                               | Yes                               | 115    | SPLC-P Real estate development, Real estate ma | Yes                               | No                                |
| 54     | Project 01 Consulting, s. r. o.                   | Yes                               | Yes                               | 116    | Szajó Mezőgazdasági Plc.                       | Yes                               | No                                |
| 55     | OTP Factoring SRL                                 | Yes                               | Yes                               | 117    | Szelecsárdi Mezőgazdasági Plc.                 | Yes                               | No                                |
| 56     | OTP Factoring Ukraine LLC                         | Yes                               | Yes                               | 118    | Velvin Ventures Ltd.                           | Yes                               | Yes                               |
| 57     | OTP Factoring Ltd.                                | Yes                               | Yes                               | 119    | ZA Gamma HoldCo Ltd.                           | Yes                               | No                                |
| 58     | OTP Factoring Management Ltd.                     | Yes                               | Yes                               | 120    | ZA Invest Gamma Ltd.                           | Yes                               | No                                |
| 59     | OTP Financing Malta Ltd.                          | Yes                               | Yes                               | 121    | ZA-Invest Béta Ltd.                            | Yes                               | No                                |
| 60     | OTP Financing Solutions B.V.                      | Yes                               | Yes                               | 122    | Za-Invest Delta Ltd.                           | Yes                               | No                                |
| 61     | OTP Holding Ltd.                                  | Yes                               | Yes                               | 123    | ZA-Invest Kappa Ltd.                           | Yes                               | No                                |
| 62     | OTP Holding Malta Ltd.                            | Yes                               | Yes                               |        |  |                                   |                                   |

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

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

Depending on the availability of data, the Bank applies different types of approaches, there are portfolios managed with IRB, portfolios with a macro model approach, and portfolios based on expert parameter estimation. For credit portfolios not involved in the internal model, the Group applies standardized approach.

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

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

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

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

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



## I.5. Credit risk adjustments

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

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

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

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

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

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

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

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



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

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

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

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

The OTP Bank Group distinguishes two types of days past due (hereinafter: DPD) measurement methods: (1) DPD regardless of the overdue amount, (2) default DPD.

In case of DPD regardless of the overdue amount the start date of measuring the delay is the due date when the client fails to fulfil his payment obligation specified in the contract. In case the client performed a repayment in case of its overdue amount partially, the amount paid should be deducted from its oldest overdue credit obligation. The calculation of days past due stops if the delayed amount in which the measurement of the delay has started has been repaid in full. The calculation of days past due should be restarted if the client fails to fulfil its payment obligation.

In case of default DPD the start date of the calculation of the delay is the date on which the customer's past due credit obligation is considered significant, namely the overdue credit obligation arising from the credit contract has exceeded the materiality threshold. The default based past due calculation is ceased if the customer's past due credit obligation falls under the materiality threshold. The default based past due calculation restarts in case the past due credit obligation exceeds the materiality threshold applicable in the relevant segment.

The default status is determined based on default DPD. Default DPD should be used in case of the default identification process only. The Bank uses DPD regardless of the overdue amount in its other processes.

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

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

If the debts are past due more than 90 days and it derives from non-lending type contracts do not qualify as default event. These exposures are not considered to be impaired as the subject of the default examination is those on-balance sheet or off-balance sheet exposures which originate credit risk (i.e. arise from lending-type risk assumption contracts). That is, the debts from non-lending type contracts do not qualify as default event.

Those debt that are past due more than 90 days based on DPD regardless of the overdue amount, but the default DPD is less than 90 days, the default status is not determined automatically as the default DPD is used in the default identification process.

A credit risk exposure shall be considered as restructured:

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

Based on Article 178(3)(d) of the CRR distressed restructuring of a transaction results in the transaction acquiring non-performing forbore status and default status. The conditions for establishing non-performing forbore status are as follows:

- The exposure is defaulted or impaired upon the restructuring; or

- Upon the restructuring measure there is a significant NPV loss compared to the original cash flows, which means:
  - Retail segment (except retail enterprise): such restructuring measure is applied which contains any principal and/or interest and/or fee release or reduction in favor of the client; or
  - Non-retail segment and retail enterprise: if after the restructuring a material NPV loss (1%) can be expected from the exposure (compared to the original cash flow). It is determined in an individual decision whether a material NPV loss exists; or
- A non-performing forbore status exposure once again acquires non-performing status, after having acquired performing forbore status previously, if during the probation period it falls past due over 30 days or it is repeatedly restructured; or
- A performing forbore status exposure becomes defaulted or impaired.

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

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

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

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

The Group member shall measure expected credit losses of a financial asset in a way that reflects:

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

#### **Individual assessment**

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

- The cash flows expected from the financial instruments must be defined, which has to be based on at least two scenarios.
- Valuation and revaluation of collaterals is crucial, discounting the cash-flows from the sale of collaterals is an important part of individual assessment.
- The defined cash flows must be discounted to the present value.
- The impairment of the financial instrument is taking into account the riskiness of cash flows and individual collateralization.
- The individual cash-flow estimation also has to be forward looking, which has to contain the information about the macroeconomic environment and the future of the financial instruments.
- If there is a significant change in the credit risk of a financial asset, the impairment calculation must be reviewed taking into account the new information and risks.

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

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

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

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

Aspects of classification for trading purposes:

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

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

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

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

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

Long-term investments can be classified as it follows:

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

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

**Accounting and valuation methods:**

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

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

I.6.2. Exposures in equities not included in the trading book on 31<sup>st</sup> December 2023

Chart 7: Exposures in equities not included in the trading book according to IFRS on 31st December 2023

| Number | Entity  | Balance sheet value (in HUF mill) | Listed (Exchange o-traded) | Number | Entity  | Balance sheet value (in HUF mill) | Listed (Exchange o-traded) |
|--------|---|-----------------------------------|----------------------------|--------|---|-----------------------------------|----------------------------|
| 1      | ABE Clearing SAS  | 0                                 | No                         | 75     | JSC Settlement Center   | 0                                 | No                         |
| 2      | Agrobanka a.d. in bankruptcy                                | 0                                 | No                         | 76     | KÖZVEL. Első Magyar Közváltási Closed Co. Ptc.                          | 0                                 | No                         |
| 3      | Agro-Szalók Ltd.  | 300                               | No                         | 77     | Limited Liability Company "BSC MSC"                                     | 0                                 | No                         |
| 4      | ALGORTHMO INVEST Ltd.                                       | 5 155                             | No                         | 78     | MasterCard Incorporated   | 440                               | No                         |
| 5      | ANT-KIR Ltd.  | 661                               | No                         | 79     | Metlac AD Gornj Milanovac   | 2                                 | No                         |
| 6      | Auctioneer s. r. o.   | 25                                | No                         | 80     | METANOLSKO SRČENIKOMBINAT KIKINDA                                       | 0                                 | No                         |
| 7      | AY BANKA LONDON u likvidaciji                               | 0                                 | No                         | 81     | MIN Holding Nc. v.a.  | 0                                 | No                         |
| 8      | BANKART PROCESRANJE PLACLNIH INSTRUMENTOV D.O.O., LJUBLJANA | 7 219                             | No                         | 82     | Mindgram sp. z.o.o.   | 206                               | No                         |
| 9      | Banzai Cloud Ltd. "u.l."                                    | 4                                 | No                         | 83     | Montair A.D.  | 0                                 | No                         |
| 10     | BC Banca Sociala SA   | 0                                 | No                         | 84     | Montenegroberza ad  | 36                                | No                         |
| 11     | BC Moldindconbank SA  | 0                                 | No                         | 85     | Mortgage refinancing Company of Uzbekistan                              | 1 030                             | No                         |
| 12     | BC Moldova Agroindbank SA                                   | 0                                 | No                         | 86     | NA GISZ-NÓVDNY Ltd.   | 931                               | No                         |
| 13     | BC Viciobank SA   | 0                                 | No                         | 87     | NA GISZ-TEJ Ltd.  | 1 697                             | No                         |
| 14     | BIG-PIG Levegőszigetelési és Kőművesi Felelősségi Társaság  | 1 040                             | No                         | 88     | NADCEP Ltd.   | 121                               | No                         |
| 15     | Biroul de Credit SRL  | 20                                | No                         | 89     | NAD-GEPL Ltd.   | 4                                 | No                         |
| 16     | Bodoznai Maribor d.o.o.                                     | 0                                 | No                         | 90     | New Frontier Technology Invest SARL                                     | 3 624                             | No                         |
| 17     | Banka Banke Service AD                                      | 3 141                             | No                         | 91     | NGY Paperiers Investment SRL  | 11 637                            | No                         |
| 18     | Budapesti Értéktársaság Ltd.                                | 122                               | No                         | 92     | Novakid Inc.  | 2 009                             | No                         |
| 19     | Bulgarian Stock exchange AD                                 | 6                                 | No                         | 93     | OJSC Saint Petersburg Exchange  | 1                                 | No                         |
| 20     | BULGARLEASING JSC   | 0                                 | No                         | 94     | OneSol Ag.  | 6                                 | No                         |
| 21     | Bursa de Valori a Moldovei SA                               | 0                                 | No                         | 95     | Orbánhegyi Szőőbirtok limited partnership                               | 0                                 | No                         |
| 22     | Central Depository AD                                       | 72                                | No                         | 96     | OTP Advisors SRL  | 0                                 | No                         |
| 23     | Centralna depository agency a.d.                            | 55                                | No                         | 97     | OTP Consulting Romania SRL  | 72                                | No                         |
| 24     | CodeCool Korlátolt Felelősségi Társaság                     | 1 192                             | No                         | 98     | OTP Nevelőintézet 000   | 57                                | No                         |
| 25     | Comsignia Inc.  | 1 783                             | No                         | 99     | OTP Újkelet Hitelezővető Ltd.   | 9                                 | No                         |
| 26     | Company for Cash Services AD                                | 352                               | No                         | 100    | OTP Vendéglátás és Hotelüzemeltetés Szervező Ltd.                       | 3                                 | No                         |
| 27     | Cursor Insight LTD  | 73                                | No                         | 101    | Overdose Vagyonkezelő Ltd. "u.l."                                       | 0                                 | No                         |
| 28     | Dalija Vision Technologies Ltd.                             | 302                               | No                         | 102    | Pashkeje Spolka Akcyjna   | 696                               | No                         |
| 29     | desclab AG  | 1 079                             | No                         | 103    | Pannon Láté Mezőgazdasági és Szolgáltató Korlátolt Felelősségi Társaság | 25                                | No                         |
| 30     | D-EG Thermoseal Épületgépészeti Anulár Ltd.                 | 0                                 | No                         | 104    | PKOJ, TOVARNA OBUVJE D.D. - V. STECAJU                                  | 0                                 | No                         |
| 31     | Dék-borsod Gazdák Ltd.                                      | 4                                 | No                         | 105    | Papia.hu Closed Co. Ptc.  | 2 679                             | No                         |
| 32     | Dé-Pé Plusz Ltd.  | 1 569                             | No                         | 106    | Pénzügykutató Closed Co. Ptc.   | 0                                 | No                         |
| 33     | Dékigazdálkodó Ltd.   | 1                                 | No                         | 107    | PHOXKRLAY INVEST Closed Co. Ptc.  | 6 366                             | No                         |
| 34     | Dinghy Sport Club Hungary Ltd.                              | 12                                | No                         | 108    | Phoenix Play Ltd.   | 1 912                             | No                         |
| 35     | DUNA VSKO PROJEK. CENTAR Beograd                            | 0                                 | No                         | 109    | Pivka Rezinarnstvo d.d.   | 2                                 | No                         |
| 36     | Etrone spółka z ograniczoną odpowiedzialnością              | 848                               | No                         | 110    | Pokojniska družba A d.d.  | 334                               | No                         |
| 37     | "EGERTE" Ltd.   | 6                                 | No                         | 111    | Pivredna banka a.d. - in bankruptcy                                     | 0                                 | No                         |
| 38     | ELEKTRO MVRBORD D.  | 81                                | No                         | 112    | Razvojna banka Vojvodine a.d. - in bankruptcy                           | 0                                 | No                         |
| 39     | Elektroviređa One Gate ad Niš                               | 114                               | No                         | 113    | Rea Project One Company SRL   | 9                                 | No                         |
| 40     | El-S Alotiminy Uctai Ingatlanhasznosító Ltd.                | 0                                 | No                         | 114    | Recreators AD Beograd   | 13                                | No                         |
| 41     | EUROAXIS BANK MOSKVA in bankruptcy                          | 0                                 | No                         | 115    | Renewabil   | 102                               | No                         |
| 42     | FABETKIR Ltd.   | 3                                 | No                         | 116    | REGAGNALIMA MONS.N.SAD  | 0                                 | No                         |
| 43     | FAPEF-PTO Ltd.  | 218                               | No                         | 117    | SAVA D.D.   | 348                               | No                         |
| 44     | Finservice LLC  | 0                                 | No                         | 118    | SC AS Tourism SRL   | 2 666                             | No                         |
| 45     | Finshape Hungary Ltd.                                       | 2 190                             | No                         | 119    | SC Casa de Compensare SA  | 0                                 | No                         |
| 46     | Finshape Czechia s.r.o.                                     | 4 065                             | No                         | 120    | SC Cofin Real Estate Kappa SRL  | 0                                 | No                         |
| 47     | FINTECH GEE Software Invest Ltd.                            | 408                               | No                         | 121    | Seon Holdings Ltd.  | 8 070                             | No                         |
| 48     | FINTECH GEE Software s.r.o.                                 | 193                               | No                         | 122    | Shopper Park Plus Ptc.  | 5 237                             | No                         |
| 49     | First Ukrainian Credit Bureau LLC                           | 3                                 | No                         | 123    | Sídparti Gazda limited partnership                                      | 0                                 | No                         |
| 50     | Flow XAI, Inc.  | 2 252                             | No                         | 124    | SIOVÖLYEY Ltd.  | 699                               | No                         |
| 51     | FrieslandCampina Hungaria Commercial and Production Ptc.    | 1                                 | No                         | 125    | SIRMA AIEAD   | 742                               | No                         |
| 52     | Garantika Creditguarantee Closed Co. Ltd.                   | 260                               | No                         | 126    | Sídó z a reševanje bank   | 23 954                            | No                         |
| 53     | Giganci Programowania sp. z.o.o.                            | 501                               | No                         | 127    | SKUPINA FRVA, ZAVAROVALNSKI HOLDING, D.D.                               | 39                                | No                         |
| 54     | GM Agrár Ltd.   | 3                                 | No                         | 128    | SLOBODNA CARNSKA ZONA NOVISAD   | 16                                | No                         |
| 55     | Govcika Project Company SRL                                 | 168                               | No                         | 129    | SOMBORSZATAN DOO SOMBOR   | 1                                 | No                         |
| 56     | GRELEGER Biorafinleés és Értékesítő Ltd.                    | 736                               | No                         | 130    | SPC MILINIUM VRSAC  | 16                                | No                         |
| 57     | HAGE INVEST Ltd.  | 450                               | No                         | 131    | Sredidnja depository agency d.d.  | 6                                 | No                         |
| 58     | Hajlu Agrárintegrációs Ltd.                                 | 0                                 | No                         | 132    | SURS 26. Ltd.   | 30                                | No                         |
| 59     | Hajlusiági Gabonapari Closed Co. Ptc.                       | 1                                 | No                         | 133    | S.W.J.F.T. SCRL   | 293                               | No                         |
| 60     | Hello Ray IT and Service c.Ptc.                             | 1 700                             | No                         | 134    | Szajmesti Gazda limited partnership                                     | 0                                 | No                         |
| 61     | HRDK d.o.o.   | 153                               | No                         | 135    | Szekszárdi Létező Prolézet Ltd.   | 309                               | No                         |
| 62     | HRVATSKO NOGOMETNI KLUB HAJDUK SPLIT Š.D.O.                 | 0                                 | No                         | 136    | Terményfajták Ltd.  | 99                                | No                         |
| 63     | HUNGAROMGAT Ltd.  | 0                                 | No                         | 137    | Tirey Limited   | 0                                 | No                         |
| 64     | igen.hu Ltd.  | 43                                | No                         | 138    | TRZŠTE NOVCA AD BEOGRAD   | 0                                 | No                         |
| 65     | IMKON Sugurta JSC.  | 1 794                             | No                         | 139    | ÜBBEREK Ltd.  | 145                               | No                         |
| 66     | Ingatlanvagyon Projekt 14. Ltd.                             | 36                                | No                         | 140    | VCC Live Group Ltd.   | 1 606                             | No                         |
| 67     | Intreprinderes mixta Terev Petrol SA                        | 0                                 | No                         | 141    | Vesta United Regional Registrar OJSC                                    | 0                                 | No                         |
| 68     | Investment Broker Varna JSC                                 | 0                                 | No                         | 142    | VISA Incorporated   | 24 713                            | No                         |
| 69     | Investment Company "CG Broker-Dealer" JSC                   | 0                                 | No                         | 143    | ZA Gamma-Agro Ltd.  | 3                                 | No                         |
| 70     | Investment Projekt 1. d.o.o.                                | 9                                 | No                         | 144    | Zagrebacka burza d.d.EUR  | 112                               | No                         |
| 71     | IRYGENIA Ltd.   | 121                               | No                         | 145    | Zelena Niketelina d.o.o.  | 226                               | No                         |
| 72     | Isoteka Leasing LLC   | 1 346                             | No                         | 146    | ZITOSREM AD INDIJA  | 3                                 | No                         |
| 73     | Istarska autocesta d.d.                                     | 6                                 | No                         | 147    | ZM-NA GISZ Ltd.   | 664                               | No                         |
| 74     | JSC PFTS  | 1                                 | No                         | 148    | "13.Jul. Ribnjare" a.d. Podgorica                                       | 1 682                             | No                         |

The consolidated gain realised from sales and liquidations relating to exposures in equities not included in the trading book was HUF 791 million related to 31.12.2023.

## I.7. Remuneration policy

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

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

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

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

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

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

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

OTP Bank Plc's Remuneration Committee consists of 3-7 members (chairman and at least two other members) appointed by the Board of Directors from among its own members, taking into consideration that the members cannot be employed by the bank. The Remuneration Committee held sessions and voted in writing fifteen times in 2023 and carried out its activities without an external consultant.

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



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

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

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

In 2023, there were no substantive changes in the regulation pertaining to the Banking Group's Remuneration Policy. In relation to the Banking Group's Remuneration Policy, a change compared to the previous year was the introduction of a 40% deferral at all identification levels (with the deferral remaining at 60% above the organizational and income levels defined in the regulation). At the same time, regarding the most important rules, the new remuneration policy did not contain any substantive amendments. It can be concluded that the operation of the remuneration system was adequate in 2023 as well.

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

The rules of the Banking Group's Remuneration Policy shall be applied in OTP Bank Plc and in all Banking Group Subsidiaries under the consolidated supervision of the Hungarian National Bank where identified employees are employed. The identification of the identified employees was based on the provisions of Commission Regulation 2021/923 (RTS), with that the Supervisory Board of OTP Bank Plc also takes into consideration additional risk aspects in the identification process. For the sake of proportionality, OTP Bank Plc classifies all the Banking Group Subsidiaries into low, medium or high risk categories based on a combination of balance sheet total, net earnings for the year and the complexity of the business. The Supervisory Board of OTP Bank Plc identifies the managers of the high-risk Banking Group Subsidiaries under the consolidated level personal scope of the Banking Group's Remuneration Policy even if it is not required by RTS regulations. Sub-consolidated and local level identification of employees takes place when the employee concerned does not have decision-making power and competence over the entire Banking Group, and his or her professional activities may affect only a particular Banking Group Subsidiary or a sub-consolidated group controlled by that subsidiary. Identified employees employed by OTP Bank Plc – with respect to group responsibility – are identified at consolidated level.

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

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

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

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

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

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

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

- the banking group-level (domestic and foreign companies that operated as group members under consolidated supervision in the whole evaluated business year) RORAC+, which indicates the return on equity in relation to the cost of equity, as well as
- criteria that measure institutional and individual performance (financial indicators and indicators measuring the quality of work performance).

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

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

#### I.7.4. Ratio of fixed to performance-based remuneration

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

The remuneration of the various positions of additional persons belonging to the scope of the Banking Group's Remuneration Policy comprises of a fixed and a performance-based remuneration element. The main elements of fixed remuneration are basic salary and honorarium in the form of monetary allowance or ordinary shares issued by OTP Bank.

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

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

### I.7.5. Criteria of variable remuneration

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

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

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

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

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

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

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

Pursuant to the general rule that is in line with the provisions of the Credit Institutions Act, in the identified personal scope 40% of the variable remuneration (or 60% above the organizational and income levels defined in the regulation) is deferred for 4 years – in the case of the Chairman-CEO and deputy-CEOs of OTP Bank Plc. for 5 year –, within which period the extent of the deferred payment shall be identical every year. Pursuant to the regulations, the stricter deferral of 60% applies to the Chairman-CEO of OTP Bank Plc., his deputy CEOs, as well as the employees employed at the executive level according to the job system of OTP Bank Plc.

Entitlement to the deferred instalments is determined based on a subsequent assessment of the risks. The assessment of risks takes place, on one hand, on the basis of quantitative criteria

pertaining to prudent operations and, on the other hand, on qualitative evaluation criteria. On the basis of the values of the criteria of prudent operation, OTP Bank Plc.'s Supervisory Board resolves on the possibility to pay deferred instalments. Based on the assessment of the risks related to the activities of those concerned, the deferred portion of the performance-based remuneration may be reduced or cancelled. As a general rule, an additional condition for entitlement to the deferred instalments is the existence of the employment relationship.

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

#### I.7.6. Quantitative information on the remuneration policy

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



## I.8. Liquidity risk

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

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

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

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

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

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

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

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

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

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

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

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

The declaration about the appropriateness of the liquidity risk management can be found in the Annex 2. The Asset –Liability Committee, approved the declaration. (ref. 2023/52/1.).

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

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

OTP uses only the items in the LCR table to calculate the liquidity ratio. Changes in the group-wide loan-to-deposit gap increased the Group's liquidity reserves, which were negatively affected by the Hungarian business and positively by the subsidiaries liquidity generation, therefore, the increase in high-quality liquid assets (HQLA) and inflows was higher than the increase in outflows. Due to the transition to high interest rate environment, the market value of the Group's bond portfolio decreased the HQLA, while raising funds on the capital market offset the negative effect.

The value of the LCR buffer above the 100% regulatory level is EUR 17.2 billion in 2023 Q4.

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

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

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

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

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

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

## **I.10. ESG module**

### ***I.10.1. Qualitative information on environmental risk (In accordance with Article 449a of the CRR)***

#### **I.10.1.1. Business strategy and processes:**

The Group focuses on sustainability from three perspectives. As a responsible service provider, the Bank contributes to the increased sustainability of the financial sector that is key to a well-functioning society by creating sustainable business opportunities. In addition to economic considerations, ethical, social, and environmental risks are incorporated into business decision making, business development and all other related operations. Impacts of environmental risks are taken into consideration in the major risk management policies (credit, operational, market etc.), for more information of ESG risk frameworks please see point (j). As a responsible employer, OTP adopts active ESG management practices in its governance model and is committed to strengthen its activity in employee well-being and development, inclusion, diversity, and employee engagement. As responsible social actor, OTP Group is setting ambitious goals in terms of its own operations, including the reduction of its own GHG emissions. OTP takes active steps to retain and improve its position as responsible actor through product responsibility and donations, creating

shared value that is both measurable and makes recognizable contribution to society and Sustainable Development Goals (SDGs).

OTP Group is aiming to be the regional leader in financing a fair and gradual transition to a low carbon economy and building a sustainable future through our responsible solutions. OTP plans to build a green credit portfolio of HUF 1,000 billion in the corporate segment and HUF 500 billion in the Retail segment by 2025. The Group also applies ESG limits for different types of risk, as described below.

In relation to investment funds and investment services, sustainability efforts are determined by strong legal requirements. Three of OTP Group's own funds have environmental and/or social characteristics, so according to the classification of the SFDR, they are products in accordance with Article 8.

The goal of the OTP's Climate Change Equity Fund is to select those stocks that can be potential winners and losers of the global adaptation process related to climate change. The final portfolio must consist of at least 50 percent of stocks that, in addition to the fact that they contribute to the preservation of the planet Earth with their activities, also have a good ESG rating. OTP Fund Management plans to make the fund compliant with Article 9 of the SFDR.

For several years, OTP has been promoting the OTP Climate Change Equity Fund with PR appearances, drawing attention to responsible investments. In the case of the Omega Fund of Funds, the goal is for funds classified as SFDR Article 8 or 9 to achieve a weight of at least 70 percent in the Fund. Here the final portfolio must consist of at least 50 percent of stocks that also have a good ESG rating. These two ESG funds do not invest in tobacco business, defense, and gambling sectors.

In 2023, in the context of the discretionary portfolio management service, in addition to the controversial weapons that was already in place, we extended the exclusion rules defined as a percentage limit to include the MSCI Overall Flag indicator. The Overall Flag is a general indicator to assess the overall sustainability performance (environmental, social or governance controversial issues) of a company or investment fund. For this service, we also apply so-called cumulative risk limits in relation to ESG. Portfolio managers are building portfolios with a low aggregate weighting of the elements with the worst sustainability ratings, i.e., CCC, B and BB on the MSCI 7-point scale.

OTP Group developed its green financing tools and processes considering international best practices, implementing well recognized principles, including LMA Green Loan Principles and

ICMA Green Bond Principles and applying its green definitions based on the EU Taxonomy and CBI Climate Bonds Taxonomy. Green definitions used by the National Bank of Hungary (MNB) – which are mainly based on EU Taxonomy substantial contribution – are also included. This approach is in line with current market practice and compatible with supervisory expectations. These are the core foundations when providing green loans for corporate and retail customers or issuing green bonds.

#### I.10.1.2. Management:

The Bank's Management Committee launched the Bank's ESG Program in November 2020, in which all ESG-related areas of the Bank actively participated. The Program had steering and operational committees. The ESG steering committee regularly reported on the activities of the Program and the results achieved to the Bank's management bodies. In 2021, the conceptual proposal was made based on the National Bank of Hungary "Green Recommendation" 5/2021 (IV.15) for the establishment of the functional units of the Bank's permanent ESG organization- the ESG Committee, the ESG Subcommittee, and the ESG control function- which proposal was discussed and unanimously approved by both the Management Committee and the Board. The bank's ESG organization was established in December 2021 by decision of the Board of Directors. The organization has several levels: the main decision-maker is the Board of Directors, which is supported by the ESG Committee. The ESG Committee and the ESG Subcommittee were included in the Organizational and Operational Regulations as standing committees, and the tasks, responsibilities, and reporting obligations of the relevant organizational units and specialist areas were defined. The task of the ESG Committee is to define the ESG strategy, plans and policy of the Bank and the banking group. The ESG Committee reviews all ESG-related submissions submitted to the management board in advance. The ESG Subcommittee is the ESG Committee's permanent decision-making forum, and performs coordination, negotiation, and implementation tasks as part of its professional support work. The ESG Committee is responsible for identifying ESG risks, formulating strategy, plans and policies, setting targets and performance objectives and evaluating them, together with the relevant business areas, in order to define and manage climate and environmental risks, social and governance risks, and to assess their consequences and thus contribute to the ESG responsibilities of the Board of Directors.

OTP introduced ESG-related KPI-s in the remuneration policy in 2022, then amended it in 2023: the performance-related earnings indicators include the combined ESG - CSR qualitative indicator, which is relevant for the CEO, Deputy CEO-s, Divisional Heads, Head of Green Program Directorate, Regional Heads and CEOs of subsidiary banks of the parent bank; furthermore, annual quantitative KPIs are set for the Managing Directors of the Hungarian business areas.

The Bank annually undertakes a climate changes stress test that assess short-term and long-term exposures of the Group to physical and transition risks related to climate change. This assessment is presented to / approved by the Management Committee as part of the annual ICAAP assessment.

The integration of the environmental risks into internal reporting framework and structure is under development in the bank. According to the current practice we report on the integration of ESG factors into the risk management framework semi-annually to the ESG Committee while the composition of the portfolio related primarily to E&S risks is reported to the management quarterly.

Environmental risk-related objectives are part of the Risk Appetite Statement limits, which make one of the KPIs of the top management for corporate and risk at the parent bank, while in subsidiaries the one of CEOs and CROs.

#### I.10.1.3. Risk assessment:

Environmental factors and risks are considered as the most important elements of ESG factors / risks. OTP Group approaches ESG risks and ESG factors in a holistic view embedding them into the risk management frameworks of the main risk types, i.e., the ESG risk is not treated as a stand-alone risk type. The management of ESG risks is incorporated in the different levels of the Risk Ecosystem within OTP Group: OTP Group Risk Strategy, Group Risk Appetite Statement, risk management frameworks of the different risk types and the Operative Lending Limits and Principles. The Group Risk Strategy for 2023-2025 includes a dedicated ESG Program with a goal to implement ESG factors into the risk management processes and strengthening ESG risk awareness in the risk organization. Basically, ESG factors and related risks are managed through processes and controls, however the Bank applies certain risk appetite and tolerance limits as well. Concerning risk limits OTP Group follows a gradual approach in line with the regulatory expectations as well as with the ESG awareness of the local economy. The further development of the OTP Group's ESG risk management framework continued in 2023, the main elements of which are:

- Initiatives aiming at improving the ESG risk management framework were launched (considering broader client specific information, physical risks, extension to mortgage portfolio.)
- Regular internal ESG portfolio reporting on Group level.

- ESG factors in collateral appraisals were implemented.
- ESG credit risk related limits and guidelines in Operative Lending Limits and Principles (OLLP) were set.
- ESG limit in trading book activities was set and reviewed.
- ESG parameters considered in the process of reviewing the pre-settlement limit weights and the margin requirements for clients' OTC derivatives.
- Evaluation of ESG aspects in collateral handling and enforcement linked to Global Markets activities.
- ESG in operational risk: continuous ESG loss data collection; ESG risk tolerance was set up.

In order to improve ESG Risk awareness, ESG risk related trainings were launched: OTP Risk Academy and specific ESG course for the top managers. All-employee ESG training has been launched.

Definitions, methodologies and the types of tools and analyses applied are varying across the portfolios and assets in scope (e.g., non-retail banking, trading portfolio, business operations, commercial and residential real estate etc.) OTP Group implemented internationally recognized methods as well as in-house developed solutions in its risk management practice. Concerning credit risk aspects of ESG risk assessment, OTP Group applies the "exposure method" in the non-retail portfolio. The risk assessment process is designed using the respective EBRD guidelines as a basis however adjusted to the operating environment and the risk appetite of the Group. Concerning the mitigation of environmental risks through the green lending, OTP established its own Green Loan Framework using the EU taxonomy and the taxonomy of the Climate Bond Initiative (CBI). The EU taxonomy and the SFDR were the prevailing sources of the integration of the ESG aspects including the climate and environmental factors into the operational risk management framework. The applied methods and tools have been developed considering the best practices of ORX Association. The reputational risk scenarios applied in the stress-testing are in accordance with ECB's methodology.

Regarding climate and environmental factors in market risk management, various inputs are incorporated into the trading book stress-test procedures to determine shifts equity / commodity prices and yield curves in the climate disaster scenarios. For the equity and commodity stress shifts NGFS estimations are used while for determining the yield curves stress shifts, we took into consideration the late action scenario of the Bank of England. Shocks of corporate spreads were also calculated from Bank of England data.



In order to manage the credit risk aspects of the ESG risk in 2021 OTP Group introduced its ESG Risk Management Framework in the non-retail lending. The framework consists of three main elements: the ESG Exclusion List, the Sectoral ESG Risk Heat Map and the ESG Risk Assessment. The ESG Exclusion list defines the activities which OTP Group will not directly engage in due to their controversial nature and impact. The Sectoral ESG Risk Heat Map lists the ESG risk classification of each economic activity included in the NACE classification. Sectoral ESG risk categories are assigned based on the environmental and social impact of the given industry. The ESG Risk Assessment is a sophisticated process to assign ESG risk categories on client and transaction level including client Due Diligence in certain cases. Different method is applied for leasing transactions where the underlying asset is engine driven, in those cases the ESG risk category is determined according to the estimated environmental impact of the engine (EURO engine standards) of the financed asset. The elements of the ESG risk management framework are applied across the Banking Group. In 2023 the Bank updated the ESG Risk Management Framework, and the most important change was the amendment (i.e. stricter approach) of the ESG risk categorization of leasing transactions for motorized assets and introduction of specific categorization rules for trucks. The ESG credit risk management aspects are incorporated into the group level lending principles and rulebooks and implemented by the group members concerned.

OTP Group follows a gradual approach concerning the ESG related risk limits, the Risk Appetite Statement and the group level Operative Lending Limits and Principles already contains such restrictions. The compliance with the Risk Appetite Statement and OLLP limits is monitored quarterly and monthly respectively.

Environmental risks in operational risk management are incorporated in the operational risk management framework as follows: a) scenario analysis (sustainability risks are assessed in the “Climate change risk” scenario), b) risk and control self-assessment (RCSA): evaluating ESG relevance of the identified risks, c) events recorded in the SAS loss database must be accompanied with information on ESG relevance, d) ESG risk tolerance framework at group level.

Environmental factors in market risk management are incorporated in the market risk management framework as follows: a) climate disaster scenarios are incorporated into the trading book stress-test procedures, b) the Bank set a trading position limit based on ESG ratings, c) ESG considerations were also taken into account in the process of reviewing the pre-settlement limit weights and the margin requirements for clients' OTC derivatives and d) climate disaster scenarios (i.e., ESG stress tests) were extended with a portfolio of corporate bonds in the banking book.

The availability of energy certificates was assessed in the OTP group, and ESG risk categories were defined for residential properties used as collaterals. The environmental related factors of vehicle type collaterals are also assessed with the aim of incorporating these assets into ESG



categories. The applied ESG classification methodologies were published group level to ensure the application of a unified approach groupwide.

OTP Group is continuously working on the development of the process of identifying and monitoring the activities, exposures and assets which are sensitive and vulnerable to environmental risks, significant room for improvement is identified concerning the physical risks.

OTP Groups applies an ESG Exclusion List in the non-retail loan origination process which defines activities and behaviors whose controversial nature and impact make them incompatible with OTP Group's values for safeguarding human rights and promoting sustainable development. There are several items on the exclusion list that are linked to the protection of biodiversity and the environment. A specific portfolio limit has also been set in the Hungarian operation for the new exposures classified as high ESG risk.

On the other hand, OTP group is also active in green lending, aiming to achieve a green loan stock amounting to HUF 1500 billion. The main principles of the Green Loan Framework are use of proceeds, steps of evaluation and selection, management of these proceeds and the reporting. These principles ensure positive sustainability impact of loans.

OTP Group's annual climate change stress test assess the Group's short-term and long-term exposure to climate change related physical and transition risks. Our long-term, strategic assessment covers general credit risk resulting from transition and physical risks. Based on the outcome of the strategic, long-term assessment, our short-term assessment focuses on climate change related transition risk regarding credit risk of the Group's corporate portfolio, market risk related to the trading book and reputational risk.

Our long-term, strategic assessment shows that OTP Group has an exposure to climate change related physical risk on the long run which is more or less the same as that of an average EU zone bank. However, OTP Group's exposure to climate change related transition risk is somewhat above that of the average of eurozone banks as countries, in which the Group is active, tend to have a more carbon intensive economy than the eurozone. Our short-term (3-years) NACE-industry level credit risk model shows that OTP Group's annual loan losses would be on average by 9,5% higher if a particular stress scenario would occur due to specific transition risk related reasons compared to an economic trajectory that is equally severe but occurs due to reasons other than climate change related transition risk. Such additional losses could be absorbed by the Group's revenue

and capital generating capacity. Also, the Group's exposure to transition risk induced market and operational risk losses are moderate compared to the Group's capital position and profitability.

The Group and its clients are facing significant challenges regarding data. Concerning credit risk management there are heavy data requirements for the customer due diligence, assessing the physical risks associated with exposures and for the bottom-up stress testing needs as well and most of the data are not collected yet and are not available in public or closed databases. To close the data gaps significant efforts are needed on different levels (client / Bank / industrial associations etc.). Clients' ability (especially in the MSE segment) to fill in extensive questionnaires is limited since many of these data are not even calculated yet by them. Country specific differences also exist mirroring the imbalanced ESG awareness of the emerging Eastern European markets. The development of the disclosure obligations in the EU countries are expected to improve the availability of the ESG data of the clients, first for large companies and gradually expanding the scope of those involved.

The applied limits vary across the different risk types and the respective procedures.

Concerning credit risk, the group applies limits linked to the non-retail ESG risk management process. A group level limit has been set regarding the ESG Exclusion List while in the Hungarian operation a quantitative limit has been established for the new high ESG risk exposures.

The ESG operational risk tolerance means determining the maximum ESG operational risk exposure the Bank considers acceptable. Based on the loss amounts that can be linked to ESG risk collected during the operational risk management process, a group-level limit is established, which is reviewed annually.

Regarding the market risk the Bank set a trading position limit based on ESG ratings in the OTP and Group-Level Trading Market Risk Management Regulation market risk regulation, subject to which traders of respective unites may take positions, held for non-market-making purposes, in non-sovereign trading debt and equity securities. OTP uses MSCI sustainability rating for that purpose.

The bank considers environmental risks within the credit risk relevant per default mainly due to the potential exposure of the collaterals to acute or chronic physical threats (such as property damage due to severe weathers, water shortage and droughts in agriculture etc.), potential new capital expenditure due to transition risk. In operational risk the business continuity may be impacted by

severe weather conditions, reputational risk due to failure adapt to the constantly increasing regulatory and supervisory ESG requirements.

### I.10.2. Qualitative information on social risk *(In accordance with Article 449a of the CRR)*:

#### I.10.2.1. Business strategy and processes:

The strategy rests on the following three pillars: responsible service provider, responsible employer, and responsible social actor. Along with business opportunities, the strategy includes the management of the relevant risks, as well as social and corporate governance goals. The time horizon of the strategy covers the period until 2025: by that time, our objective is to implement the comprehensive ESG integration at Group level.

Further information:

- <https://www.otpgroup.info/sustainability/strategy>
- [https://www.otpgroup.info/static/sw/file/OTPGroup\\_ESG\\_approach.pdf](https://www.otpgroup.info/static/sw/file/OTPGroup_ESG_approach.pdf)

The strategic objectives have been formulated separately for each of the three pillars.

Responsible service provider:

- green products and solutions facilitating the green transition of the economy.
- products and investment services to facilitate investments into the sustainable economy.
- active ESG risk management.

Responsible employer:

- active ESG management practices in corporate governance.
- strengthening employee well-being and development, diversity, and employee engagement

Responsible social actor:

- strongly reducing emissions from our own operation.
- significant contribution to social objectives and SDGs through responsible products and services and through donations.

The Code of Ethics of OTP Bank Plc. and the OTP Group has been established to provide clear and unambiguous guidelines and expectations for the entire OTP Group and its related parties on ethical business conduct in order to protect the values of the OTP Group.

The personal scope of the Code of Ethics applies to OTP Group senior executives and persons employed by or having a legal relationship for the performance of work with members of the OTP Group.

More information about the Code of Ethics:

[https://www.otpbank.hu/static/portal/sw/file/OTP\\_EtikaiKodex\\_EN.pdf](https://www.otpbank.hu/static/portal/sw/file/OTP_EtikaiKodex_EN.pdf)

The purpose of the Partner Code of Ethics is to provide clear and unambiguous guidelines and expectations for those who have a relationship with the OTP Group (e.g., suppliers, business partners and other

contractual partners) on ethical business conduct in order to protect the values of the OTP Group. As a general comment please note that suppliers have to familiarize themselves with the provisions of the Partner Code of Ethics and to acknowledge that it is binding on them and their subcontractors during the performance of their contractual relationship with the Bank.

More information about the Partner Code of Ethics:

[https://www.otpbank.hu/static/portal/sw/file/OTP\\_Partneri\\_EtikaiKodex\\_EN.pdf](https://www.otpbank.hu/static/portal/sw/file/OTP_Partneri_EtikaiKodex_EN.pdf)

On employee relations, labor standards, consumer protection and product liability the bank's supplier pre-qualification questionnaire contains relevant questions.

#### **I.10.2.2. Risk assessment:**

As explained in Table 1 OTP Group approaches ESG risks and ESG factors in a holistic view embedding them into the risk management frameworks of the main risk types. Social risks are managed in the bank as integrated part of ESG risks.

Social risks are incorporated in the ESG Exclusion List and in the Sectoral ESG Risk Heat Map, however in general they are not identified separately for non-retail clients and exposures.

In collateral management social risks are not identified for the time being.

The bank requires the customers to comply with the prevailing regulations related to labor law, work, and safety regulations etc.

Within the loan origination process of non-retail exposures, the bank requires their clients not to pursue activities that are on the ESG Exclusion list.

Concerning the non-retail loan origination process the ESG Exclusion list is applicable which was established based on both environmental and social factors.

The social risks can be transmitted to credit and / or reputational risks mainly through the violation of reflective regulations by the client (for example labor law, occupational health, and safety regulations etc.). It may cause a reputational risk for both the Bank and its client. Besides, it may result in arising of credit risk as a direct effect of deteriorating financial situation due to the infringement (for example due to authorities' fines, significantly increasing wage cost) or termination of the going concern status (e.g., due to revocation of operating license).

### *I.10.3. Qualitative information on governance risk (In accordance with Article 449a of the CRR)*

#### *I.10.3.1. Management:*

More information on the integration of the partner's governance performance (including the committees of the partner's highest-level governing body and its committees responsible for decision-making on economic, environmental, and social issues) can be found at the following links:

[https://www.otpbank.hu/static/portal/sw/file/ESG\\_Team\\_ENG.pdf](https://www.otpbank.hu/static/portal/sw/file/ESG_Team_ENG.pdf)

[https://www.otpgroup.info/static/sw/file/OTPGroup\\_ESG\\_approach.pdf](https://www.otpgroup.info/static/sw/file/OTPGroup_ESG_approach.pdf)

[https://www.otpbank.hu/static/portal/sw/file/OTP\\_EtikaiKodex\\_EN.pdf](https://www.otpbank.hu/static/portal/sw/file/OTP_EtikaiKodex_EN.pdf)

[https://www.otpbank.hu/static/portal/sw/file/OTP\\_Partneri\\_EtikaiKodex\\_EN.pdf](https://www.otpbank.hu/static/portal/sw/file/OTP_Partneri_EtikaiKodex_EN.pdf)

#### *I.10.3.2. Risk assessment:*

In the non-retail lending process, the governance performance of the clients is assessed through the ESG Due Diligence Questionnaire as part of the ESG Risk Assessment. Clients with total client limits exceeding the threshold specified in the Operative Lending Limits and Principles are subject to ESG Due Diligence should they have transactions falling in the pre-defined ESG risk categories. The questionnaire covers not only the governance factors but the “E” and “S” aspects as well. Beyond that ethical considerations, strategy and risk management, inclusivity, transparency, management of conflicts of interest, and internal communication related to serious concerns are not assessed systematically by the bank in the loan origination process.

More information:

[https://www.otpgroup.info/static/sw/file/Consistency\\_of\\_remuneration\\_policy\\_20210630.pdf](https://www.otpgroup.info/static/sw/file/Consistency_of_remuneration_policy_20210630.pdf)

## II. OTP BANK

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

### II.1. Credit risk adjustments

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

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

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

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

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

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

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

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

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

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

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

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

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

The OTP Bank Group distinguishes two types of days past due (hereinafter: DPD) measurement methods: (1) DPD regardless of the overdue amount, (2) default DPD.

In case of DPD regardless of the overdue amount the start date of measuring the delay is the due date when the client fails to fulfil his payment obligation specified in the contract. In case the client performed a repayment in case of its overdue amount partially, the amount paid should be deducted from its oldest overdue credit obligation. The calculation of days past due stops if the

delayed amount in which the measurement of the delay has started has been repaid in full. The calculation of days past due should be restarted if the client fails to fulfil its payment obligation.

In case of default DPD the start date of the calculation of the delay is the date on which the customer's past due credit obligation is considered significant, namely the overdue credit obligation arising from the credit contract has exceeded the materiality threshold. The default based past due calculation is ceased if the customer's past due credit obligation falls under the materiality threshold. The default based past due calculation restarts in case the past due credit obligation exceeds the materiality threshold applicable in the relevant segment.

The default status is determined based on default DPD. Default DPD should be used in case of the default identification process only. The Bank uses DPD regardless of the overdue amount in its other processes.

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

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

If the debts are past due more than 90 days and it derives from non-lending type contracts do not qualify as default event. These exposures are not considered to be impaired as the subject of the default examination is those on-balance sheet or off-balance sheet exposures which originate credit risk (i.e. arise from lending-type risk assumption contracts). That is, the debts from non-lending type contracts do not qualify as default event.

Those debt that are past due more than 90 days based on DPD regardless of the overdue amount, but the default DPD is less than 90 days, the default status is not determined automatically as the default DPD is used in the default identification process.

A credit risk exposure shall be considered as restructured:

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

Based on Article 178(3)(d) of the CRR distressed restructuring of a transaction results in the transaction acquiring non-performing forborne status and default status. The conditions for establishing non-performing forborne status are as follows:



- The exposure is defaulted or impaired upon the restructuring; or
- Upon the restructuring measure there is a significant NPV loss compared to the original cash flows, which means:
  - Retail segment (except retail enterprise): such restructuring measure is applied which contains any principal and/or interest and/or fee release or reduction in favor of the client; or
  - Non-retail segment and retail enterprise: if after the restructuring a material NPV loss (1%) can be expected from the exposure (compared to the original cash flow). It is determined in an individual decision whether a material NPV loss exists; or
- A non-performing forbore status exposure once again acquires non-performing status, after having acquired performing forbore status previously, if during the probation period it falls past due over 30 days or it is repeatedly restructured; or
- A performing forbore status exposure becomes defaulted or impaired.

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

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

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

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

The OTP Bank shall measure expected credit losses of a financial asset in a way that reflects:

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

#### **Individual assessment**

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

- The cash flows expected from the financial instruments must be defined, which has to be based on at least two scenarios.
- Valuation and revaluation of collaterals is crucial, discounting the cash-flows from the sale of collaterals is an important part of individual assessment.
- The defined cash flows must be discounted to the present value.
- The impairment of the financial instrument is taking into account the riskiness of cash flows and individual collateralization.
- The individual cash-flow estimation also has to be forward looking, which has to contain the information about the macroeconomic environment and the future of the financial instruments.
- If there is a significant change in the credit risk of a financial asset, the impairment calculation must be reviewed taking into account the new information and risks.

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

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

## II.2. Equity exposures not included in the trading book on 31 December 2023

**Chart 8: Equity exposures not included in the trading book accordint to IFRS on 31 December 2023**

| Number | Entity  | Balance sheet value (in HUF million) | Listed (Exchanged-traded) | Number | Entity   | Balance sheet value (in HUF million) | Listed (Exchanged-traded) |
|--------|---|--------------------------------------|---------------------------|--------|--|--------------------------------------|---------------------------|
| 1      | ABE Clearing SAS                                  | 0                                    | No                        | 30     | OTP Holding Ltd.                                   | 2 000                                | No                        |
| 2      | Air-Inv est Ltd.                                  | 38 283                               | No                        | 31     | OTP Holding Malta Ltd.                             | 32 359                               | No                        |
| 3      | Balansz Real Estate Institute Fund                | 60 630                               | No                        | 32     | OTP Hungaro-Project Ltd.                           | 176                                  | No                        |
| 4      | BANK CENTER No. 1. Ltd.                           | 43 955                               | No                        | 33     | OTP Real Estate Investment Fund Management Plc.    | 1 352                                | No                        |
| 5      | Banka OTP Albania SH-A                            | 31 856                               | No                        | 34     | OTP Real Estate Plc.                               | 5 628                                | No                        |
| 6      | Budapest Stock Exchange Ltd.                      | 122                                  | No                        | 35     | OTP Ingatlanüz emeltető Ltd.                       | 15                                   | No                        |
| 7      | QIL Babér Ltd.                                    | 6 824                                | No                        | 36     | OTP Mortgage Bank Plc.                             | 114 587                              | No                        |
| 8      | Crnogorska Komercijalna Banka a.d.                | 72 784                               | No                        | 37     | OTP Card Factory Ltd.                              | 450                                  | No                        |
| 9      | DSK Bank EAD                                      | 280 722                              | No                        | 38     | OTP Kockázati Fund I.                              | 611                                  | No                        |
| 10     | Garantiqa Creditguarantee Closed Co. Ltd          | 270                                  | No                        | 39     | OTP Close Building Society                         | 1 950                                | No                        |
| 11     | Háge hajdúsági Agráripari Ltd.                    | 135                                  | No                        | 40     | OTP Luxembourg S.à.r.l.                            | 301 470                              | No                        |
| 12     | JSC "OTP Bank" (Russia)                           | 71 562                               | No                        | 41     | OTP Osiguranje A. D. O. Beograd                    | 701                                  | No                        |
| 13     | JSCMB "POTÉKA BANK"                               | 110 015                              | No                        | 42     | OTP Home Solutions Ltd.                            | 3 870                                | No                        |
| 14     | KÖZVIL Első Magyar Közviláglási Closed Co. Plc.   | 0                                    | No                        | 43     | OTP Funds Servicing and Consulting Company Limited | 3 269                                | No                        |
| 15     | LLCAlianceReserve                                 | 34 273                               | No                        | 44     | OTP Day One Magvető Fund                           | 280                                  | No                        |
| 16     | LLC OTP Leasing                                   | 2 686                                | No                        | 45     | Ov erdose Vagy onkeze lo Ltd. u.l.                 | 0                                    | No                        |
| 17     | Merkantil Bill and Property Investments Bank Ltd. | 23 663                               | No                        | 46     | Financial Research Corporation.                    | 0                                    | No                        |
| 18     | MONCOMP Ltd.                                      | 4 590                                | No                        | 47     | PortfoLion Digitális Fund I.                       | 8 800                                | No                        |
| 19     | OD Ltd.   | 420                                  | No                        | 48     | PortfoLion Digitális Fund II.                      | 5 681                                | No                        |
| 20     | OTP Alapkeze lo Plc.                              | 1 653                                | No                        | 49     | PortfoLion Venture Capital Fund Management Ltd.    | 2 300                                | No                        |
| 21     | OTP Bank JSC (Ukraine)                            | 30 628                               | No                        | 50     | PortfoLion Partner Fund                            | 18 465                               | No                        |
| 22     | OTP Bank Romania S.A.                             | 130 718                              | No                        | 51     | Portfolion Regionális Fund II.                     | 7 069                                | No                        |
| 23     | OTP Bank S.A.                                     | 24 159                               | No                        | 52     | Portfolion Zöld Fund                               | 33 571                               | No                        |
| 24     | OTP banka dioničko društvo EUR                    | 204 243                              | No                        | 53     | RE Four d.o.o., Novi Sad                           | 594                                  | No                        |
| 25     | OTP banka Srbija akcionarsko društvo Novi Sad     | 262 759                              | No                        | 54     | S.W.I.F.T. SCRL                                    | 0                                    | No                        |
| 26     | OTPEcosystem Ltd.                                 | 4 902                                | No                        | 55     | SC Cef in Real Estate Kappa SRL                    | 0                                    | No                        |
| 27     | OTPLife Annuity Real Estate Investment Ltd.       | 13 019                               | No                        | 56     | SKB Banka d.d. Ljubljana                           | 107 689                              | No                        |
| 28     | OTPFactoring Plc.                                 | 25 411                               | No                        | 57     | VISA Incorporated                                  | 8 140                                | No                        |
| 29     | OTPFinancing Malta Ltd.                           | 31                                   | No                        |        |  |                                      |                           |

OTP Bank's individual gains arising from sales and liquidations relating to exposures in equities not included in the trading book for the year ended 31 December 2023 were 491 million HUF.

### II.3. Shareholders with significant investment in OTP Bank

The OTP Bank had no shareholders with significant investment on 31st December 2023.

## II.4. Liquidity risk

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

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

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

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

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

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

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

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

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

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

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

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

The declaration about the appropriateness of the liquidity risk management can be found in the 2. table of the 2. Annex. The Asset –Liability Committee, approved the declaration. (ref. 2023/52/1.).

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

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

OTP uses only the items in the LCR table to calculate the liquidity ratio. The change in the loan-deposit gap decreased OTP's liquidity reserves, while the improving net long-term subsidiary financing position offset the negative effect. The effects of HUF devaluation and the extreme interest rate increase caused significant fall in HQLA which effect was recovered by the capital market issuances. As a result, the growth of High Quality Liquid Assets (HQLA) and Inflows exceeded the growth of Outflows. The value of the LCR buffer above the 100% regulatory level is EUR 6.7 billion in 2023 Q4.

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

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

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

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

#### II.5. Disclosure of quantitative information

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

### III. OTP MORTGAGE BANK

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

#### III.1. Corporate governance

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

| Members of the Board of Directors | Number of directorship<br>(according to CRR Art. 435.<br>paragraph (2)) |               | Members of the Supervisory Board                               | Number of directorship<br>(according to CRR Art. 435.<br>paragraph (2)) |               |
|-----------------------------------|---|---------------|--|---|---------------|
|                                   | outside OTP Group   | in OTP Group* |  | outside OTP Group   | in OTP Group* |
| Antal György KOVÁCS               | -   | 3             | József NÉMETH  | -   | 1             |
| András BECSEI                     | -   | 2             | Ágota SELYMESI   | 1   | 1             |
| Attila KOVÁCS                     | -   | 2             | Gergely PÓKOS  | -   | 9             |
| Zoltán ROSKÓ                      | -   | -             | Róbert dr. CSATÓ   | -   | 1             |
| Csaba NAGY                        | -   | 3             | *with the exception of directorships held at OTP Mortgage Bank |   |               |
| Ákos Ferenc FISCHL                | -   | 2             |  |   |               |
| Anna Mitkova FLOROVA              | -   | 4             |  |   |               |

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

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



Chart 10: Board members' education data

| Board of Directors   |   | Supervisory Board                 |   |
|--|---|-----------------------------------|---|
| <b>Antal György KOVÁCS</b>                                 |   | <b>József NÉMETH</b>              |   |
| University of Economics, Budapest                          | MSc in Economics (1985)                                     | College of Finance and Accounting | BSc in Economics (1985)                                 |
| <b>András BECSEI</b>                                       |   | <b>Ágota SELYMESI</b>             |   |
| University of Economics, Budapest                          | MSc in Economics (2001)                                     | College of Finance and Accounting | BSc in Finance (1973)                                   |
| <b>Attila KOVÁCS</b>                                       |   | Ministry of Finance, Budapest     | Tax advisor (1989)                                      |
| University of Economics, Budapest                          | MSc in Economics (2001)                                     |                                   | Chartered accountant (1995)                             |
| <b>Zoltán ROSKÓ</b>  |   | Penta Unió Education Centre       | Certified Tax expert (International Taxation) (2004)    |
| University of Economics, Budapest                          | Economics, Law (1995)                                       | <b>Gergely PÓKOS</b>              |   |
| <b>Csaba NAGY</b>  |   | University of Economics, Budapest | MSc in Economics (2004)                                 |
| College of Finance and Accounting                          | BSc in Economics (1993)                                     | University of London              | Master of business administration (2008)                |
| <b>Ákos Ferenc FISCHL</b>                                  |   | <b>Róbert dr. CSATÓ</b>           |   |
| Szent István University                                    | MSc in Agricultural Engineering (2002)                      | Corvinus University of Budapest   | MA in International Relations (2020)                    |
| University of Technology and Economics, Budapest           | MSc in Real Estate (2006)                                   | Eötvös Loránd University          | Lawyer specialised in data security and data protection |
| University of Technology and Economics, Budapest           | MSc in Construction Industry Judicial Expertise (2009)      | Eötvös Loránd University          | Jurist (2016)   |
| <b>Anna FLOROVA MITKOVA</b>                                |   | Corvinus University of Budapest   | International Relations Expert (2011)                   |
| G.V. Plehanov University of Economics, Moscow              | MSc in Economics (1989)                                     |                                   |   |
| University of Economics, Postgraduate Department, Budapest | MSc in Economics with bank management specialization (1996) |                                   |   |

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

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



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

The OTP Mortgage Bank's regulatory document on the selection of members of management bodies and the conduct of compliance inspections provides for diversity criteria to be applied to members of management bodies. The OTP Mortgage Bank considers it important to aspire for ensuring the diversity of senior management in order to have the widest possible range of expertise and abilities in order to promote independent positions and prudent decision-making (e.g. based on age, gender, expertise, education, geographical location). The OTP Mortgage Bank shall ensure equal treatment in the composition of the management bodies and seeks to ensure that both gender are represented among the candidates.

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

The OTP Mortgage Bank does not have a separate risk management committee, decisions related to risk management are made by the Management Committee and the Board of Directors, related tasks are coordinated by Finance, Accounting and Risk Management Department and performed under the relevant service contract by the OTP Bank Plc. Finance, Accounting and Risk Management Departments responsible for the Risk management information system based on detailed reporting of the relevant organizational units of OTP Bank Plc and subsidiaries. Most important parts are monthly and quarterly reports to the Management Committee and Board of Directors, which are discussed and approved by these bodies with the same frequency.

## III.2. Credit risk adjustments

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

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

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

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

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

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

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

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

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

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

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

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

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

The OTP Bank Group distinguishes two types of days past due (hereinafter: DPD) measurement methods: (1) DPD regardless of the overdue amount, (2) default DPD.

In case of DPD regardless of the overdue amount the start date of measuring the delay is the due date when the client fails to fulfil his payment obligation specified in the contract. In case the client performed a repayment in case of its overdue amount partially, the amount paid should be deducted from its oldest overdue credit obligation. The calculation of days past due stops if the delayed amount in which the measurement of the delay has started has been repaid in full. The calculation of days past due should be restarted if the client fails to fulfil its payment obligation.

In case of default DPD the start date of the calculation of the delay is the date on which the customer's past due credit obligation is considered significant, namely the overdue credit obligation arising from the credit contract has exceeded the materiality threshold. The default based past due calculation is ceased if the customer's past due credit obligation falls under the materiality threshold. The default based past due calculation restarts in case the past due credit obligation exceeds the materiality threshold applicable in the relevant segment.

The default status is determined based on default DPD. Default DPD should be used in case of the default identification process only. The Bank uses DPD regardless of the overdue amount in its other processes.

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

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

If the debts are past due more than 90 days and it derives from non-lending type contracts do not qualify as default event. These exposures are not considered to be impaired as the subject of the default examination is those on-balance sheet or off-balance sheet exposures which originate credit risk (i.e. arise from lending-type risk assumption contracts). That is, the debts from non-lending type contracts do not qualify as default event.

Those debt that are past due more than 90 days based on DPD regardless of the overdue amount, but the default DPD is less than 90 days, the default status is not determined automatically as the default DPD is used in the default identification process.

A credit risk exposure shall be considered as restructured:

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

Based on Article 178(3)(d) of the CRR distressed restructuring of a transaction results in the transaction acquiring non-performing forbore status and default status. The conditions for establishing non-performing forbore status are as follows:

- The exposure is defaulted or impaired upon the restructuring; or

- Upon the restructuring measure there is a significant NPV loss compared to the original cash flows, which means:
  - Retail segment (except retail enterprise): such restructuring measure is applied which contains any principal and/or interest and/or fee release or reduction in favor of the client; or
  - Non-retail segment and retail enterprise: if after the restructuring a material NPV loss (1%) can be expected from the exposure (compared to the original cash flow). It is determined in an individual decision whether a material NPV loss exists; or
- A non-performing forbore status exposure once again acquires non-performing status, after having acquired performing forbore status previously, if during the probation period it falls past due over 30 days or it is repeatedly restructured; or
- A performing forbore status exposure becomes defaulted or impaired.

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

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

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

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

The OTP Mortgage Bank shall measure expected credit losses of a financial asset in a way that reflects:

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

#### **Individual assessment**

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

- The cash flows expected from the financial instruments must be defined, which has to be based on at least two scenarios.
- Valuation and revaluation of collaterals is crucial, discounting the cash-flows from the sale of collaterals is an important part of individual assessment.
- The defined cash flows must be discounted to the present value.
- The impairment of the financial instrument is taking into account the riskiness of cash flows and individual collateralization.
- The individual cash-flow estimation also has to be forward looking, which has to contain the information about the macroeconomic environment and the future of the financial instruments.
- If there is a significant change in the credit risk of a financial asset, the impairment calculation must be reviewed taking into account the new information and risks.

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

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

### III.3. Exposures in equities not included in the trading book on 31st December 2023

**Chart 11: Exposures in equities not included in the trading book according to IFRS on 31st December 2023**

| Entity                 | Balance sheet value<br>(in HUF million) | Listed<br>(Exchanged-traded) |
|------------------------|---|------------------------------|
| OTP Ingatlanpont Ltd.  | 2 117                                   | No                           |
| OTP Pénzügyi Pont Ltd. | 1 646                                   | No                           |

### III.4. Liquidity risk

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

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

The Board of Directors of OTP Mortgage Bank Ltd. approved the report of the Treasury, Issuance and Refinancing Department on financial risks and risk management with resolution no. 21/2024 (20 March 2024).

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

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

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

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

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

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

In 2023 OTP Mortgage Bank complied with requirements defined by the regulatory framework and met limits with regard to liquidity risk defined by internal regulations, the Board of Directors believes that the liquidity risk exposure of the company complies with the profile of a specialized credit institution and the liquidity risk management policy of the company.

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

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

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

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



## IV. OTP BUILDING SOCIETY

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

### IV.1. Corporate Governance

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

| Members of the Board of Directors | Number of directorship<br>(according to CRR Art. 435.<br>paragraph (2)) |               | Members of the Supervisory Board                                  | Number of directorship<br>(according to CRR Art. 435.<br>paragraph (2)) |               |
|-----------------------------------|---|---------------|---|---|---------------|
|                                   | outside OTP Group   | in OTP Group* |   | outside OTP Group   | in OTP Group* |
| Antal György KOVÁCS               | -   | 3             | József WINDHEIM   | -   | 1             |
| András BECSEI                     | -   | 2             | Júlia dr. ERŐS  | -   | -             |
| Attila KOVÁCS                     | -   | 2             | Beáta SUKOVICH  | -   | -             |
| Csaba NAGY                        | -   | 3             | Róbert dr. CSATÓ  | -   | 1             |
| Anna Mitkova FLOROVA              | -   | 4             | *with the exception of directorships held at OTP Building Society |   |               |

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

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

Chart 13: Board members' education data

| Board of Directors  |   | Supervisory Board                  |  |
|---|---|------------------------------------|--|
| <b>Antal György KOVÁCS</b>                                |   | <b>József WINDHEIM</b>             |  |
| University of Economics, Budapest                         | MSc in Economics (1985)                                     | Janus Pannonius University         | MSc in Economics (1983)<br>Economics, Law (1996)               |
| <b>András BECSEI</b>                                      |   | <b>Júlia dr. ERŐS</b>              |  |
| University of Economics, Budapest                         | MSc in Economics (2001)                                     | Eötvös Loránd University, Budapest | MSc in Law (2001)  |
| <b>Attila KOVÁCS</b>                                      |   | <b>Beáta SUKOVICH</b>              |  |
| University of Economics, Budapest                         | MSc in Economics (2001)                                     | University of Miskolc              | MSc in Economics (2002)<br>Economics, Law (2006)               |
| <b>Csaba NAGY</b>   |   | <b>Róbert dr. CSATÓ</b>            |  |
| College of Finance and Accounting                         | BSc in Economics (1993)                                     | Corvinus University of Budapest    | MA in International Relations (2020)                           |
| <b>Anna FLOROVA MITKOVA</b>                               |   | Eötvös Loránd University           | Lawyer specialised in data security and data protection (2018) |
| G.V. Plehanov University of Economics, Moscow             | MSc in Economics (1989)                                     | Eötvös Loránd University           | Jurist (2016)  |
| University of Economics, Postgradual Department, Budapest | MSc in Economics with bank management specialization (1996) | Corvinus University of Budapest    | International Relations Expert (2011)                          |

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

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

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

## IV.2. Credit risk adjustments

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

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

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

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

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

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

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

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

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

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

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

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

The OTP Bank Group distinguishes two types of days past due (hereinafter: DPD) measurement methods: (1) DPD regardless of the overdue amount, (2) default DPD.

In case of DPD regardless of the overdue amount the start date of measuring the delay is the due date when the client fails to fulfil his payment obligation specified in the contract. In case the client performed a repayment in case of its overdue amount partially, the amount paid should be deducted from its oldest overdue credit obligation. The calculation of days past due stops if the delayed amount in which the measurement of the delay has started has been repaid in full. The calculation of days past due should be restarted if the client fails to fulfil its payment obligation.

In case of default DPD the start date of the calculation of the delay is the date on which the customer's past due credit obligation is considered significant, namely the overdue credit obligation arising from the credit contract has exceeded the materiality threshold. The default based past due calculation is ceased if the customer's past due credit obligation falls under the materiality threshold. The default based past due calculation restarts in case the past due credit obligation exceeds the materiality threshold applicable in the relevant segment.

The default status is determined based on default DPD. Default DPD should be used in case of the default identification process only. The Bank uses DPD regardless of the overdue amount in its other processes.

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

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

If the debts are past due more than 90 days and it derives from non-lending type contracts do not qualify as default event. These exposures are not considered to be impaired as the subject of the default examination is those on-balance sheet or off-balance sheet exposures which originate credit risk (i.e. arise from lending-type risk assumption contracts). That is, the debts from non-lending type contracts do not qualify as default event.

Those debt that are past due more than 90 days based on DPD regardless of the overdue amount, but the default DPD is less than 90 days, the default status is not determined automatically as the default DPD is used in the default identification process.

A credit risk exposure shall be considered as restructured:

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

Based on Article 178(3)(d) of the CRR distressed restructuring of a transaction results in the transaction acquiring non-performing forborne status and default status. The conditions for establishing non-performing forborne status are as follows:

- The exposure is defaulted or impaired upon the restructuring; or

- Upon the restructuring measure there is a significant NPV loss compared to the original cash flows, which means:
  - Retail segment (except retail enterprise): such restructuring measure is applied which contains any principal and/or interest and/or fee release or reduction in favor of the client; or
  - Non-retail segment and retail enterprise: if after the restructuring a material NPV loss (1%) can be expected from the exposure (compared to the original cash flow). It is determined in an individual decision whether a material NPV loss exists; or
- A non-performing forbore status exposure once again acquires non-performing status, after having acquired performing forbore status previously, if during the probation period it falls past due over 30 days or it is repeatedly restructured; or
- A performing forbore status exposure becomes defaulted or impaired.

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

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

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

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

The OTP Building Society shall measure expected credit losses of a financial asset in a way that reflects:

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

#### **Individual assessment**

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

- The cash flows expected from the financial instruments must be defined, which has to be based on at least two scenarios.
- Valuation and revaluation of collaterals is crucial, discounting the cash-flows from the sale of collaterals is an important part of individual assessment.
- The defined cash flows must be discounted to the present value.
- The impairment of the financial instrument is taking into account the riskiness of cash flows and individual collateralization.
- The individual cash-flow estimation also has to be forward looking, which has to contain the information about the macroeconomic environment and the future of the financial instruments.
- If there is a significant change in the credit risk of a financial asset, the impairment calculation must be reviewed taking into account the new information and risks.

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

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

#### IV.3. Exposures in equities not included in the trading book on 31<sup>st</sup> December 2023

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

#### IV.4. Liquidity risk

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

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

The Board of Directors of OTP Building Society Ltd. approved the report of the Finance, Accounting and Risk Management Department on financial risks and risk management with resolution no. 11/2024. (III.20.)

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

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

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

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



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

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

In 2023 OTP Building Society complied with requirements defined by the regulatory framework and met limits with regard to liquidity risk defined by internal regulations, the Board of Directors believes that the liquidity risk exposure of the company complies with the profile of a specialized credit institution and the liquidity risk management policy of the company.

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

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

#### IV.5. Disclosure of quantitative information

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

## V. MERKANTIL BANK

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

### V.1. Corporate Governance

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

| Members of the Board of Directors | Number of directorships (according to CRR Art. 435. paragraph (2)) |               | Members of the Supervisory Board | Number of directorships (according to CRR Art. 435. paragraph (2)) |               |
|-----------------------------------|--|---------------|----------------------------------|--|---------------|
|                                   | outside OTP Group  | in OTP Group* |                                  | outside OTP Group  | in OTP Group* |
| dr. László UTASSY                 | -  | 2             | Ágota SELYMESI                   | -  | 1             |
| Péter KÖNTÖS                      | -  | 1             | Zsuzsanna SZABÓ                  | -  | -             |
| Tibor CSONKA                      | -  | 3             | Árpád SRANKÓ                     | -  | -             |
| Ibolya dr. RAJMONNÉ VERES         | -  | 1             | Péter BESE                       | -  | 1             |
| dr. Bálint CSERE                  | -  | 2             |                                  |  |               |
| István Zs. NAGY                   | -  | -             |                                  |  |               |

\*with the exception of directorships held at Merkantil Bank

\*with the exception of directorships held at Merkantil Bank

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

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

| Board of Directors                        |  | Supervisory Board                           |   |
|---|--|---|---|
| <b>dr. László UTASSY</b>                  |  | <b>Ágota SELYMESI</b>                       |   |
| ELTE University, Faculty of Law, Budapest | MA in Law (1978), Legal advisor (1980)                                   | College of Finance and Accounting, Budapest | BSc in Finance (1973)   |
| <b>Péter KÖNTÖS</b>                       |  | Ministry of Finance, Budapest               | Tax adviser (1989)  |
| University of Economics, Budapest         | MSc in Economics (1979)  | Penta Unió Education Centre                 | Chartered accountant (1995), International tax adviser (2004) |
| Post-graduate School of Economics         | Complex Company Planning Analyst (1985)                                  | <b>Zsuzsanna SZABÓ</b>                      |   |
| <b>Tibor CSONKA</b>                       |  | University of Economics, Budapest           | MSc in Economics (1978)                                       |
| Szent István University, Gödöllő          | MSc in Agricultural Economics (2002)                                     | <b>Árpád SRANKÓ</b>                         |   |
| <b>dr. Ibolya RAJMONNÉ VERES</b>          |  | Corvinus University of Budapest             | Economist (2004)  |
| College of Szolnok                        | BSc in Economics (2001)  | <b>Péter BESE</b>                           |   |
| University of Economics, Budapest         | Economist in Project Management (2004)                                   | Corvinus University of Budapest             | Economist (2007)  |
| <b>dr. Bálint CSERE</b>                   |  |   |   |
| ELTE University, Faculty of Law, Budapest | MA in Law (2000)   |   |   |
| <b>István Zs. NAGY</b>                    |  |   |   |
| University of Szeged                      | Bachelor of Economics and Management (2000), Chartered Accountant (1999) |   |   |

## V.2. Credit risk adjustments

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

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

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

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

The parameters used in the impairment calculation are estimated by OTP HQ. Parameter estimation and backtesting shall be carried out at least annually. Parameter changes are approved by the OTP HQ Reserve Committee.

The backtest includes the examination of macro coefficients, default rates and LGL parameters.

In case of significant methodological changes, but in any case every 2 years, a stability test is required.

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

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

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

- Stage 1 category contains the performing deals.

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

All new disbursements will fall into stage1 category where the following criteria are not met (the stage1 category will not change until the objective stage2 or stage3 criteria are met or subjectively re-categorised):

- restructured,
- cross-border or joint financing, where the stage classification is stage 2 or 3 for other OTP group members.

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

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

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

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

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

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

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

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

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

A credit risk exposure shall be considered as restructured:

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

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

### **Special staggering rules during a pay moratorium**

A special staging rule is required for contracts under moratorium.

For claims under moratorium, the DPD shows the DPD before the moratorium. Contracts in stage3 remain in stage3 during the moratorium. The stage rating at the reporting date is always the worse of the current stage rating and the last valid stage rating before the start of the moratorium.

To determine the deterioration to stage2 and stage3, other subjective and objective triggers need to be monitored. In the case where reasonable and supportable information is available on the expected payment difficulties of the customer after the moratorium, the claim should be classified as stage2 or stage3.

If such an assessment cannot be made, a group SICR (significant increase in credit risk) assessment may be used. The SICR may be based on industry, rating category, similar portfolio

behaviour or any other classification that reflects the increased credit risk caused by the current situation.

A group SICR assessment of a segment shall require the use of a PD/PL vector for that SICR portfolio that best fits the segment among the bank's existing PD/PL vectors or is a combination of existing vectors.

The use of the SICR and the corresponding PD/PL vectors is subject to the approval of the OTP Group Reserve Committee.

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

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

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

The Merkantil Bank shall measure expected credit losses of a financial asset in a way that reflects:

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

### **Individual assessment**

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

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

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

Individually significant amount is the outstanding amount whose aggregate exposure at client/customer group level exceeds HUF 100 million, and HUF 250 million for a client with a standard product only. In the case of receivables not denominated in HUF, individually significant receivables are determined on the basis of the amount forwarded at the end-month central rate of the MNB.

- Receivables from retail customers, irrespective of amount, receivables from business customers subject to retail treatment, irrespective of amount, and all other receivables that do not individually reach the limit of individually significant receivables, shall be treated as individually non-significant receivables.
- The Directorate for Operations and Receivables Management is responsible for the individual assessment.

### V.3. Exposures in equities not included in the trading book on 31<sup>st</sup> December 2023

**Chart 16: Exposures in equities not included in the trading book according to IFRS on 31st December 2023**

| Number | Entity                                     | Balance sheet value<br>(in HUF million) | Listed<br>(Exchanged-traded) |
|--------|--|---|------------------------------|
| 1      | DSK Leasing AD                             | 209                                     | No                           |
| 2      | Garantiqa Credit Guarantee Closed Co. Ltd. | 10                                      | No                           |
| 3      | Merkantil Lease Service LLC                | 625                                     | No                           |
| 4      | OTP Property Leasing Ltd.                  | 50                                      | No                           |
| 5      | NIMO 2002 Ltd.                             | 1 477                                   | No                           |
| 6      | OTP Bank Romania S.A.                      | 0                                       | No                           |
| 7      | OTP Leasing d.d.                           | 116                                     | No                           |
| 8      | OTP Leasing Romania IFN S.A.               | 1 608                                   | No                           |
| 9      | OTP Travel Ltd.                            | 2 614                                   | No                           |
| 10     | SPLC Property Management Ltd.              | 182                                     | No                           |
| 11     | OTP Lizing d.o.o.                          | 505                                     | No                           |
| 12     | OTP Services                               | 262                                     | No                           |
| 13     | LLC OTP Leasing Ukraine                    | 1 790                                   | No                           |

#### V.4. Liquidity risk

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

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

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

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

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

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



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

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

Volume of deposits are not significant (5,0 bn HUF in 2023Q4). Majority of refinancing volume is interbank liability from OTP Bank. Other than OTP Bank, MNB (Hungarian National Bank) and Eximbank fundings are mentionable.

LCR buffer above regulatory level is 10 bn HUF in 2023Q4, which mainly originates from interbank deposits at OTP. Thanks to the liquidity pool concept, financing risk considered to be low.

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

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

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

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

## VI. APPENDIX

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

#### **Declarations**

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

OTP Bank’s Board of Directors approved the 2023-2025 Risk Strategy on December 7, 2022. The fulfilment of the objectives set out in the Risk Strategy is reviewed annually by the Board of Directors and the Supervisory Board.

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

OTP Bank regulates the Risk Appetite Framework at group level, the latest version of the regulations entered into force on January 1, 2023.

In accordance with the regulations on risk appetite, quantitative risk limits are set for domestic and foreign group member banks, which are in line with the Lending Policy and the Group Recovery Plan. In addition to the quantified limits, the risk appetite also includes risk appetite statements for credit, operational, market, liquidity, IRRBB, country and ESG risks; and risks tolerance statements on compliance, AML and cyber risks. The risk appetite and risk tolerance statements set out the minimum standards to be followed at banking group level.

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

*The Declaration of the appropriateness of the liquidity risk management framework has been approved by Asset Liability Committee.*

### Declaration

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

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

The following table contains the key liquidity risk indicators and their limits as of the end of 2023:

| Risk indicator   | 31.12.2023 fact | Limit        |
|--|-----------------|--------------|
| Foreign Exchange Coverage Ratio (regulatory)           | 6,5%            | maximum 15%  |
| Foreign Exchange Funding Adequacy Ratio (regulatory)   | 183,1%          | minimum 100% |
| Mortgage Financing Adequacy Ratio (regulatory)         | 37%             | minimum 25%  |
| Liquidity Coverage Ratio (regulatory) - OTP standalone | 216%            | minimum 100% |
| Liquidity Coverage Ratio (regulatory) - Group          | 246%            | minimum 100% |
| Net Stable Funding Ratio (regulatory) - OTP standalone | 128,7%          | minimum 100% |
| Net Stable Funding Ratio (regulatory) - Group          | 153,3%          | minimum 100% |
| Interbank Funding Ratio (regulatory)                   | 10,4%           | maximum 30%  |
| Primary liquidity reserves (internal)                  | 3 769 Mrd Ft    | 1 702 Mrd Ft |
| Operative liquidity reserves (internal)                | 3 756 Mrd Ft    | 1 922 Mrd Ft |

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