Annual Report

31 December 2023

OTP JELZÁLOGBANK
ZÁRTKÖRŰEN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG
(OTP MORTGAGE BANK PRIVATE COMPANY LIMITED BY SHARES)

CONTENT

Business report of the Management
(separate 2023)

In accordance with the recommendation stated in the current circular of the MNB on the application of MoF Decree no. 24/2008 on the detailed rules regarding the disclosure requirements applicable to publicly offered securities, OTP Jelzálogbank Zrt. as issuer prepares and publishes this Management Report combined with the Business Report required in the Accounting Act in a single document, stating in dedicated chapters the subjects required in the MoF Decree.

I. INTRODUCTION

OTP Jelzálogbank Zrt. (OTP Mortgage Bank Close Company Limited by Shares, hereinafter: "OTP Jelzálogbank", "the Mortgage Bank", "Bank" or "Company") is a specialized credit institution that was established as a company limited by shares with HUF 3 billion forint share capital and with 100% of its shares owned by OTP Bank Plc. (hereinafter: OTP Bank). The Company received its foundation permit on 21 September 2001; its operating license was issued by the Hungarian Financial Supervisory Authority on 10 January 2002. OTP Jelzálogbank started its operations as a specialized credit institution on 1 February 2002. The registered seat of the Company is located at 1138 Budapest, Váci út 135-139. D ép. and has no additional premises or branches.

The business profile of OTP Jelzálogbank is limited to the following: the granting of mortgage loans and determining the collateral value of real estate offered as collateral for such loans, the marketing of mortgage bonds for the financing of such lending and, via the trading of separate mortgage rights stipulated as collateral, the refinancing of the mortgage loans of commercial banks. The loan products comprise subsidized and unsubsidized housing loans and general-purpose mortgage loans.

In the period between 11 April 2002 and 4 August 2014, OTP Bank and OTP Jelzálogbank provided lending in a syndicated arrangement; since 2007, OTP Jelzálogbank has been disbursing loans of own origination as well. Since 2014 OTP Bank has acted as a preferred intermediary acting on behalf of OTP Jelzálogbank.

This business report is based on the audited separate annual report of OTP Jelzálogbank as of 31 December 2023, drawn up in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union.

II. THE BUSINESS ENVIRONMENT OF OTP JELZÁLOGBANK

Spinning out of control after the Covid crisis ended and the Russia-Ukraine war broke out, inflation started to decelerate in the advanced economies in 2023 but central bankers in the developed world were still forced to raise rates steeply even towards the latter half of the year; the rate hike cycle ended and conversations about potential dates for a future rate cut started only towards the end of the year. The labour market remained tight throughout this period, with low unemployment and dynamically rising wages. While long-term yields highs broke decades-long records on the advanced markets in the autumn, a steep correction then started towards the end of 2023.

Economic growth diverged on the two sides of the Atlantic. In the United States, economic growth defied forecasts by accelerating in 2023, with growth truly taking off in the second half of the year. Underlying the solid figures is a generous fiscal policy, household savings accumulating to their multiples during the pandemic and the fact that effective borrowing rates remained at low levels given the high prevalence of fixed-rate loans. Inflation reached its peak in June 2022 (+8.9%), but its subsequent decrease then stalled briefly in the middle of the year; core inflation, however, continued to decrease consistently, falling to 3.9% (yoy) by the end of the year. The extremely loose fiscal policy – which resulted in an increase of government deficit from around 5% to 8% of GDP – made it necessary for monetary policy to remain very tight in order to combat inflation. The Fed raised the key rate aggressively, to 5.25–5.5% and started to reduce its balance sheet at the same time.

Brought to its knees by the energy crisis, the economy of the euro area has been unable to recover against a backdrop of high inflation and high interest rates and has essentially stagnated since the third quarter of 2022. The crisis has been most damaging for countries such as Germany that used to rely extensively on Russian energy. High interest rates led to a standstill in lending, which also hindered return to growth in Europe. With substantial disinflation in 2023, inflation and core inflation in the euro area had fallen to 2.8 and 3.3%, respectively, by the end of the year. The main cause for concern in this respect is the services sector, where inflation rates have stagnated at 4.0% (yoy) since November last year. In spite of weak growth and significant disinflation, the ECB was not yet considering a rate cut; as of the end of last year, the euro area deposit rate and the key interest rate stood at 4% and 4.5%, respectively.

In 2023 the Hungarian economy sank into recession (GDP yoy, %: Q1:-0.9; Q2:-2.4; Q3:-0.4; Q4 (forecast): 0.0). But recession ended in the third quarter and quarter-on-quarter growth returned, due in part to the base effect of singularly weak agricultural performance in 2022. Overall, the overall underlying trends in the Hungarian economy show that activity levels fell significantly in 2022/Q4 and 2023/Q1 and have stagnated or marginally increased in the period since then. The structure of growth is not favourable: although the significant fall in domestic absorption is mitigated by the rise in net exports, this is not due to solid expansion in exports but a fall in imports due to weak domestic demand.

The rate of inflation peaked 10 percentage points higher than the regional average in January 2023; it was from that rate of 25.7% that disinflation started in the spring. As disinflation accelerated from the middle of 2023, the rate of inflation had shrunk to 5.5% yoy by December, resulting in an average annual inflation rate of 17.6% for 2023. In the middle of the year real wages returned to growth on a month-on-month basis but this had very little impact on the changes in consumption spending.

Following a current account deficit of 8% in 2022, the external balance turned to surplus last year as gas prices collapsed and the fall in domestic demand drove down imports. The fast rise in debt ratios observed between 2020 and 2023 came to a halt.

The original budget deficit target of 3.9% of GDP proved unsustainable and was raised to 5.2% in October; last year's accrual-basis budget deficit may have exceeded 6% of GDP even after the contribution of dividends from MVM and saving on the utilities protection fund.

By the end of the year the MNB had cut the effective rate in several steps, by a total of 725 basis points, so that the rate, which had been raised to 18% in the autumn of 2022, reached 10.75%; since September, the role of effective rate is again served by the key rate, as the previous practice of using the overnight deposit for this purpose was ended. The EUR/HUF cross-rate slipped from around 400 at the beginning of the year to below 370 in the summer but ended the year stabilizing at around 380.

The matter of EU funds was on the agenda throughout 2023 and progress was achieved in the talks towards the end of the year as the European Commission approved in December the horizontal enabling conditions associated with judicial reform. By implementing a variety of measures last year, the government was able to free up approx. EUR 11 billion in EU funds.

As in Western Europe, the credit market froze in the CEE region and Hungary as well in the autumn of 2022. Some recovery was apparent towards the end of 2023, especially in retail lending, and therein primarily in government-subsidized housing loans, across 2023 housing loan portfolios expanded by 1.3% (2022: 7.6%).

III. THE GOALS, STRATEGY AND BUSINESS PERFORMANCE OF OTP JELZÁLOGBANK IN 2023

The economic downturn was also reflected on the residential construction market. The number of construction permits issued in 2023 equalled 61% of the previous year's figure, whereas that of occupancy permits decreased at a smaller rate, representing 91% of the 2022 figure. Due to the reasons described in the previous chapter (decrease in housing market transaction numbers, out-of-control inflation, high loan interest rates), demand for housing loans also contracted in 2023. New mortgage loan contract amounts were 46.2% smaller than in the previous year, including a decrease by 50.2% in housing loan contracts versus an increase by 12.9% in general-purpose mortgage loan agreements.

As a member of the OTP Banking Group, OTP Jelzálogbank formulates its plans and adopts its decisions in line with the Group's strategic objectives. Our aim is to retain our position as market leader in retail mortgage lending. In the reporting year the Banking Group achieved a market share of 31.8% in terms of new contract portfolios.

	New contract amount (HUF bn)				Market share	
	Market		OTP Group		OTP Group	
	2022	2023	2022	2023	2022	2023
Housing loan	1 195,16	594,79	381,75	188,60	31,9%	31,7%
General-purpose mortgage loan	80,52	90,92	30,11	29,28	37,4%	32,2%
Total	**1 275,68**	**685,71**	**411,86**	**217,88**	**32,3%**	**31,8%**

In 2023 OTP Jelzálogbank extended HUF 251.2 billion in retail housing loans; this is equal to 68.8% of the previous year's volume. Within this, demand for housing loans fell to 66.2% and for general-purpose mortgage loans to 99.7% according to the previous year. 88.5% of the retail mortgage loans disbursed were housing loans and 11.5% were general-purpose mortgage loans.

OTP Jelzálogbank Zrt.	Loans disbursed (HUF bn)	
	2022	2023
Housing loan	336,1	222,4
General-purpose mortgage loan	28,9	28,8
Total	**365,0**	**251,2**

Jelzálogbank received a total of HUF 196.4 billion in loan repayments in the reporting year, including early repayments of HUF 63.2 billion.

As the Company no longer disburses land development loans, the nominal gross portfolio decreased from HUF 2.3 billion to HUF 1.9 billion.

The market share of OTP Group within retail mortgage lending increased further in 2023 and stood at 30.9% as of the end of the year.

	Closing balance (HUF bn)				Market share	
	National		OTP Group		OTP Group	
	2022	2023	2022	2023	2022	2023
Housing loan	4 942,5	5 005,5	1 522,6	1 565,1	30,8%	31,3%
General-purpose mortgage loan	751,5	733,8	212,3	210,7	28,2%	28,7%
Total	**5 694,0**	**5 739,3**	**1 734,9**	**1 775,8**	**30,5%**	**30,9%**

In addition to the retail mortgage lending that constitutes its main profile, the Mortgage Bank also provides refinancing loans to commercial banks. Mortgage bank refinancing is implemented through the sale and purchase of standalone mortgage rights: the commercial bank sells to OTP Jelzálogbank the independently marketable mortgage rights associated with the mortgage loans granted by it and, at the same time, makes a commitment to repurchase the mortgage rights. The mortgage loans remain on the balance sheet of the commercial bank, which bears the associated credit risks; the commercial bank also takes care of any client-related duties. In the event of non-performance by a commercial bank, the Mortgage Bank becomes the mortgagee of the standalone mortgage and the beneficiary of the receivable secured by it. Having launched its refinancing operations in 2017, OTP Jelzálogbank had refinancing arrangements with two commercial banks as of 31 December 2023; the principal outstanding under its refinancing loans amounted to HUF 164.7 billion in total.

Its property valuation business line is closely linked to its lending operations; the dynamism of the latter has a significant impact on valuation volumes. The business line had completed 84,200 valuations in the previous year but only 61,300 in 2023.

Two new mortgage bonds were issued in 2023, with nominal values of HUF 25.0 billion and EUR 500 million. Matured bonds amounted to HUF 45.0 billion in total and redemptions to HUF 25.0 billion. The nominal value of mortgage bonds in circulation rose to HUF 1,117.5 billion by the end of the year. While this was still well below the nominal gross portfolio of loans (HUF 1,693.0 billion), mortgage bonds and equity are supplemented with amounts due to banks and other liabilities to finance mortgage loans.

In terms of mortgage bonds in circulation on the Hungarian market, OTP Jelzálogbank further strengthened its market leader position in the reporting year. It had a 53.3% market share at the end of the year.

Mortgage bond market structure in 2023 (nominal value):

	2022.12.31		2023.12.31	
	HUF bn	share	HUF bn	share
OTP Jelzálogbank Zrt.	971,1	50,05%	1 117,5	53,34%
Takarék Jelzálogbank Nyrt./MBH Jelzálogbank Nyrt.	367,2	18,93%	387,2	18,48%
UniCredit Jelzálogbank Zrt.	245,8	12,67%	263,0	12,55%
Erste Jelzálogbank Zrt.	169,1	8,71%	155,5	7,42%
K&H Jelzálogbank Zrt.	187,0	9,64%	172,0	8,21%
Total	**1 940,2**	**100,00%**	**2 095,2**	**100,00%**

2023 was a year when the economic trends reversed as the combined result of recovery from the coronavirus crisis, out-of-control inflation, interest rates and energy prices, war and continued expectations of recession; solvent demand contracted and the property and lending markets were at their lowest for years. The repayment moratorium had been phased out but the interest rate cap remained in place all through the year. It is probably due to this fact that there was no credit crisis or general deterioration in portfolio quality. In this tense economic environment the Banking Group did extremely well; using an innovative business policy, it managed to retain its market leader position and market share in almost all markets.

IV. THE MAIN RESOURCES AND RISKS OF THE COMPANY; RELATED CHANGES AND UNCERTAINTIES (MoF Decree no. 24/2008. (VIII. 15.), Annex 1, Section 4.3)

IV.1. Market risks

The main line of business of OTP Jelzálogbank is the disbursing of mortgage loans; the Mortgage Bank secures the necessary funds for this operation mainly by selling publicly issued mortgage bonds and by relying on money and capital market sources. Due to the nature of its operations OTP Jelzálogbank is exposed to market risks.

Credit risk is the risk of financial loss arising from borrowers and interbank market counterparties defaulting on their contractual obligations to OTP Jelzálogbank. The Mortgage Bank aims to maintain the good credit quality of its mortgage loan portfolio; for more details, see Chapter “VII. The mortgage loan portfolio” and the notes to the Annual Report.

Structural differences between OTP Jelzálogbank’s assets and liabilities — maturity, interest, currency mismatches — expose the Mortgage Bank to interest rate and exchange rate risks. It manages these market risks through the terms for the mortgage bonds marketed and by contracting derivatives transactions. OTP Jelzálogbank aims for a risk-neutral position in its asset-liability structure. Its aim is to develop and maintain a position where assets and liabilities are hedged in an aggregate manner through a dynamic approach to the indicators listed.

The prepayment of mortgage loans represents a risk for OTP Jelzálogbank and constitutes a risk component impacting on asset-side terms and profitability. The refinancing risks associated with OTP Jelzálogbank’s maturing bonds are of special significance.

IV.2. Operational risk

Operational risk means the probability of losses arising from any inadequately defined or incorrectly executed business processes, damage caused by people or inadequate operation of systems, or losses originating from the external environment. OTP Jelzálogbank works on keeping its operational risks to a minimum through constant control and strict demarcation of its internal processes and operations, and by raising risk awareness. Operational risks may arise in all banking processes due to their nature; accordingly, OTP Jelzálogbank also has responsibilities in relation to managing such risks. OTP Jelzálogbank manages its operational risks through tight internal control mechanisms and relying on a uniform group-wide methodology implemented in conjunction with OTP Bank.

IV.3. External risk factors

Banking and financial services are highly exposed to changes in different economic factors. Adverse changes in the economic environment may have a negative impact on the financial management of OTP Jelzálogbank through a variety of factors: on the portfolio of previously disbursed loans through the solvency of debtors, on the volume of new mortgage loans through market demand, and on the financing costs of OTP Jelzálogbank through the money and capital markets.

IV.4. Legal and regulatory risks

It cannot be excluded as a possibility that the government of the day or the Hungarian National Bank (MNB) adopts an economic policy, budgetary or monetary measures that may influence the Hungarian financial market, the real estate market or real estate financing directly or indirectly and thereby have a direct or indirect impact on the profitability of OTP Jelzálogbank.

Changes in banking law, company law, contract law, property law, bankruptcy law, competition law, securities law, mortgage law and other regulations carry significant risks; unpredictable changes to Hungarian and European Union legislation may have direct and indirect effects on OTP Jelzálogbank's business operations and profits.

Changes to taxation may also constitute a risk factor.

IV.5. Compound risks

The risks listed in this chapter may arise simultaneously and be mutually reinforcing; examples have included the COVID-19 pandemic and the extraordinary government measures and their underlying risks; detailed information on these is available in the notes to the Annual Report and the chapters "The mortgage loan portfolio" and "Evaluation of the 2023 financial management of OTP Jelzálogbank".

V. EVALUATION OF THE 2023 FINANCIAL MANAGEMENT OF OTP JELZÁLOGBANK

The macroeconomic background to OTP Jelzálogbank's financial management in 2023 was an inflationary environment, an economic downturn that also affected the housing market, and government decisions taken to deal with the consequences. The most impactful of these measures was the repeated extension of legislation, first introduced at the end of 2021, on the interest rate cap for variable-rate loans; the resulting drop in interest income was coupled with persistently very high interest rates on variable-rate finance. High interest rates caused the growth of the loan portfolio to slow down already in the fourth quarter of 2022; this then continued in the reporting year.

The Company retained its market leading position on both the mortgage lending market and the mortgage bond market.

Economic policy measures and other relevant regulatory changes after the balance sheet date

The section below presents the economic policy measures taken and other events occurring after the balance sheet date until 20 February 2024 that OTP Jelzálogbank considers relevant and that have materially affected or may materially affect the operation of the Group members.

- On 26 January 2024 Scope Ratings affirmed Hungary's long-term local- and foreign-currency issuer and senior unsecured debt ratings at 'BBB' and its outlook as stable.

- On 30 January 2024 the MNB reduced its policy rate by 75 bps to 10.0%.

- Capital regulation:
    - On 22 June 2022 the MNB announced that it would delay the introduction of the countercyclical capital buffer rate at the planned rate of 0.5% by one year from the original date of 1 July 2023 to 1 July 2024 and would, for preventative purposes, reactivate the systemic risk buffer on commercial property loans (especially non-performing loans).

- Pillar 2 capital requirement: effective from 1 January 2024 the MNB required the following additional capital to be held by OTP Bank:
  - 0.9 percentage points for Common Equity Tier 1 (CET1), resulting in a mandatory CET1 minimum of 5.4% (excluding regulatory capital buffers);
  - 1.2 percentage points for Tier 1 capital, resulting in a mandatory Tier 1 minimum of 7.2% (excluding regulatory capital buffers);
  - 1.6 percentage points for the fully loaded capital adequacy ratio, resulting in a mandatory TSCR minimum of 9.6% (excluding regulatory capital buffers).

The Company's capital adequacy already exceeds the above new levels and can therefore fully satisfy these requirements.

Audited separate IFRS figures of OTP Jelzálogbank as at 31 December 2023

Changes in assets and liabilities

The balance sheet total as at 31 December 2023 amounted to HUF 2,400.6 billion, up 9.9% on the previous year. The Company closed the reference period with after-tax profits of HUF 11.7 billion.

This report provides a business-focused breakdown of the results of financial management and, as such, in some cases rounding may result in figures that deviate from those in the financial statements.

Some illustrative financial management figures:

figures in HUF million

Description	2022.12.31	2023.12.31	Variance 2023 vs. 2022
Placements with other banks	217 553	371 451	153 898
Securities portfolio	310 163	317 033	6 870
Loan portfolio at IFRS valuation	1 620 917	1 666 357	45 440
Total assets	2 185 296	2 400 643	215 347
Amounts due to banks	1 059 717	1 117 388	57 671
Mortgage bond portfolio at IFRS valuation	971 466	1 122 699	151 233
Shareholder's Equity	129 226	137 786	8 560

The net portfolio of customer loans grew at a more moderate pace of 2.8%, compared with the 5.1% increase in the previous year. The amount of the impairment recognized on the customer loan portfolio carried at amortized cost in 2023 is HUF 12.1 billion, which is HUF 4.5 billion lower than in the previous year.

Total placements with other banks amounted to HUF 371.5 billion, of which refinancing loans (at net value less impairment) amounted to HUF 164.9 billion.

On the liabilities side, the main liabilities are issued securities and amounts due to banks.

At the end of the reference period, the IFRS value of mortgage bonds issued with a nominal value of HUF 1,117.5 billion (including amortization differences, accruals and fair market value differences) amounted to HUF 1,122.7 billion. In 2023, the IFRS portfolio of mortgage bonds increased by HUF 151.2 billion.

The two main components of amounts due to banks are loans granted by OTP Bank for financing purposes (HUF 930.1 billion) and secured loans received from the MNB (HUF 187.2 billion).

Significant among the latter loans is the HUF 144.2 billion portfolio of the MNB's refinancing loans, providing the source of the loans disbursed under the MNB's 'Green Housing Support Programme' (MNB ZOP), which is shown in the balance sheet at a much lower value (HUF 70.7 billion) due to interest-free financing and the initial adjustment.

Equity rose by 6.6% year-on-year as a result of after-tax profits. The Company has consistently met the capital adequacy ratio requirements set out by law. At the end of December 2023, the Mortgage Bank's own funds amounted to HUF 136.7 billion and the closing value of the capital adequacy ratio was 17.8%.

Changes in P&L

OTP Jelzálogbank closed 2023 with a profit: its net after-tax profits amounted to HUF 11.7 billion.

figures in HUF million

Description	2022.12.31	2023.12.31	Variance 2023 vs. 2022
Total Interest income	120 870	189 383	68 513
of which: Placement with other banks	*16 099*	*33 133*	*17 034*
of which: Interest income from securities	*9 159*	*17 469*	*8 310*
of which: Interest income from loans	*94 389*	*135 921*	*41 532*
Interest expense	-108 416	-154 849	-46 433
of which: Amounts due to banks	*-52 554*	*-64 030*	*-11 476*
of which: Interest paid on mortgage bonds	*-55 081*	*-86 836*	*-31 755*
Pre-tax profit/loss	-9 131	13 070	22 201
After-tax profit/loss	-9 726	11 746	21 472

The income structure of the credit institution is mainly determined by the interest margin, which amounted to HUF 34.5 billion as a result of interest income of HUF 189.4 billion and interest expenses of HUF 154.9 billion.

The most significant item of interest income received by the Company is interest income on customer loans, which amounted to HUF 135.9 billion, including HUF 28.7 billion in interest subsidies paid by the state on the assets and liabilities side.

Interest income from refinancing loans, which are included in placement with other banks, and from government securities amounted to HUF 25.1 billion and HUF 17.5 billion, respectively.

The main items of interest expenses are interest expense recognized on issued mortgage bonds and their hedging transactions (HUF 86.8 billion) and interest paid on amounts due to banks (HUF 64 billion).

The net result of fees and commissions is a loss of HUF 3.9 billion. The most significant items of fee and commission income are fee incomes from the collateral valuation business and other lending-related fee income. The majority of fee and commission expenses, which exceed revenues by an order of magnitude, are fees and commissions paid to OTP Bank in connection with lending activities.

Due to the modification the net profit/loss row shows the HUF 17.5 billion loss resulting from the interest rate cap, extended to the second half of 2023 and the first half of 2024, relating to amortized loans valued at first cost.

Other administrative expenses amounted to HUF 5.4 billion. Of this, actual operating expenses accounted for only HUF 1.7 billion, while the remaining HUF 3.7 billion were tax and tax-type expenditures not dependent on the result for the reference period: the special bank tax accounted for HUF 1.9 billion, the extra profit tax for HUF 1.1 billion, and contributions paid to the MNB (supervisory fee, resolution fund) for HUF 0.7 billion.

VI. THE SECURITIES ISSUANCE OPERATIONS OF OTP JELZÁLOGBANK

VI.1. Asset-liability management

OTP Jelzálogbank follows a conservative treasury policy, the primary objective of which is to ensure the most adequate funding for its lending activities both in the short and the long term while also minimizing market risks. Its main objective is to have a profitable portfolio of loans and mortgage bonds with minimal risk, and matching the assets and the liabilities of the Mortgage Bank to the greatest possible extent in respect of term, currency and interest rate.

In its medium-term strategic plan, it remains a top priority for OTP Jelzálogbank in 2024 to secure the cheapest possible sources of funding for mortgage lending by both the Mortgage Bank and the entire Banking Group. A further important objective is to participate in group-wide product development and asset-liability management within OTP Group, helping both the Mortgage Bank and OTP Group retain their market positions.

VI.2. Bond issuance

Mortgage bond issuances play an important role in shaping the asset-liability structure of OTP Jelzálogbank. Priorities to consider when devising the terms and conditions for mortgage bonds to be marketed include alignment between medium- and long-term maturities, managing interest rate and currency risks, contributing to an optimal group-wide asset-liability structure at OTP Group and ensuring that the mortgage funding adequacy ratio stipulated in the MNB Decree on the alignment of the maturities between mortgage based assets and liabilities of credit institutions is complied with at all times.

In 2023 OTP Jelzálogbank issued mortgage bonds for a nominal value of HUF 25 billion under its domestic issuance scheme and a nominal value of EUR 500 million under its international insurance programme authorized by the supervisory authority of Luxembourg. To manage currency risk, the Company converted the liquidity inflows from the EUR mortgage bonds into HUF using derivatives contracts. As of the end of the year, OTP Jelzálogbank had mortgage bonds for a total nominal value of HUF 1,117.5 billion in circulation (the HUF value of its bonds denominated in euros was calculated at the official foreign exchange rate of the MNB as of the end of the year).

VI.3. Money and capital market transactions

In addition to equity and the mortgage bonds issued, the sources of funding used by OTP Jelzálogbank also include interbank loans, among them loans from OTP Bank and Magyar Nemzeti Bank. As is the case with the issuing of securities, the primary objective of money and capital market deals is to provide liquidity on a continuous basis, hedge financial risks and comply with the legislative requirements concerning liquidity. Free cash is invested solely in government securities or deposited with OTP Bank via the interbank market. As of the end of 2023 the nominal value of the government securities held by OTP Jelzálogbank amounted to HUF 354.4 billion.

VII.THE MORTGAGE LOAN PORTFOLIO

VII.1. Portfolio structure

The following two tables present the breakdown of the client loan portfolio by tenor and by region.

Loan portfolio breakdown by tenor		
tenor	**2022.12.31**	**2023.12.31**
0 to 5 years	4,09%	4,05%
5 to 10 years	14,70%	11,73%
10 to 15 years	14,76%	14,90%
15 to 20 years	32,39%	33,45%
over 20 years	34,06%	35,87%
Total:	**100,00%**	**100,00%**

Loan portfolio breakdown by region		
region*	**2022.12.31**	**2023.12.31**
Central Region	43,83%	44,06%
Southern Great Plain Region	11,19%	10,99%
Southern Transdanubia Region	8,45%	8,22%
Northern Transdanubia Region	19,31%	19,34%
North-East Hungary Region	17,22%	17,39%
Total:	**100,00%**	**100,00%**

**Due to reorganization at OTP Bank, the regional structure of the Group differs from what is presented in the table; for risk management purposes, the data are still categorized into five regions*

There was a significant year-on-year increase in the proportion of loans with a tenor of more than 10 years within the portfolio. As of the end of 2023 most loans are in the tier of tenors of more than 20 years.

There were no material changes in the regional distribution.

In addition to lending to clients, there was a significant volume of refinancing via redemptions of standalone mortgage rights (hereinafter: refinancing loans); the book value of loans to credit institution partners was HUF 164.9 billion as of the end of 2023.

VII.2. Portfolio quality

The receivables of OTP Jelzálogbank in a breakdown by days overdue:

Gross IFRS portfolio (HUF bn)	2022.12.31	2023.12.31	Annual change
A (0-30 days)	1 622,5	1 680,8	58,3
B (31-60 days)	6,2	5,7	- 0,5
C (61-90 days)	3,0	2,8	- 0,2
D (91-180 days)	4,5	4,7	0,2
E (180+ days)	5,9	8,4	2,5
Total	**1 642,1**	**1 702,4**	**60,3**
A (0-30 days)	98,81%	98,72%	-0,09%
B (31-60 days)	0,37%	0,34%	-0,03%
C (61-90 days)	0,18%	0,17%	-0,01%
D (91-180 days)	0,28%	0,28%	0,00%
E (180+ days)	0,36%	0,49%	0,13%
Total	**100,00%**	**100,00%**	**0,00%**

As of the end of 2023 receivables more than 30 days overdue represented 1.28% of the total loan portfolio, 9 basis points higher than at the end of the previous year. There was a small increase in the proportion of debtors more than 90 days in arrears. The repayment moratorium introduced by legislation on epidemiological preparedness allowed the Bank’s clients to suspend their principal repayments and interest payments temporarily; some clients of OTP Jelzálogbank were still availing themselves of this possibility at the end of 2022. Almost all loans left the moratorium in 2023 (with only a negligible amount of loans remaining within its scope at the end of the year). Even so, there was no material increase in the proportion of overdue loans.

Facility rating and impairment calculation are subject to rules that are standardized across the Banking Group. In the impairment calculation model, the expected loss and impairment amounts are calculated on the basis of default categories, product/product group, collateral, credit risk stages (performing, showing significant increase in credit risk, non-performing) and fact of restructuring, as well as the expected recovery on the individual collateral items for the transaction. As of 31 December 2023 impairment recognized on client loans amounted to HUF 16.5 billion.

Although the refinancing loans are not in arrears, impairment must be raised for them under the IFRS9 standard; the year-end impairment figure was a mere HUF 157.2 million.

The Bank sold all loans where extensive debtor protection and collection measures failed. In 2023 this meant selling a total of HUF 1,252 million in loan receivables.

VII.3. Foreclosures

As mentioned in the section above, OTP Jelzálogbank tends to sell the receivables where it is unable to restore contractually compliant performance. The disposal of a receivable generally follows its cancellation but may also precede it in certain product groups. No new foreclosures were brought in either 2022 or 2023. As of the end of 2023 there were no loans subject to foreclosure in the portfolio of OTP Jelzálogbank.

To date, the Mortgage Bank has not taken advantage of its right under the law to take over or buy real estate subject to its mortgage rights in a foreclosure proceeding.

VIII. NON-FINANCIAL STATEMENTS PUBLISHED DUE TO STATUS AS PUBLIC-INTEREST ENTITY

OTP Jelzálogbank does not classify as a public-interest entity under Section 95/C of Act C of 2000 and is therefore not obligated to publish non-financial statements. Nevertheless, in view of the significant role the Banking Group plays both within Hungary and internationally, information relevant to this topic is presented briefly below.

VIII.1. Short description of the Company’s business model

The main profile of OTP Jelzálogbank Zrt. includes

- financing the construction, purchase, modernization and refurbishing of residential real estate,
- determining the market and collateral values of properties, and
- issuing mortgage bonds and
- providing refinancing loans for commercial banks.

Its portfolio comprises first of all non-subsidized HUF-denominated home and general-purpose loans of own origination, combined with a purchased portfolio comprising mainly government-subsidized housing loans as well as housing and general-purpose mortgage loans. In 2023 OTP Jelzálogbank granted HUF-denominated subsidized and unsubsidized home and general-purpose mortgage loans to clients and refinancing loans to commercial bank partners via contracts for the redemption of standalone mortgage rights. These loans are sold by OTP Group and third-party financial intermediaries under agency agreements. The other main pillar of its business model is the issuance of mortgage bonds, firstly to provide finance for the Bank's lending activity and secondly to achieve compliance with the laws applicable to certain government-subsidized retail mortgage loan products.

The operations of OTP Jelzálogbank and OTP Group are closely interlinked:

- in selling the loans, OTP Group plays a significant role as an intermediary;
- the development and regulation of retail mortgage products is done by OTP Jelzálogbank in conjunction with the Retail Lending Tribe of OTP Bank. The approval process is fully automated; the OTP Bank branch network and OTP Jelzálogbank use electronic systems to approve the loan applications;
- much of the retail loans in OTP Jelzálogbank's portfolio are financed via mortgage bond issuance. OTP Jelzálogbank works with OTP Bank's Global Markets Directorate in the marketing process;
- the corporate current account, the employer housing fund account and the FX nostro accounts of OTP Jelzálogbank Zrt. are managed by OTP Bank;
- OTP Jelzálogbank rents its offices from OTP Real Estate Fund. In order to take advantage of the economies of scale inherent in putting in place a shared technical infrastructure, certain financial, accounting, reporting, risk management and information technology roles are performed on behalf of OTP Jelzálogbank by the Shared Service Centre, which was created virtually from the relevant organizational units of OTP Bank.

OTP Jelzálogbank does not carry out research and development activities.

VIII.2. Policies on environmental protection, social and employment matters, respect for human rights, anti-corruption and anti-bribery

With the exception of employment policy, OTP Jelzálogbank has not adopted its own policies on these matters, given the nature of its operations, therein especially the resource usage and operational circumstances of the tasks carried out on its behalf by entities other than OTP Group member companies. The reasons for this and a description of the results are provided in the sections below. Chapter IX contains a summary of the results of the Company's employment policy.

VIII.3. Environmental protection

The Banking Group and therein OTP Jelzálogbank do not have operations hazardous for the natural environment and, accordingly, they do not incur material risks in this respect. The Company still pays special attention to reducing energy and paper use in the course of its operations and services by increasing the electronic flow of information, and organizing its operations taking into consideration the criteria of environmental protection.

Further, OTP Jelzálogbank is committed to helping achieve environmental protection and climate goals. To this end, in 2021 the Company created its Green Strategy and Green Mortgage Bond Framework, which formalize the principles and objectives enabling the Mortgage Bank to facilitate the protection of the environment in an efficient and active manner. The Company was the first in Hungary to join the Energy efficient Mortgages Action Plan (EeMAP) initiative promoting energy efficient mortgage lending; in doing so, it made a commitment to green lending and the creation of a green mortgage bond issuance framework. In 2021 OTP Mortgage Bank became the first operator on the Hungarian market to issue green mortgage bonds, the proceeds of which will be allocated for the purposes of financing green mortgage loans. In its Green Mortgage Bonds Report, published for the first time in 2022, the Company reported on its portfolio of green mortgage bonds and the environmental impacts achieved from such operations. The Company added the OTP Green Housing Loan to its product range in 2023.

VIII.4. Social and welfare issues, corporate social responsibility, respect for human rights

Both on its own and as a member of OTP Group, OTP Jelzálogbank supports the development of communities, sports, financial literacy and empowerment.

Respect for human rights is a priority for the Company in its relations with clients, business partners and employees alike. OTP Group lays special emphasis on this matter when drawing up its regulations, organizational processes, communications and complaints handling, and so does, indirectly, OTP Jelzálogbank as well; there are no material risks present in this respect. There are no significant risks regarding the respect of the human rights of the employees of OTP Jelzálogbank. Its achievements in this matter are clearly demonstrated by the fact that employee turnover is low and there are no complaints or lawsuits against it under labour law.

VIII.5. Material anti-corruption and anti-bribery risks

As a result of the division of labour within OTP Group, only a limited number of decisions may entail corruption/bribery risks.

Fight against corruption and against the practice of bribery

The Code of Ethics (https://www.otpbank.hu/static/portal/sw/file/OTP_EtikaiKodex_EN.pdf) , the Partner Code of Ethics (https://www.otpbank.hu/static/portal/sw/file/OTP_Partneri_EtikaiKodex_EN.pdf) publish in 2023 and the Anti-Corruption Policy of OTP Bank Group contains provisions on the fight against corruption and against the practice of bribery, also on the acceptance of individual differences and the denial of discrimination (https://www.otpbank.hu/portal/en/EthicalDeclaration, Anti_Corruption_Policy.pdf (otpbank.hu)).

As it can be read in the foreword of the Code and the Anti-Corruption Policy as well, the OTP Bank Plc. and its management have adopted the principle of zero tolerance towards corruption and bribery, taking a definite stance against all forms of corruption and giving full support to the fight against corruption. In addition, the Code states that "As an ethical and compliant institution, the Bank and its management are fully committed to ensuring observance of all relevant legislation, including anti-corruption statutes."

The OTP Bank Plc. has set up an ethics reporting system (whistleblowing), which is for the reporting and the handling of the reports on suspected or actual violation of the values set forth in the Code of Ethics, where anonymous reporting of ethics issues is also possible. The OTP Bank Plc. conducts inquiries for the purpose of detecting, preventing anomalies in connection with reports made or anomalies it became aware of otherwise.

Through the OTP Bank Plc.'s ethics reporting system a total of 93 reports were received in 2023. In 29 of these reports, we deemed it necessary to conduct an ethical procedure and 8 case’s investigation resulted in declaring ethics offense.

The OTP Bank Plc. has created and maintains its Code of Ethics to keep reputational risk and financial losses, which may incur in relation to corruption, bribery and discrimination, on a minimum level. Both employees and newcomers receive education on the Code of Ethics, and in addition, the acceptance to be bound by it is a prerequisite for their employment.

In addition, all business partners and clients are communicated about the Anti-Corruption Policy and procedures through the Code of Ethics and Anti-Corruption Policy published publicly on the OTP Bank Plc.'s website and from 2023 the Partner Code of Ethics has been published on the

Bank’s website as well. The Anti-Corruption Policy stipulates that, in view of the fact that existing and established relationships with contractual partners also contain the possibility of corruption, the OTP Bank Plc. will act prudently in its dealings with contractors, in particular in the tendering and preparation process, to minimise the risk of corruption. The OTP Bank Plc. establishes relationships with its contractual partners based on an assessment of professionalism, competence and competitiveness, and does not apply other non-professional selection criteria that contain the possibility of corruption.

Based on the Compliance’s proposal, the prohibition of corruption will be reflected in the contractual and regulatory documents used by the OTP Bank Plc. in a clearer and well-defined manner from 2023 onwards, through the inclusion of anti-corruption clauses in the business rules and standard contracts. The clause will state from the very beginning of the business relationship that the contracting partner accepts OTP Bank Plc.'s anti-corruption principles, including the prohibition of corruption and the consequences of breaching this prohibition, which can even be termination of contract.

Any requests from third parties affecting human rights are treated by the OTP Bank Plc. as a priority.

We manage the risks regarding the fight against corruption and bribery within the framework of our operational risk management process. Our quarterly compliance reports cover the changes in risks as well as the steps necessary steps to manage them. The reports are presented to the Executive Steering Committee and the Board of Directors; the annual report is also submitted to the Supervisory Board.

VIII.6. Non-financial key performance indicators relevant for specific business activities

Beyond non-quantifiable general customer satisfaction and compliance with the law, the most important performance indicators are all financial data.

IX. ORGANIZATIONAL STRUCTURE, EMPLOYMENT POLICY

In close cooperation with OTP Bank and taking advantage of the synergies within OTP Group, OTP Jelzálogbank structures its organization and determines the optimal employee headcount based on the nature and the amount of the tasks to be delivered. Loans are sold via the branch network of OTP Bank, which has decades of experience in this field, and also via the increasingly important sales partners, while a centralized organizational unit with nationwide coverage contributes to offering clients an ever wider range of services. OTP Bank performs financial, accounting, reporting, risk management and information technology services for OTP Jelzálogbank under a separate agreement.

Organizational structure

The organizational structure of the Company is determined mainly by the types of operations performed by it. The day-to-day work of the Company is managed and overseen by the Chief Executive Officer. The Chief Executive Officer of the Company and the Deputy CEOs responsible for general matters and for property valuation assess the risks of initiatives and ensure that resources are used economically and that operations serve the best interests of the Company’s shareholder. The operational structure comprises one department (reporting directly to the Deputy CEO responsible for property valuation) and three business lines (overseen by the Deputy CEO responsible for general matters); in order to achieve greater efficiency, management and control over these organizational units is shared by the Deputy CEOs in the way described above. The allocation of business lines is also subject to the higher-level management and oversight principles associated with the division of labour.

On the medium-term, the Company aims to develop its organization according to the following criteria:

- create a cost-effective organizational structure to support operations,
- adjust the headcount model to ensure legal compliance and meet market needs,
- continually improve the skills of human resources, support professional further training,
- employ highly qualified staff.

Employment policy

In addition to what is described in the section on its organizational structure, priorities in the Company's employment policy include:

- maintaining the real value of employee wages and providing competitive remuneration,
- developing a wide range of fringe benefits,
- creating a complex incentive scheme for employees to ensure all duties are performed,
- creating and operating in conjunction with OTP Bank a professional and advocacy scheme for employees.

The Company's employment policy includes employing and supporting disabled persons in accordance with prevailing law.

As of 31 December 2023 the Company had 40 active employees. The Company places emphasis on professional training for its employees, ensuring that it has access to highly trained staff at all times.

X. QUANTITATIVE AND QUALITATIVE PERFORMANCE MEASURES AND INDICATORS (MoF Decree no. 24/2008. (VIII. 15.), Annex 1, Section 4.5)

Since it is subject to consolidated supervision together with OTP Bank Plc. pursuant to the decision of the Hungarian National Authority (previously: HFSA), OTP Jelzálogbank Zrt. is included in the institutional scope of the Banking Group's Remuneration Policy drawn up by OTP Bank Plc. as credit institution heading the Banking Group in accordance with the third amendment to the Capital Requirements Directive accepted by the European Union (2010/76/EU-CRD III) and the Act on Credit Institutions and Financial Enterprises, which transposed the former into Hungarian law.

Since 1 January 2011 OTP Jelzálogbank Zrt. has applied the requirements set out in the Remuneration Policy to all persons subject to that Policy. The following persons have been subject to the Remuneration Policy since 2017: the CEO and Deputy CEOs of the Company, the heads of its Treasury, Finance and Legal departments, and the internal auditor and compliance officer in active status.

OTP Jelzálogbank Zrt. uses the following types of quantitative and qualitative indicators to measure performance against the requirements laid down in the Banking Group's Remuneration Policy:

- company-level indicators,
- personal tasks and goals.

As a general rule, the Remuneration Policy grants stakeholders who meet the specified indicator values the benefits available for such performance with short-term and 4-year deferrals, providing the deferred parts in equal quarterly proportions, combining shares and cash, thus facilitating the long-term commitment of these persons to the continued preservation of the Company's profitable operations. Managers subject to the Remuneration Policy who do not reach the cap defined were given the opportunity to opt for performance remuneration without postponement, which involves providing benefits only in cash.

XI. DECLARATION ON RESPONSIBLE CORPORATE GOVERNANCE PRACTICES

In the course of its operations OTP Jelzálogbank fully complies with all laws, supervisory rulings and other rules and regulations applicable to it. The structure and operational conditions of the Company are described in the Organizational and Operational Regulations adopted by OTP Bank.
As a company with a registered seat in Hungary, OTP Jelzálogbank operates a corporate governance system that satisfies the requirements laid down in Act V of 2013 on the Civil Code (hereinafter: Civil Code), an act of law that also regulates business entities. As a specialized credit institution conducting banking operations, OTP Jelzálogbank also complies with the legal requirements applicable to credit institutions, including especially Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (hereinafter: Credit Institutions Act) and Act XXX of 1997 on Mortgage Banks and Mortgage Bonds (hereinafter: Mortgage Bonds Act).
Accordingly, the Company adheres to the mandatory corporate governance rules prescribed in law and publishes its Statutes and the composition of its management bodies on the OTP Jelzálogbank website. OTP Jelzálogbank does not deviate from the legally prescribed mandatory corporate governance rules but puts into practice all their requirements.
OTP Jelzálogbank does not apply a diversity policy to its administrative, executive and supervisory bodies as this is not mandatory for it under governing law due to its market share measured in terms of balance sheet total.

XI.1. Management bodies

XI.1.1. Board of Directors

The management body of the Company is its Board of Directors. The scope of authority of the Board of Directors is prescribed in the Company Statutes, the Founder’s resolutions and the rules of procedure of the Board of Directors. The rules of procedure define the structure and operation of the Board of Directors, the duties pertaining to preparing for and administering its meetings and drafting its resolutions, as well as other matters relevant for the operations of the Board of Directors. The Board of Directors supervises the work of the management and produces an annual report to the founding shareholder about the management, financial standing and business policy of the credit institution. The Board of Directors exercises employer’s rights over the Chief Executive Officer and the Deputy CEOs.

The members of the Board of Directors are selected by the founding shareholder. As of 31 December 2023 the Board of Directors had 7 members, 3 of whom are internal members (employed by the Company), which is more than the legally required 2.

The Board of Directors are bound by all the obligations and legal prohibitions stipulated by Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Credit Institutions Act) in respect of senior executives.

The meetings of the Board of Directors are minuted and its resolutions are documented.

The Board of Directors of OTP Jelzálogbank on 31 December 2023:

Antal Kovács – Chairman of the Board of Directors
András Becsei – CEO and internal Member of the Board of Directors
Ákos Fischl – Deputy CEO and internal Member of the Board of Directors
Csaba Nagy – Deputy CEO and internal Member of the Board of Directors
Anna Mitkova Florova – external Member of the Board of Directors
Zoltán Roskó – external Member of the Board of Directors
Attila Kovács – external Member of the Board of Directors

XI.1.2. Supervisory Board

The management and the business processes of the Company are supervised by the Supervisory Board, which is the supreme supervisory body of the Company.

The Supervisory Board establishes its own rules of procedure, which are then approved by the founding shareholder. The members of the Supervisory Board are selected by the founding shareholder for a period of five years. In its supervisory role the Supervisory Board may request information or explanations from Members of the Board of Directors and managers and other employees of the Company. The Supervisory Board may also examine, or have examined by an expert, the books and documents of the Company.

The Supervisory Board is entitled to examine all the material business policy reports to be presented to the founding shareholder of the Company, and all proposals pertaining to issues falling within the exclusive competence of the founding shareholder.

Professional oversight of the internal audit function also falls within the competence of the Supervisory Board. The Supervisory Board manages the internal audit organization of the Company in compliance with the requirements set out in the Credit Institutions Act and within the framework of that Act. The Supervisory Board exercises its right to advance consent when decisions are made on concluding or ending an employment contract with managers and employees of the internal audit organization or determining their remuneration; it also formulates recommendations and proposals on the basis of internal audit findings.

The Supervisory Board exercises its rights as a body or through its members but it may also distribute its duties among its members on a permanent basis.

The Supervisory Board holds quarterly meetings. Meetings must be convened if requested by at least one member of the Supervisory Board or the Board of Directors or the statutory auditor, also specifying the reason and the purpose in writing.

The Supervisory Board of OTP Jelzálogbank on 31 December 2023:

József Németh – Chairman of the Supervisory Board
Ágota Selymesi – Member of the Supervisory Board
Gergely Pókos – Member of the Supervisory Board
dr. Róbert Csató – Member of the Supervisory Board

XI.1.3. Other committees

Management Meeting

The Management Meeting is a decision-making, decision-preparation and consultative standing committee of the Company; its operational rules are set out in its rules of procedure. The committee

makes decisions on matters referred to it and on matters individually not regulated and pertaining to the operation of the credit institution.
Effective from 2021, the Management Meeting has acted as the Green Mortgage Bond Committee within the Company's Green Mortgage Bond Framework.

OTP Mortgage Bank has not established an independent Audit Committee, the functions of the Audit Committee are performed by the Audit Committee of the Founding Shareholder pursuant to Section 157 (5) of the Hungarian Credit Institutions Act.

In 2023, the board meetings of directors and the board meetings of the supervisory board were held 4 times, during these meetings the Board of Directors adopted 39 resolutions and the Supervisory Board adopted 28 resolutions. In addition to the meetings, the Board of Directors adopted 104 resolutions via written vote and the Supervisory Board adopted 16 resolutions via written vote.

XI.2. System of internal and external controls

The main function of the internal audit system is to protect the assets of clients and the Company and the interests of the shareholders, and to control the Company's operations to facilitate its compliance with the law. The internal control system extends to all organizational units and activities of the Company.
In order to underpin efficient auditing and reporting processes, the internal control system comprises multiple interconnected controls. In-process and managerial control along with the independent internal auditor and the management information system constitute the components of the internal control system.

The Risk Assumption Strategy defines a risk management framework as well as the principles and guidelines for risk assumption for the whole of OTP Group.
Ultimate powers regarding key risk management decisions and the main risk topics of group members reside with the risk committees of the Banking Group Members; in the case of OTP Jelzálogbank this is the Management Meeting.
To support the reporting processes, the bank's risk management system includes identifying risks, assessing and analyzing their impacts, devising the necessary action plans and monitoring their efficiency and outcomes. The management adopts business decisions in full awareness of all the important risks. All material risks associated with internal and external operations and compliance with financial and legal requirements and many other risks are assessed and managed in a well-defined and transparent internal mechanism.

XI.2.1. IT Controls

Applications are developed by either in-house group resources or by third parties. OTP Bank applies administrative, logical and physical control measures commensurate with the risk in order to protect the IT systems storing and processing data, as follows:

- access to data/systems is only possible on the basis of a predefined authorisation management process that applies the principle of least privilege, ensures segregation of responsibilities, that has regular access right reviews and ensures that dismissed employees' access is revoked in a timely manner;
- user authentication, authorisation and password management processes are controlled by policies and audited;
- the systems have test and development environments with appropriate separation from the production environments that have a secure change management procedure, which ensures that program developments or modifications can only be deployed to the operational environment after proper, controlled testing and approval;

- systems are protected by appropriate network perimeter protection, various security devices and network segmentation, furthermore all network communications are protected with state-of-the-art encryption;
- the IT systems that store and process data are regularly backed up and backup media is stored in controlled premises with adequate protection for long-term retention, and the organisation carries out regular backup restore tests;
- adequate redundancy is applied for IT systems that store and process data to ensure business continuity and disaster resiliency;
- has developed DRPs and BCPs for critical systems and critical business processes, which are regularly tested and reviewed;
- the Bank collects and retains the complete log of all major IT operations and IT security relevant data processing activities and the confidentiality, availability, integrity, authenticity and non-repudiation of these audit logs are ensured;
- there is a continuous, up-to-date protection against malicious codes;
- it ensures the regular implementation of vendor patches and updates for the environments used;
- it uses a data leakage protection (DLP) solution to reduce the risk of inadvertent data loss;
- it ensures the continuous monitoring of the operation events of the physical and virtual environment system elements with automated event detection and management tools;
- the above measures are documented at an appropriate level, which ensures the traceability of the implementation of data security requirements in a transparent manner;
- it ensures permanent secure deletion of the data stored on the media, the destruction of the media and the documentation of the destruction of the media during secure operational media disposal processes;
- it enforces data protection requirements already at the design stage of the implementation of the
  IT systems storing and processing personal data and of the systems operational processes related to them;
- acquire and maintain ability to adequately handle application related security events (including cyber threats), entailing prevention, detection, identification, isolation, analysis, recovery and reporting;
- remote work is regulated in a controlled and documented way, remote device and user access is protected with multi-factor authentication;
- ensures IT security compliance by its managed regulative framework;
- revision and update of IT security regulations bi-yearly or in a frequency complying legislative requirements or upon major changes;
- ensures vulnerability assessments and penetration tests are carried out as planned;
- defines pools for categorization of installed software into preferred, allowed and prohibited and ensures compliance to that policy.
- it ensures that its employees have adequate knowledge of data protection requirements and provides regular data protection and information security awareness training for them.

XI.2.2. Internal audit

The Company employs an independent internal auditor who reports to the Supervisory Board within a framework defined by the Credit Institutions Act. The independent internal auditor has a medium-term auditing strategy and an annual audit plan approved by the Supervisory Board. The independent internal auditor works on the basis of the annual workplan approved by the Supervisory Board and reports regularly to the Board of Directors and the Supervisory Board.

The independent internal auditor helps the legal and profitable management of assets and liabilities and the protection of private property, supports safe and secure business operations, ensures the efficiency, cost-effectiveness and results of internal control systems, contributes to minimising risk and, in conjunction with the Compliance area, identifies and reports any deviations from legal requirements and internal regulations, proposes ways to eliminate shortcomings and monitors the implementation of measures. They perform this role with objectivity, solely on the basis of professional considerations. Their independence is guaranteed by the fact that they report to the Supervisory Board within the framework defined by the Credit Institutions Act.

XI.2.3. Risk management

The Company has detailed risk management rules covering all types of risk; these rules are aligned with legislation on prudent banking operations.
The risk management system includes identifying the risks, assessing and analyzing their impacts, devising the necessary action plans and monitoring their efficiency and outcomes. The management adopts business decisions in full awareness of all the important risks. All material risks associated with internal and external operations and compliance with financial and legal requirements and many other risks are assessed and managed in a well-defined and transparent internal mechanism.
The Company works closely with the Risk Management and Strategy and Financial Divisions of OTP Bank in exercising functional control in accordance with the Banking Group's risk management guidelines, methodology and infrastructure, for the purpose of developing a clearly defined, transparent and standardized credit, country, counterparty, market and operational risk management system at group level satisfying the Basel requirements and meeting the expectations of the Regulator as well as aligning with the local environment. Group-level risk management is based on a standardized organizational structure and the implementation of regulations and procedures by the subsidiaries.

Credit risk

The Bank manages exposures to credit risk by producing regular analyses of the interest payment and principal repayment ability of debtors and potential debtors and, if necessary, changing the borrowing limits. Another means for managing credit risk is to obtain collateral items and corporate and personal guarantees.

Market risk

Market risks originate from open positions on securities and other instruments. The Bank does not have material exposures to market risk. Market risk exposure is monitored and controlled mainly by the Asset and Liability Management Directorate of OTP Bank.

Net currency position and currency risk

The Bank controls its currency positions against the limits on open positions required by Magyar Nemzeti Bank as well as its own system of limits. The Bank also uses the VaR model for measuring its open currency positions.

Interest rate risk

Most of the Bank's interest-bearing assets and liabilities are designed in such a way that short-term assets are aligned with short-term liabilities or that the mid-year variation of the interest rates on long-term assets and long-term liabilities is possible, or that changes to the interest rates on long-term assets and the related long-term liabilities are synchronized.

In addition to the above, a wide interest margin between the various interest-bearing assets and interest-bearing liabilities offers the Bank a high degree of flexibility in managing interest rate differences and interest rate risk.

Liquidity risk

Liquidity risk measures the extent to which the Bank would need to increase its liquid assets in order to meet its liabilities from financial instruments in a timely manner. The Bank manages its liquidity position in accordance with the principles defined by the MNB.

Quantified pricing, lending, liquidity and cash flow risks are presented in detail in Notes 31, 34, 36 and 37 in the Notes to the separate Annual Report.

Policy on hedging transactions

The Bank uses hedge accounting as follows: identifying hedging transactions, producing appropriate hedging documentation, conducting efficiency checks, and evidencing efficiency on the basis of their results.

Further elements of the risk management and hedging policy are described in Note 2 in the Notes to the separate Annual Report, where the main accounting principles are summarized.

XI.2.4. Compliance

In accordance with European Union and Hungarian legislative requirements the Company employs a dedicated Compliance Officer responsible for identifying and managing compliance risks and ensuring compliance with the law and prudent operations. In line with Recommendation no. 27/2018. (XII.10.) of the Magyar Nemzeti Bank, in which it recommends internal lines of defence to be established and operated also at group level and that the governing financial entity should set up and operate a governance and oversight function over the group members, the Compliance Officer performs compliance duties predicated on the same principles as the Compliance Policy of OTP Bank, the Company’s parent bank. The Compliance Officer carries out their tasks on the basis of the Compliance Workplan approved by the Board of Directors of the Company. At least once every year the Compliance Officer produces a comprehensive report for the Board of Directors and the Supervisory Board, as required by the Credit Institutions Act and with the content required by the law.

XI.2.5. Data Protection Officer

The Company employs a Data Protection Officer to comply with EU and Member state data protection regulations. The status and the duties of the Data Protection Officer are described in the Company’s Organizational and Operational Regulations and its Data Protection and Data Security Regulation, as amended from time to time. The most important task of the DPO is to help the Company achieve compliance with the rules on the protection of personal data, doing so in the manner provided for in law. Among other things, the DPO provides information and professional advice to the Company and its employees responsible for data processing as regards their obligations under EU or Member State data protection provisions, and monitors compliance with the Company’s internal regulations on the protection of personal data. At least once a year, the Data Protection Officer presents to the Board of Directors a proposal and/or information note approved by the Management Meeting, describing the DPO’s activities in this respect.

XI.2.6. Sustainability Officer

The Sustainability Officer coordinates the Company’s tasks relating to climate change and environmental risks as well as green lending and green mortgage bond issuance. The Sustainability Officer takes part in developing the Company’s green strategy and, with professional guidance from OTP Bank’s Green Program Directorate, oversees the implementation of OTP Group’s climate change strategy and environmental sustainability objectives in the course of the Company’s operations. The Sustainability Officer is a Management Meeting member designated by the CEO.

The Sustainability Officer reports on their duties annually to the Board of Directors and the Supervisory Board of the Company.

XI.2.7. Auditor

The books of OTP Jelzálogbank are audited by Ernst & Young Könyvvizsgáló Kft. (Cg. 01-09-267553).

The decision to select the statutory auditor entity and to appoint the member personally responsible for the audit resides with the founding shareholder.

Ernst & Young Könyvvizsgáló Kft. provided OTP Jelzálogbank with the following non-auditing services in 2023:

- Consultancy services
- Other services providing assurance

XI.2.8. Coverage supervisor

OTP Jelzálogbank retains a coverage supervisor to perform the tasks required in Act XXX of 1997 on Mortgage Banks and Mortgage Bonds. The coverage supervisor checks and confirms the availability at all times of the required coverage for the mortgage bonds and ensures that the mortgaged assets serving as ordinary coverage for the mortgage bonds, their land register data and collateral values as well as the ordinary and the additional collaterals are registered in the coverage records.

The Coverage Supervisor for OTP Jelzálogbank is KPMG Hungária Kft. (Cg.01-09-063183).

XI.2.9. Disclosure

The Company complies with the disclosure requirements applicable to its activities by adhering to the provisions in Act CXX of 2001 on the Capital Market (Capital Market Act), Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Credit Institutions Act) and Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR). OTP Jelzálogbank satisfies its annual disclosure obligation through disclosure on its own website (www.otpjzb.hu), the website of the Budapest Stock Exchange (www.bet.hu) and a dedicated website operated by Magyar Nemzeti Bank (www.kozzetetelek.hu).

The Company has detailed internal regulations in place regarding insiders and potential insider persons; these regulations are fully compliant with the limits and prohibitions defined in the prevailing Capital Market Act. The persons concerned receive appropriate information from the Compliance department regarding the prohibitions applicable. The regulatory and record-keeping duties associated with insider trading and insider persons are the responsibility of the Compliance Officer of the Company, with information systems constantly being enhanced in order to deliver these duties efficiently.

Business report of the Management
(consolidated 2023)

In accordance with the recommendation stated in the current circular of the MNB on the application of MoF Decree no. 24/2008 on the detailed rules regarding the disclosure requirements applicable to publicly offered securities, OTP Jelzálogbank Zrt. as issuer prepares and publishes this Management Report combined with the Business Report required in the Accounting Act in a single document, stating in dedicated chapters the subjects required in the MoF Decree.

I. INTRODUCTION

OTP Jelzálogbank Zrt. (OTP Mortgage Bank Close Company Limited by Shares, hereinafter: "OTP Jelzálogbank", "the Mortgage Bank", "Bank", "Company" or "Group") is a specialized credit institution that was established as a company limited by shares with HUF 3 billion forint share capital and with 100% of its shares owned by OTP Bank Plc. (hereinafter: OTP Bank). The Company received its foundation permit on 21 September 2001; its operating license was issued by the Hungarian Financial Supervisory Authority on 10 January 2002. OTP Jelzálogbank started its operations as a specialized credit institution on 1 February 2002. The registered seat of the Company is located at 1138 Budapest, Váci út 135-139. D ép. and has no additional premises or branches.

The business profile of OTP Jelzálogbank is limited to the following: the granting of mortgage loans and determining the collateral value of real estate offered as collateral for such loans, the marketing of mortgage bonds for the financing of such lending and, via the trading of separate mortgage rights stipulated as collateral, the refinancing of the mortgage loans of commercial banks. The loan products comprise subsidized and unsubsidized housing loans and general-purpose mortgage loans.

In the period between 11 April 2002 and 4 August 2014, OTP Bank and OTP Jelzálogbank provided lending in a syndicated arrangement; since 2007, OTP Jelzálogbank has been disbursing loans of own origination as well. Since 2014 OTP Bank has acted as a preferred intermediary acting on behalf of OTP Jelzálogbank.

This business report is based on the audited separate and consolidated annual reports of OTP Jelzálogbank as of 31 December 2023, drawn up in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union.

II. THE BUSINESS ENVIRONMENT OF OTP JELZÁLOGBANK

Spinning out of control after the Covid crisis ended and the Russia-Ukraine war broke out, inflation started to decelerate in the advanced economies in 2023 but central bankers in the developed world were still forced to raise rates steeply even towards the latter half of the year; the rate hike cycle ended and conversations about potential dates for a future rate cut started only towards the end of the year. The labour market remained tight throughout this period, with low unemployment and dynamically rising wages. While long-term yields highs broke decades-long records on the advanced markets in the autumn, a steep correction then started towards the end of 2023.

Economic growth diverged on the two sides of the Atlantic. In the United States, economic growth defied forecasts by accelerating in 2023, with growth truly taking off in the second half of the year. Underlying the solid figures is a generous fiscal policy, household savings accumulating to their multiples during the pandemic and the fact that effective borrowing rates remained at low levels given the high prevalence of fixed-rate loans. Inflation reached its peak in June 2022 (+8.9%), but its subsequent decrease then stalled briefly in the middle of the year; core inflation, however, continued to decrease consistently, falling to 3.9% (yoy) by the end of the year. The extremely loose fiscal policy – which resulted in an increase of government deficit from around 5% to 8% of GDP – made it necessary for monetary policy to remain very tight in order to combat inflation. The Fed raised the key rate aggressively, to 5.25–5.5% and started to reduce its balance sheet at the same time.

Brought to its knees by the energy crisis, the economy of the euro area has been unable to recover against a backdrop of high inflation and high interest rates and has essentially stagnated since the third quarter of 2022. The crisis has been most damaging for countries such as Germany that used to rely extensively on Russian energy. High interest rates led to a standstill in lending, which also hindered return to growth in Europe. With substantial disinflation in 2023, inflation and core inflation in the euro area had fallen to 2.8 and 3.3%, respectively, by the end of the year. The main cause for concern in this respect is the services sector, where inflation rates have stagnated at 4.0% (yoy) since November last year. In spite of weak growth and significant disinflation, the ECB was not yet considering a rate cut; as of the end of last year, the euro area deposit rate and the key interest rate stood at 4% and 4.5%, respectively.

In 2023 the Hungarian economy sank into recession (GDP yoy, %: Q1:-0.9; Q2:-2.4; Q3:-0.4; Q4 (forecast): 0.0). But recession ended in the third quarter and quarter-on-quarter growth returned, due in part to the base effect of singularly weak agricultural performance in 2022. Overall, the overall underlying trends in the Hungarian economy show that activity levels fell significantly in 2022/Q4 and 2023/Q1 and have stagnated or marginally increased in the period since then. The structure of growth is not favourable: although the significant fall in domestic absorption is mitigated by the rise in net exports, this is not due to solid expansion in exports but a fall in imports due to weak domestic demand.

The rate of inflation peaked 10 percentage points higher than the regional average in January 2023; it was from that rate of 25.7% that disinflation started in the spring. As disinflation accelerated from the middle of 2023, the rate of inflation had shrunk to 5.5% yoy by December, resulting in an average annual inflation rate of 17.6% for 2023. In the middle of the year real wages returned to growth on a month-on-month basis but this had very little impact on the changes in consumption spending.

Following a current account deficit of 8% in 2022, the external balance turned to surplus last year as gas prices collapsed and the fall in domestic demand drove down imports. The fast rise in debt ratios observed between 2020 and 2023 came to a halt.

The original budget deficit target of 3.9% of GDP proved unsustainable and was raised to 5.2% in October; last year’s accrual-basis budget deficit may have exceeded 6% of GDP even after the contribution of dividends from MVM and saving on the utilities protection fund.

By the end of the year the MNB had cut the effective rate in several steps, by a total of 725 basis points, so that the rate, which had been raised to 18% in the autumn of 2022, reached 10.75%; since September, the role of effective rate is again served by the key rate, as the previous practice of using the overnight deposit for this purpose was ended. The EUR/HUF cross-rate slipped from around 400 at the beginning of the year to below 370 in the summer but ended the year stabilizing at around 380.

The matter of EU funds was on the agenda throughout 2023 and progress was achieved in the talks towards the end of the year as the European Commission approved in December the horizontal enabling conditions associated with judicial reform. By implementing a variety of measures last year, the government was able to free up approx. EUR 11 billion in EU funds.

As in Western Europe, the credit market froze in the CEE region and Hungary as well in the autumn of 2022. Some recovery was apparent towards the end of 2023, especially in retail lending, and therein primarily in government-subsidized housing loans, across 2023 housing loan portfolios expanded by 1.3% (2022: 7.6%).

III. THE GOALS, STRATEGY AND BUSINESS PERFORMANCE OF OTP JELZÁLOGBANK IN 2023

The economic downturn was also reflected on the residential construction market. The number of construction permits issued in 2023 equalled 61% of the previous year's figure, whereas that of occupancy permits decreased at a smaller rate, representing 91% of the 2022 figure. Due to the reasons described in the previous chapter (decrease in housing market transaction numbers, out-of-control inflation, high loan interest rates), demand for housing loans also contracted in 2023. New mortgage loan contract amounts were 46.2% smaller than in the previous year, including a decrease by 50.2% in housing loan contracts versus an increase by 12.9% in general-purpose mortgage loan agreements.

As a member of the OTP Banking Group, OTP Jelzálogbank formulates its plans and adopts its decisions in line with the Group's strategic objectives. Our aim is to retain our position as market leader in retail mortgage lending. In the reporting year the Banking Group achieved a market share of 31.8% in terms of new contract portfolios.

	New contract amount (HUF bn)				Market share	
	Market		OTP Group		OTP Group	
	2022	2023	2022	2023	2022	2023
Housing loan	1 195,16	594,79	381,75	188,60	31,9%	31,7%
General-purpose mortgage loan	80,52	90,92	30,11	29,28	37,4%	32,2%
Total	**1 275,68**	**685,71**	**411,86**	**217,88**	**32,3%**	**31,8%**

In 2023 OTP Jelzálogbank extended HUF 251.2 billion in retail housing loans; this is equal to 68.8% of the previous year's volume. Within this, demand for housing loans fell to 66.2% and for general-purpose mortgage loans to 99.7% according to the previous year. 88.5% of the retail mortgage loans disbursed were housing loans and 11.5% were general-purpose mortgage loans.

OTP Jelzálogbank Zrt.	Loans disbursed (HUF bn)	
	2022	2023
Housing loan	336,1	222,4
General-purpose mortgage loan	28,9	28,8
Total	**365,0**	**251,2**

Jelzálogbank received a total of HUF 196.4 billion in loan repayments in the reporting year, including early repayments of HUF 63.2 billion.

As the Company no longer disburses land development loans, the nominal gross portfolio decreased from HUF 2.3 billion to HUF 1.9 billion.

The market share of OTP Group within retail mortgage lending increased further in 2023 and stood at 30.9% as of the end of the year.

	Closing balance (HUF bn)				Market share	
	National		OTP Group		OTP Group	
	2022	2023	2022	2023	2022	2023
Housing loan	4 942,5	5 005,5	1 522,6	1 565,1	30,8%	31,3%
General-purpose mortgage loan	751,5	733,8	212,3	210,7	28,2%	28,7%
Total	**5 694,0**	**5 739,3**	**1 734,9**	**1 775,8**	**30,5%**	**30,9%**

In addition to the retail mortgage lending that constitutes its main profile, the Mortgage Bank also provides refinancing loans to commercial banks. Mortgage bank refinancing is implemented through the sale and purchase of standalone mortgage rights: the commercial bank sells to OTP Jelzálogbank the independently marketable mortgage rights associated with the mortgage loans granted by it and, at the same time, makes a commitment to repurchase the mortgage rights. The mortgage loans remain on the balance sheet of the commercial bank, which bears the associated credit risks; the commercial bank also takes care of any client-related duties. In the event of non-performance by a commercial bank, the Mortgage Bank becomes the mortgagee of the standalone mortgage and the beneficiary of the receivable secured by it. Having launched its refinancing operations in 2017, OTP Jelzálogbank had refinancing arrangements with two commercial banks as of 31 December 2023; the principal outstanding under its refinancing loans amounted to HUF 164.7 billion in total.

Its property valuation business line is closely linked to its lending operations; the dynamism of the latter has a significant impact on valuation volumes. The business line had completed 84,200 valuations in the previous year but only 61,300 in 2023.

Two new mortgage bonds were issued in 2023, with nominal values of HUF 25.0 billion and EUR 500 million. Matured bonds amounted to HUF 45.0 billion in total and redemptions to HUF 25.0 billion. The nominal value of mortgage bonds in circulation rose to HUF 1,117.5 billion by the end of the year. While this was still well below the nominal gross portfolio of loans (HUF 1,693.0 billion), mortgage bonds and equity are supplemented with amounts due to banks and other liabilities to finance mortgage loans.

In terms of mortgage bonds in circulation on the Hungarian market, OTP Jelzálogbank further strengthened its market leader position in the reporting year. It had a 53.3% market share at the end of the year.

Mortgage bond market structure in 2023 (nominal value):

	2022.12.31		2023.12.31	
	HUF bn	share	HUF bn	share
OTP Jelzálogbank Zrt.	971,1	50,05%	1 117,5	53,34%
Takarék Jelzálogbank Nyrt./MBH Jelzálogbank Nyrt.	367,2	18,93%	387,2	18,48%
UniCredit Jelzálogbank Zrt.	245,8	12,67%	263,0	12,55%
Erste Jelzálogbank Zrt.	169,1	8,71%	155,5	7,42%
K&H Jelzálogbank Zrt.	187,0	9,64%	172,0	8,21%
Total	**1 940,2**	**100,00%**	**2 095,2**	**100,00%**

2023 was a year when the economic trends reversed as the combined result of recovery from the coronavirus crisis, out-of-control inflation, interest rates and energy prices, war and continued expectations of recession; solvent demand contracted and the property and lending markets were at their lowest for years. The repayment moratorium had been phased out but the interest rate cap remained in place all through the year. It is probably due to this fact that there was no credit crisis or general deterioration in portfolio quality. In this tense economic environment the Banking Group did extremely well; using an innovative business policy, it managed to retain its market leader position and market share in almost all markets.

IV. THE MAIN RESOURCES AND RISKS OF THE COMPANY; RELATED CHANGES AND UNCERTAINTIES (MoF Decree no. 24/2008. (VIII. 15.), Annex 1, Section 4.3)

IV.1. Market risks

The main line of business of OTP Jelzálogbank is the disbursing of mortgage loans; the Mortgage Bank secures the necessary funds for this operation mainly by selling publicly issued mortgage bonds and by relying on money and capital market sources. Due to the nature of its operations OTP Jelzálogbank is exposed to market risks.

Credit risk is the risk of financial loss arising from borrowers and interbank market counterparties defaulting on their contractual obligations to OTP Jelzálogbank. The Mortgage Bank aims to maintain the good credit quality of its mortgage loan portfolio; for more details, see Chapter “VII. The mortgage loan portfolio” and the notes to the Annual Report.

Structural differences between OTP Jelzálogbank’s assets and liabilities — maturity, interest, currency mismatches — expose the Mortgage Bank to interest rate and exchange rate risks. It manages these market risks through the terms for the mortgage bonds marketed and by contracting derivatives transactions. OTP Jelzálogbank aims for a risk-neutral position in its asset-liability structure. Its aim is to develop and maintain a position where assets and liabilities are hedged in an aggregate manner through a dynamic approach to the indicators listed.

The prepayment of mortgage loans represents a risk for OTP Jelzálogbank and constitutes a risk component impacting on asset-side terms and profitability. The refinancing risks associated with OTP Jelzálogbank’s maturing bonds are of special significance.

IV.2. Operational risk

Operational risk means the probability of losses arising from any inadequately defined or incorrectly executed business processes, damage caused by people or inadequate operation of systems, or losses originating from the external environment. OTP Jelzálogbank works on keeping its operational risks to a minimum through constant control and strict demarcation of its internal processes and operations, and by raising risk awareness. Operational risks may arise in all banking processes due to their nature; accordingly, OTP Jelzálogbank also has responsibilities in relation to managing such risks. OTP Jelzálogbank manages its operational risks through tight internal control mechanisms and relying on a uniform group-wide methodology implemented in conjunction with OTP Bank.

IV.3. External risk factors

Banking and financial services are highly exposed to changes in different economic factors. Adverse changes in the economic environment may have a negative impact on the financial management of OTP Jelzálogbank through a variety of factors: on the portfolio of previously disbursed loans through the solvency of debtors, on the volume of new mortgage loans through market demand, and on the financing costs of OTP Jelzálogbank through the money and capital markets.

IV.4. Legal and regulatory risks

It cannot be excluded as a possibility that the government of the day or the Hungarian National Bank (MNB) adopts an economic policy, budgetary or monetary measures that may influence the Hungarian financial market, the real estate market or real estate financing directly or indirectly and thereby have a direct or indirect impact on the profitability of OTP Jelzálogbank.

Changes in banking law, company law, contract law, property law, bankruptcy law, competition law, securities law, mortgage law and other regulations carry significant risks; unpredictable changes to Hungarian and European Union legislation may have direct and indirect effects on OTP Jelzálogbank's business operations and profits.

Changes to taxation may also constitute a risk factor.

IV.5. Compound risks

The risks listed in this chapter may arise simultaneously and be mutually reinforcing; examples have included the COVID-19 pandemic and the extraordinary government measures and their underlying risks; detailed information on these is available in the notes to the Annual Report and the chapters "The mortgage loan portfolio" and "Evaluation of the 2023 financial management of OTP Jelzálogbank".

V. EVALUATION OF THE 2023 FINANCIAL MANAGEMENT OF OTP JELZÁLOGBANK

The macroeconomic background to th Group's financial management in 2023 was an inflationary environment, an economic downturn that also affected the housing market, and government decisions taken to deal with the consequences. The most impactful of these measures was the repeated extension of legislation, first introduced at the end of 2021, on the interest rate cap for variable-rate loans; the resulting drop in interest income was coupled with persistently very high interest rates on variable-rate finance. High interest rates caused the growth of the loan portfolio to slow down already in the fourth quarter of 2022; this then continued in the reporting year.

OTP Jelzálogbank retained its market leading position on both the mortgage lending market and the mortgage bond market.

Economic policy measures and other relevant regulatory changes after the balance sheet date

The section below presents the economic policy measures taken and other events occurring after the balance sheet date until 20 February 2024 that OTP Jelzálogbank considers relevant and that have materially affected or may materially affect the operation of the Group members.

- On 26 January 2024 Scope Ratings affirmed Hungary's long-term local- and foreign-currency issuer and senior unsecured debt ratings at 'BBB' and its outlook as stable.

- On 30 January 2024 the MNB reduced its policy rate by 75 bps to 10.0%.

- Capital regulation:
    - On 22 June 2022 the MNB announced that it would delay the introduction of the countercyclical capital buffer rate at the planned rate of 0.5% by one year from the original date of 1 July 2023 to 1 July 2024 and would, for preventative purposes, reactivate the systemic risk buffer on commercial property loans (especially non-performing loans).

- Pillar 2 capital requirement: effective from 1 January 2024 the MNB required the following additional capital to be held by OTP Bank:
  - 0.9 percentage points for Common Equity Tier 1 (CET1), resulting in a mandatory CET1 minimum of 5.4% (excluding regulatory capital buffers);
  - 1.2 percentage points for Tier 1 capital, resulting in a mandatory Tier 1 minimum of 7.2% (excluding regulatory capital buffers);
  - 1.6 percentage points for the fully loaded capital adequacy ratio, resulting in a mandatory TSCR minimum of 9.6% (excluding regulatory capital buffers).

The Company's capital adequacy already exceeds the above new levels and can therefore fully satisfy these requirements.

Audited consolidated IFRS figures of OTP Jelzálogbank as at 31 December 2023

The balance sheet total as at 31 December 2023 amounted to HUF 2,396.0 billion, up 9.8% on the previous year. The Group closed the year with after-tax profits of HUF 10.9 billion.

This report provides a business-focused breakdown of the results of financial management and, as such, in some cases rounding may result in figures that deviate from those in the financial statements.

Some illustrative financial management figures:

figures in HUF million

Consolidated indicators	2022.12.31	2023.12.31	Variance 2023 vs. 2022
Total assets	2 181 428	2 395 966	214 538
Loan portfolio	1 618 959	1 664 166	45 207
Amounts due to banks	1 059 717	1 117 388	57 671
Mortgage bond portfolio	971 466	1 122 699	151 233
Shareholder's equity	124 673	132 395	7 722
P&L for the reference year	-10 340	10 909	21 249

As a combined result of current-year profits and IFRS fair value adjustments, equity rose by 6.2%.

In the individual financial statement of OTP Jelzálogbank, the total value of participations amounted to HUF 3,763 million, which value is no longer shown in the consolidated financial statement due to capital consolidation.

V.1.1. OTP Ingatlanpont Kft.

In December 2016 OTP Jelzálogbank acquired a 100% ownership share in OTP Ingatlanpont Kft.

OTP Ingatlanpont Kft. generates revenues from the commissions received for real estate agency services, which constitute its main profile.

OTP Ingatlanpont Kft.'s approved business plan for 2023 set the objectives of expanding property sales and real estate agency services. Its aim was to achieve an optimal operating size for its sales network, increasing commission income and improving efficiency. As a result of implementing these objectives, OTP Ingatlanpont Kft. reported a HUF 263 million loss (IFRS loss after-tax) in 2023, HUF 172 million less than planned. In order to offset the fall in equity due to this loss, it received a HUF 250 million capital injection in December 2023, as of the end of the year balance sheet total amounted to HUF 650 million.

From 3.3% achieved in the previous year, OTP Ingatlanpont Kft. increased its market share to 3.6%.

As of 31 December 2023 the sales network was operating out of 30 offices of its own and at 49 premises of strategic partners.

V.1.2. OTP Pénzügyi Pont Zrt.

In June 2019 OTP Jelzálogbank purchased the 100% share of OTP Pénzügyi Pont Zrt. as the latter is now focused primarily on selling mortgage banking loan products in the wake of the collapse in demand for housing savings products.

The main objective of OTP Pénzügyi Pont Zrt. was to establish a nationwide sales network that would also reach the households that are not included in the retail client base of OTP Bank and offer them the full product range of OTP Banking Group.

Until October 2018 housing savings contracts were the focus products of the sales network. The sales network had to be reorganized when the government ended the subsidies for this product type. Following that reorganization, its focus shifted to loan brokerage services. OTP Pénzügyi Pont Zrt. earns practically all its revenues from commissions.

Pénzügyi Pont Zrt. made a loss of HUF 362 million in 2023 (IFRS), HUF 229 million less than planned. In order to offset the fall in equity due to this loss, its capital was increased by HUF 300 million in June 2023, as of the end of the year balance sheet total amounted to HUF 444 million.

V.1.3. I-gen.hu Kft.

I-gen.hu Pénzügyi Szolgáltató Kft. was acquired by OTP Ingatlanpont Kft. on 20 January 2023. The primary objective in buying I-gen.hu Kft. was to improve the value proposition of OTP Pénzügyi Pont Zrt. on the tied agent market, compensating for the loss of clients who refuse OTP Bank's products by presenting the offers of other banks, and creating a framework for the objective monitoring of competitors. The balance sheet total of I-gen.hu Kft. is not significant compared to the consolidated balance sheet total.

VI. THE SECURITIES ISSUANCE OPERATIONS OF OTP JELZÁLOGBANK

VI.1. Asset-liability management

OTP Jelzálogbank follows a conservative treasury policy, the primary objective of which is to ensure the most adequate funding for its lending activities both in the short and the long term while also minimizing market risks. Its main objective is to have a profitable portfolio of loans and mortgage bonds with minimal risk, and matching the assets and the liabilities of the Mortgage Bank to the greatest possible extent in respect of term, currency and interest rate.

In its medium-term strategic plan, it remains a top priority for OTP Jelzálogbank in 2024 to secure the cheapest possible sources of funding for mortgage lending by both the Mortgage Bank and the entire Banking Group. A further important objective is to participate in group-wide product development and asset-liability management within OTP Group, helping both the Mortgage Bank and OTP Group retain their market positions.

VI.2. Bond issuance

Mortgage bond issuances play an important role in shaping the asset-liability structure of OTP Jelzálogbank. Priorities to consider when devising the terms and conditions for mortgage bonds to be marketed include alignment between medium- and long-term maturities, managing interest rate and currency risks, contributing to an optimal group-wide asset-liability structure at OTP Group and ensuring that the mortgage funding adequacy ratio stipulated in the MNB Decree on the alignment of the maturities between mortgage based assets and liabilities of credit institutions is complied with at all times.

In 2023 OTP Jelzálogbank issued mortgage bonds for a nominal value of HUF 25 billion under its domestic issuance scheme and a nominal value of EUR 500 million under its international insurance programme authorized by the supervisory authority of Luxembourg. To manage currency risk, the Company converted the liquidity inflows from the EUR mortgage bonds into HUF using derivatives contracts. As of the end of the year, OTP Jelzálogbank had mortgage bonds for a total nominal value of HUF 1,117.5 billion in circulation (the HUF value of its bonds denominated in euros was calculated at the official foreign exchange rate of the MNB as of the end of the year).

VI.3. Money and capital market transactions

In addition to equity and the mortgage bonds issued, the sources of funding used by OTP Jelzálogbank also include interbank loans, among them loans from OTP Bank and Magyar Nemzeti Bank. As is the case with the issuing of securities, the primary objective of money and capital market deals is to provide liquidity on a continuous basis, hedge financial risks and comply with the legislative requirements concerning liquidity. Free cash is invested solely in government securities or deposited with OTP Bank via the interbank market. As of the end of 2023 the nominal value of the government securities held by OTP Jelzálogbank amounted to HUF 354.4 billion.

VII.THE MORTGAGE LOAN PORTFOLIO

VII.1. Portfolio structure

The following two tables present the breakdown of the client loan portfolio by tenor and by region.

Loan portfolio breakdown by tenor		
tenor	**2022.12.31**	**2023.12.31**
0 to 5 years	4,09%	4,05%
5 to 10 years	14,70%	11,73%
10 to 15 years	14,76%	14,90%
15 to 20 years	32,39%	33,45%
over 20 years	34,06%	35,87%
Total:	**100,00%**	**100,00%**

Loan portfolio breakdown by region		
region*	**2022.12.31**	**2023.12.31**
Central Region	43,83%	44,06%
Southern Great Plain Region	11,19%	10,99%
Southern Transdanubia Region	8,45%	8,22%
Northern Transdanubia Region	19,31%	19,34%
North-East Hungary Region	17,22%	17,39%
Total:	**100,00%**	**100,00%**

**Due to reorganization at OTP Bank, the regional structure of the Group differs from what is presented in the table; for risk management purposes, the data are still categorized into five regions*

There was a significant year-on-year increase in the proportion of loans with a tenor of more than 10 years within the portfolio. As of the end of 2023 most loans are in the tier of tenors of more than 20 years.

There were no material changes in the regional distribution.

In addition to lending to clients, there was a significant volume of refinancing via redemptions of standalone mortgage rights (hereinafter: refinancing loans); the book value of loans to credit institution partners was HUF 164.9 billion as of the end of 2023.

VII.2. Portfolio quality

The receivables of OTP Jelzálogbank in a breakdown by days overdue:

Gross IFRS portfolio (HUF bn)	2022.12.31	2023.12.31	Annual change
A (0-30 days)	1 622,5	1 680,8	58,3
B (31-60 days)	6,2	5,7	- 0,5
C (61-90 days)	3,0	2,8	- 0,2
D (91-180 days)	4,5	4,7	0,2
E (180+ days)	5,9	8,4	2,5
Total	**1 642,1**	**1 702,4**	**60,3**
A (0-30 days)	98,81%	98,72%	-0,09%
B (31-60 days)	0,37%	0,34%	-0,03%
C (61-90 days)	0,18%	0,17%	-0,01%
D (91-180 days)	0,28%	0,28%	0,00%
E (180+ days)	0,36%	0,49%	0,13%
Total	**100,00%**	**100,00%**	**0,00%**

As of the end of 2023 receivables more than 30 days overdue represented 1.28% of the total loan portfolio, 9 basis points higher than at the end of the previous year. There was a small increase in the proportion of debtors more than 90 days in arrears. The repayment moratorium introduced by legislation on epidemiological preparedness allowed the Bank's clients to suspend their principal repayments and interest payments temporarily; some clients of OTP Jelzálogbank were still availing themselves of this possibility at the end of 2022. Almost all loans left the moratorium in 2023 (with only a negligible amount of loans remaining within its scope at the end of the year). Even so, there was no material increase in the proportion of overdue loans.

Facility rating and impairment calculation are subject to rules that are standardized across the Banking Group. In the impairment calculation model, the expected loss and impairment amounts are calculated on the basis of default categories, product/product group, collateral, credit risk stages (performing, showing significant increase in credit risk, non-performing) and fact of restructuring, as well as the expected recovery on the individual collateral items for the transaction. As of 31 December 2023 impairment recognized on client loans amounted to HUF 16.5 billion.

Although the refinancing loans are not in arrears, impairment must be raised for them under the IFRS9 standard; the year-end impairment figure was a mere HUF 157.2 million.

The Bank sold all loans where extensive debtor protection and collection measures failed. In 2023 this meant selling a total of HUF 1,252 million in loan receivables.

VII.3. Foreclosures

As mentioned in the section above, OTP Jelzálogbank tends to sell the receivables where it is unable to restore contractually compliant performance. The disposal of a receivable generally follows its cancellation but may also precede it in certain product groups. No new foreclosures were brought in either 2022 or 2023. As of the end of 2023 there were no loans subject to foreclosure in the portfolio of OTP Jelzálogbank.

To date, the Mortgage Bank has not taken advantage of its right under the law to take over or buy real estate subject to its mortgage rights in a foreclosure proceeding.

VIII. NON-FINANCIAL STATEMENTS PUBLISHED DUE TO STATUS AS PUBLIC-INTEREST ENTITY

OTP Jelzálogbank does not classify as a public-interest entity under Section 95/C of Act C of 2000 and is therefore not obligated to publish non-financial statements. Nevertheless, in view of the significant role the Banking Group plays both within Hungary and internationally, information relevant to this topic is presented briefly below.

VIII.1. Short description of the Company's business model

The main profile of OTP Jelzálogbank Zrt. includes

- financing the construction, purchase, modernization and refurbishing of residential real estate,
- determining the market and collateral values of properties, and
- issuing mortgage bonds and
- providing refinancing loans for commercial banks.

Its portfolio comprises first of all non-subsidized HUF-denominated home and general-purpose loans of own origination, combined with a purchased portfolio comprising mainly government-subsidized housing loans as well as housing and general-purpose mortgage loans. In 2023 OTP Jelzálogbank granted HUF-denominated subsidized and unsubsidized home and general-purpose mortgage loans to clients and refinancing loans to commercial bank partners via contracts for the redemption of standalone mortgage rights. These loans are sold by OTP Group and third-party financial intermediaries under agency agreements. The other main pillar of its business model is the issuance of mortgage bonds, firstly to provide finance for the Bank's lending activity and secondly to achieve compliance with the laws applicable to certain government-subsidized retail mortgage loan products.

The operations of OTP Jelzálogbank and OTP Group are closely interlinked:

- in selling the loans, OTP Group plays a significant role as an intermediary;
- the development and regulation of retail mortgage products is done by OTP Jelzálogbank in conjunction with the Retail Lending Tribe of OTP Bank. The approval process is fully automated; the OTP Bank branch network and OTP Jelzálogbank use electronic systems to approve the loan applications;
- much of the retail loans in OTP Jelzálogbank's portfolio are financed via mortgage bond issuance. OTP Jelzálogbank works with OTP Bank's Global Markets Directorate in the marketing process;
- the corporate current account, the employer housing fund account and the FX nostro accounts of OTP Jelzálogbank Zrt. are managed by OTP Bank;
- OTP Jelzálogbank rents its offices from OTP Real Estate Fund. In order to take advantage of the economies of scale inherent in putting in place a shared technical infrastructure, certain financial, accounting, reporting, risk management and information technology roles are performed on behalf of OTP Jelzálogbank by the Shared Service Centre, which was created virtually from the relevant organizational units of OTP Bank.

The Group does not carry out research and development activities.

VIII.2. Policies on environmental protection, social and employment matters, respect for human rights, anti-corruption and anti-bribery

With the exception of employment policy, OTP Jelzálogbank has not adopted its own policies on these matters, given the nature of its operations, therein especially the resource usage and operational circumstances of the tasks carried out on its behalf by entities other than OTP Group member companies. The reasons for this and a description of the results are provided in the sections below. Chapter IX contains a summary of the results of the Company's employment policy.

VIII.3. Environmental protection

The Banking Group and therein OTP Jelzálogbank do not have operations hazardous for the natural environment and, accordingly, they do not incur material risks in this respect. The Company still pays special attention to reducing energy and paper use in the course of its operations and services by increasing the electronic flow of information, and organizing its operations taking into consideration the criteria of environmental protection.

Further, OTP Jelzálogbank is committed to helping achieve environmental protection and climate goals. To this end, in 2021 the Company created its Green Strategy and Green Mortgage Bond Framework, which formalize the principles and objectives enabling the Mortgage Bank to facilitate the protection of the environment in an efficient and active manner. The Company was the first in Hungary to join the Energy efficient Mortgages Action Plan (EeMAP) initiative promoting energy efficient mortgage lending; in doing so, it made a commitment to green lending and the creation of a green mortgage bond issuance framework. In 2021 OTP Mortgage Bank became the first operator on the Hungarian market to issue green mortgage bonds, the proceeds of which will be allocated for the purposes of financing green mortgage loans. In its Green Mortgage Bonds Report, published for the first time in 2022, the Company reported on its portfolio of green mortgage bonds and the environmental impacts achieved from such operations. The Company added the OTP Green Housing Loan to its product range in 2023.

VIII.4. Social and welfare issues, corporate social responsibility, respect for human rights

Both on its own and as a member of OTP Group, OTP Jelzálogbank supports the development of communities, sports, financial literacy and empowerment.

Respect for human rights is a priority for the Company in its relations with clients, business partners and employees alike. OTP Group lays special emphasis on this matter when drawing up its regulations, organizational processes, communications and complaints handling, and so does, indirectly, OTP Jelzálogbank as well; there are no material risks present in this respect. There are no significant risks regarding the respect of the human rights of the employees of OTP Jelzálogbank. Its achievements in this matter are clearly demonstrated by the fact that employee turnover is low and there are no complaints or lawsuits against it under labour law.

VIII.5. Material anti-corruption and anti-bribery risks

As a result of the division of labour within OTP Group, only a limited number of decisions may entail corruption/bribery risks.

Fight against corruption and against the practice of bribery

The Code of Ethics (https://www.otpbank.hu/static/portal/sw/file/OTP_EtikaiKodex_EN.pdf) , the Partner Code of Ethics (https://www.otpbank.hu/static/portal/sw/file/OTP_Partneri_EtikaiKodex_EN.pdf) publish in 2023 and the Anti-Corruption Policy of OTP Bank Group contains provisions on the fight against corruption and against the practice of bribery, also on the acceptance of individual differences and

the denial of discrimination
(https://www.otpbank.hu/portal/en/EthicalDeclaration, Anti_Corruption_Policy.pdf (otpbank.hu)).

As it can be read in the foreword of the Code and the Anti-Corruption Policy as well, the OTP Bank Plc. and its management have adopted the principle of zero tolerance towards corruption and bribery, taking a definite stance against all forms of corruption and giving full support to the fight against corruption. In addition, the Code states that "As an ethical and compliant institution, the Bank and its management are fully committed to ensuring observance of all relevant legislation, including anti-corruption statutes."

The OTP Bank Plc. has set up an ethics reporting system (whistleblowing), which is for the reporting and the handling of the reports on suspected or actual violation of the values set forth in the Code of Ethics, where anonymous reporting of ethics issues is also possible. The OTP Bank Plc. conducts inquiries for the purpose of detecting, preventing anomalies in connection with reports made or anomalies it became aware of otherwise.

Through the OTP Bank Plc.'s ethics reporting system a total of 93 reports were received in 2023. In 29 of these reports, we deemed it necessary to conduct an ethical procedure and 8 case’s investigation resulted in declaring ethics offense.

The OTP Bank Plc. has created and maintains its Code of Ethics to keep reputational risk and financial losses, which may incur in relation to corruption, bribery and discrimination, on a minimum level. Both employees and newcomers receive education on the Code of Ethics, and in addition, the acceptance to be bound by it is a prerequisite for their employment.

In addition, all business partners and clients are communicated about the Anti-Corruption Policy and procedures through the Code of Ethics and Anti-Corruption Policy published publicly on the OTP Bank Plc.'s website and from 2023 the Partner Code of Ethics has been published on the Bank’s website as well. The Anti-Corruption Policy stipulates that, in view of the fact that existing and established relationships with contractual partners also contain the possibility of corruption, the OTP Bank Plc. will act prudently in its dealings with contractors, in particular in the tendering and preparation process, to minimise the risk of corruption. The OTP Bank Plc. establishes relationships with its contractual partners based on an assessment of professionalism, competence and competitiveness, and does not apply other non-professional selection criteria that contain the possibility of corruption.

Based on the Compliance’s proposal, the prohibition of corruption will be reflected in the contractual and regulatory documents used by the OTP Bank Plc. in a clearer and well-defined manner from 2023 onwards, through the inclusion of anti-corruption clauses in the business rules and standard contracts. The clause will state from the very beginning of the business relationship that the contracting partner accepts OTP Bank Plc.'s anti-corruption principles, including the prohibition of corruption and the consequences of breaching this prohibition, which can even be termination of contract.

Any requests from third parties affecting human rights are treated by the OTP Bank Plc. as a priority.

We manage the risks regarding the fight against corruption and bribery within the framework of our operational risk management process. Our quarterly compliance reports cover the changes in risks as well as the steps necessary steps to manage them. The reports are presented to the Executive Steering Committee and the Board of Directors; the annual report is also submitted to the Supervisory Board.

VIII.6. Non-financial key performance indicators relevant for specific business activities

Beyond non-quantifiable general customer satisfaction and compliance with the law, the most important performance indicators are all financial data.

IX. ORGANIZATIONAL STRUCTURE, EMPLOYMENT POLICY

In close cooperation with OTP Bank and taking advantage of the synergies within OTP Group, OTP Jelzálogbank structures its organization and determines the optimal employee headcount based on the nature and the amount of the tasks to be delivered. Loans are sold via the branch network of OTP Bank, which has decades of experience in this field, and also via the increasingly important sales partners, while a centralized organizational unit with nationwide coverage contributes to offering clients an ever wider range of services. OTP Bank performs financial, accounting, reporting, risk management and information technology services for OTP Jelzálogbank under a separate agreement.

Organizational structure

The organizational structure of the Company is determined mainly by the types of operations performed by it. The day-to-day work of the Company is managed and overseen by the Chief Executive Officer. The Chief Executive Officer of the Company and the Deputy CEOs responsible for general matters and for property valuation assess the risks of initiatives and ensure that resources are used economically and that operations serve the best interests of the Company's shareholder. The operational structure comprises one department (reporting directly to the Deputy CEO responsible for property valuation) and three business lines (overseen by the Deputy CEO responsible for general matters); in order to achieve greater efficiency, management and control over these organizational units is shared by the Deputy CEOs in the way described above. The allocation of business lines is also subject to the higher-level management and oversight principles associated with the division of labour.

On the medium-term, the Company aims to develop its organization according to the following criteria:

- create a cost-effective organizational structure to support operations,
- adjust the headcount model to ensure legal compliance and meet market needs,
- continually improve the skills of human resources, support professional further training,
- employ highly qualified staff.

Employment policy

In addition to what is described in the section on its organizational structure, priorities in the Company's employment policy include:

- maintaining the real value of employee wages and providing competitive remuneration,
- developing a wide range of fringe benefits,
- creating a complex incentive scheme for employees to ensure all duties are performed,
- creating and operating in conjunction with OTP Bank a professional and advocacy scheme for employees.

The Company's employment policy includes employing and supporting disabled persons in accordance with prevailing law.

As of 31 December 2023 the Company had 40 active employees. The Company places emphasis on professional training for its employees, ensuring that it has access to highly trained staff at all times.

X. QUANTITATIVE AND QUALITATIVE PERFORMANCE MEASURES AND INDICATORS (MoF Decree no. 24/2008. (VIII. 15.), Annex 1, Section 4.5)

Since it is subject to consolidated supervision together with OTP Bank Plc. pursuant to the decision of the Hungarian National Authority (previously: HFSA), OTP Jelzálogbank Zrt. is included in the institutional scope of the Banking Group's Remuneration Policy drawn up by OTP Bank Plc. as credit institution heading the Banking Group in accordance with the third amendment to the Capital Requirements Directive accepted by the European Union (2010/76/EU-CRD III) and the Act on Credit Institutions and Financial Enterprises, which transposed the former into Hungarian law.

Since 1 January 2011 OTP Jelzálogbank Zrt. has applied the requirements set out in the Remuneration Policy to all persons subject to that Policy. The following persons have been subject to the Remuneration Policy since 2017: the CEO and Deputy CEOs of the Company, the heads of its Treasury, Finance and Legal departments, and the internal auditor and compliance officer in active status.

OTP Jelzálogbank Zrt. uses the following types of quantitative and qualitative indicators to measure performance against the requirements laid down in the Banking Group's Remuneration Policy:

- company-level indicators,
- personal tasks and goals.

As a general rule, the Remuneration Policy grants stakeholders who meet the specified indicator values the benefits available for such performance with short-term and 4-year deferrals, providing the deferred parts in equal quarterly proportions, combining shares and cash, thus facilitating the long-term commitment of these persons to the continued preservation of the Company's profitable operations. Managers subject to the Remuneration Policy who do not reach the cap defined were given the opportunity to opt for performance remuneration without postponement, which involves providing benefits only in cash.

XI. DECLARATION ON RESPONSIBLE CORPORATE GOVERNANCE PRACTICES

In the course of its operations OTP Jelzálogbank fully complies with all laws, supervisory rulings and other rules and regulations applicable to it. The structure and operational conditions of the Company are described in the Organizational and Operational Regulations adopted by OTP Bank.
As a company with a registered seat in Hungary, OTP Jelzálogbank operates a corporate governance system that satisfies the requirements laid down in Act V of 2013 on the Civil Code (hereinafter: Civil Code), an act of law that also regulates business entities. As a specialized credit institution conducting banking operations, OTP Jelzálogbank also complies with the legal requirements applicable to credit institutions, including especially Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (hereinafter: Credit Institutions Act) and Act XXX of 1997 on Mortgage Banks and Mortgage Bonds (hereinafter: Mortgage Bonds Act).
Accordingly, the Company adheres to the mandatory corporate governance rules prescribed in law and publishes its Statutes and the composition of its management bodies on the OTP Jelzálogbank website. OTP Jelzálogbank does not deviate from the legally prescribed mandatory corporate governance rules but puts into practice all their requirements.
OTP Jelzálogbank does not apply a diversity policy to its administrative, executive and supervisory bodies as this is not mandatory for it under governing law due to its market share measured in terms of balance sheet total.

XI.1. Management bodies

XI.1.1. Board of Directors

The management body of the Company is its Board of Directors. The scope of authority of the Board of Directors is prescribed in the Company Statutes, the Founder's resolutions and the rules of procedure of the Board of Directors. The rules of procedure define the structure and operation of the Board of Directors, the duties pertaining to preparing for and administering its meetings and drafting its resolutions, as well as other matters relevant for the operations of the Board of Directors. The Board of Directors supervises the work of the management and produces an annual report to the founding shareholder about the management, financial standing and business policy of the credit institution. The Board of Directors exercises employer's rights over the Chief Executive Officer and the Deputy CEOs.

The members of the Board of Directors are selected by the founding shareholder. As of 31 December 2023 the Board of Directors had 7 members, 3 of whom are internal members (employed by the Company), which is more than the legally required 2.

The Board of Directors are bound by all the obligations and legal prohibitions stipulated by Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Credit Institutions Act) in respect of senior executives.

The meetings of the Board of Directors are minuted and its resolutions are documented.

The Board of Directors of OTP Jelzálogbank on 31 December 2023:

Antal Kovács – Chairman of the Board of Directors
András Becsei – CEO and internal Member of the Board of Directors
Ákos Fischl – Deputy CEO and internal Member of the Board of Directors
Csaba Nagy – Deputy CEO and internal Member of the Board of Directors
Anna Mitkova Florova – external Member of the Board of Directors
Zoltán Roskó – external Member of the Board of Directors
Attila Kovács – external Member of the Board of Directors

XI.1.2. Supervisory Board

The management and the business processes of the Company are supervised by the Supervisory Board, which is the supreme supervisory body of the Company.

The Supervisory Board establishes its own rules of procedure, which are then approved by the founding shareholder. The members of the Supervisory Board are selected by the founding shareholder for a period of five years. In its supervisory role the Supervisory Board may request information or explanations from Members of the Board of Directors and managers and other employees of the Company. The Supervisory Board may also examine, or have examined by an expert, the books and documents of the Company.

The Supervisory Board is entitled to examine all the material business policy reports to be presented to the founding shareholder of the Company, and all proposals pertaining to issues falling within the exclusive competence of the founding shareholder.

Professional oversight of the internal audit function also falls within the competence of the Supervisory Board. The Supervisory Board manages the internal audit organization of the Company in compliance with the requirements set out in the Credit Institutions Act and within the framework of that Act. The Supervisory Board exercises its right to advance consent when decisions are made on concluding or ending an employment contract with managers and employees of the internal audit organization or determining their remuneration; it also formulates recommendations and proposals on the basis of internal audit findings.

The Supervisory Board exercises its rights as a body or through its members but it may also distribute its duties among its members on a permanent basis.

The Supervisory Board holds quarterly meetings. Meetings must be convened if requested by at least one member of the Supervisory Board or the Board of Directors or the statutory auditor, also specifying the reason and the purpose in writing.

The Supervisory Board of OTP Jelzálogbank on 31 December 2023:

József Németh – Chairman of the Supervisory Board
Ágota Selymesi – Member of the Supervisory Board
Gergely Pókos – Member of the Supervisory Board
dr. Róbert Csató – Member of the Supervisory Board

XI.1.3. *Other committees*

Management Meeting

The Management Meeting is a decision-making, decision-preparation and consultative standing committee of the Company; its operational rules are set out in its rules of procedure. The committee makes decisions on matters referred to it and on matters individually not regulated and pertaining to the operation of the credit institution.
Effective from 2021, the Management Meeting has acted as the Green Mortgage Bond Committee within the Company's Green Mortgage Bond Framework.

OTP Mortgage Bank has not established an independent Audit Committee, the functions of the Audit Committee are performed by the Audit Committee of the Founding Shareholder pursuant to Section 157 (5) of the Hungarian Credit Institutions Act.

In 2023, the board meetings of directors and the board meetings of the supervisory board were held 4 times, during these meetings the Board of Directors adopted 39 resolutions and the Supervisory Board adopted 28 resolutions. In addition to the meetings, the Board of Directors adopted 104 resolutions via written vote and the Supervisory Board adopted 16 resolutions via written vote.

XI.2. System of internal and external controls

The main function of the internal audit system is to protect the assets of clients and the Company and the interests of the shareholders, and to control the Company's operations to facilitate its compliance with the law. The internal control system extends to all organizational units and activities of the Company.
In order to underpin efficient auditing and reporting processes, the internal control system comprises multiple interconnected controls. In-process and managerial control along with the independent internal auditor and the management information system constitute the components of the internal control system.

The Risk Assumption Strategy defines a risk management framework as well as the principles and guidelines for risk assumption for the whole of OTP Group.
Ultimate powers regarding key risk management decisions and the main risk topics of group members reside with the risk committees of the Banking Group Members; in the case of OTP Jelzálogbank this is the Management Meeting.

To support the reporting processes, the bank's risk management system includes identifying risks, assessing and analyzing their impacts, devising the necessary action plans and monitoring their efficiency and outcomes. The management adopts business decisions in full awareness of all the important risks. All material risks associated with internal and external operations and compliance with financial and legal requirements and many other risks are assessed and managed in a well-defined and transparent internal mechanism.

XI.2.1. IT Controls

Applications are developed by either in-house group resources or by third parties. OTP Bank applies administrative, logical and physical control measures commensurate with the risk in order to protect the IT systems storing and processing data, as follows:

- access to data/systems is only possible on the basis of a predefined authorisation management process that applies the principle of least privilege, ensures segregation of responsibilities, that has regular access right reviews and ensures that dismissed employees' access is revoked in a timely manner;
- user authentication, authorisation and password management processes are controlled by policies and audited;
- the systems have test and development environments with appropriate separation from the production environments that have a secure change management procedure, which ensures that program developments or modifications can only be deployed to the operational environment after proper, controlled testing and approval;
- systems are protected by appropriate network perimeter protection, various security devices and network segmentation, furthermore all network communications are protected with state-of-the-art encryption;
- the IT systems that store and process data are regularly backed up and backup media is stored in controlled premises with adequate protection for long-term retention, and the organisation carries out regular backup restore tests;
- adequate redundancy is applied for IT systems that store and process data to ensure business continuity and disaster resiliency;
- has developed DRPs and BCPs for critical systems and critical business processes, which are regularly tested and reviewed;
- the Bank collects and retains the complete log of all major IT operations and IT security relevant data processing activities and the confidentiality, availability, integrity, authenticity and non-repudiation of these audit logs are ensured;
- there is a continuous, up-to-date protection against malicious codes;
- it ensures the regular implementation of vendor patches and updates for the environments used;
- it uses a data leakage protection (DLP) solution to reduce the risk of inadvertent data loss;
- it ensures the continuous monitoring of the operation events of the physical and virtual environment system elements with automated event detection and management tools;
- the above measures are documented at an appropriate level, which ensures the traceability of the implementation of data security requirements in a transparent manner;
- it ensures permanent secure deletion of the data stored on the media, the destruction of the media and the documentation of the destruction of the media during secure operational media disposal processes;
- it enforces data protection requirements already at the design stage of the implementation of the
  IT systems storing and processing personal data and of the systems operational processes related to them;

- acquire and maintain ability to adequately handle application related security events (including cyber threats), entailing prevention, detection, identification, isolation, analysis, recovery and reporting;
- remote work is regulated in a controlled and documented way, remote device and user access is protected with multi-factor authentication;
- ensures IT security compliance by its managed regulative framework;
- revision and update of IT security regulations bi-yearly or in a frequency complying legislative requirements or upon major changes;
- ensures vulnerability assessments and penetration tests are carried out as planned;
- defines pools for categorization of installed software into preferred, allowed and prohibited and ensures compliance to that policy.
- it ensures that its employees have adequate knowledge of data protection requirements and provides regular data protection and information security awareness training for them.

XI.2.2. Internal audit

The Company employs an independent internal auditor who reports to the Supervisory Board within a framework defined by the Credit Institutions Act. The independent internal auditor has a medium-term auditing strategy and an annual audit plan approved by the Supervisory Board. The independent internal auditor works on the basis of the annual workplan approved by the Supervisory Board and reports regularly to the Board of Directors and the Supervisory Board.
The independent internal auditor helps the legal and profitable management of assets and liabilities and the protection of private property, supports safe and secure business operations, ensures the efficiency, cost-effectiveness and results of internal control systems, contributes to minimising risk and, in conjunction with the Compliance area, identifies and reports any deviations from legal requirements and internal regulations, proposes ways to eliminate shortcomings and monitors the implementation of measures. They perform this role with objectivity, solely on the basis of professional considerations. Their independence is guaranteed by the fact that they report to the Supervisory Board within the framework defined by the Credit Institutions Act.

XI.2.3. Risk management

The Company has detailed risk management rules covering all types of risk; these rules are aligned with legislation on prudent banking operations.
The risk management system includes identifying the risks, assessing and analyzing their impacts, devising the necessary action plans and monitoring their efficiency and outcomes. The management adopts business decisions in full awareness of all the important risks. All material risks associated with internal and external operations and compliance with financial and legal requirements and many other risks are assessed and managed in a well-defined and transparent internal mechanism.
The Company works closely with the Risk Management and Strategy and Financial Divisions of OTP Bank in exercising functional control in accordance with the Banking Group’s risk management guidelines, methodology and infrastructure, for the purpose of developing a clearly defined, transparent and standardized credit, country, counterparty, market and operational risk management system at group level satisfying the Basel requirements and meeting the expectations of the Regulator as well as aligning with the local environment. Group-level risk management is based on a standardized organizational structure and the implementation of regulations and procedures by the subsidiaries.

Credit risk

The Bank manages exposures to credit risk by producing regular analyses of the interest payment and principal repayment ability of debtors and potential debtors and, if necessary, changing the borrowing limits. Another means for managing credit risk is to obtain collateral items and corporate and personal guarantees.

Market risk

Market risks originate from open positions on securities and other instruments. The Bank does not have material exposures to market risk. Market risk exposure is monitored and controlled mainly by the Asset and Liability Management Directorate of OTP Bank.

Net currency position and currency risk

The Bank controls its currency positions against the limits on open positions required by Magyar Nemzeti Bank as well as its own system of limits. The Bank also uses the VaR model for measuring its open currency positions.

Interest rate risk

Most of the Bank's interest-bearing assets and liabilities are designed in such a way that short-term assets are aligned with short-term liabilities or that the mid-year variation of the interest rates on long-term assets and long-term liabilities is possible, or that changes to the interest rates on long-term assets and the related long-term liabilities are synchronized.

In addition to the above, a wide interest margin between the various interest-bearing assets and interest-bearing liabilities offers the Bank a high degree of flexibility in managing interest rate differences and interest rate risk.

Liquidity risk

Liquidity risk measures the extent to which the Bank would need to increase its liquid assets in order to meet its liabilities from financial instruments in a timely manner. The Bank manages its liquidity position in accordance with the principles defined by the MNB.

Quantified pricing, lending, liquidity and cash flow risks are presented in detail in Notes 30, 33, 35 and 36 in the Notes to the Consolidated Annual Report.

Policy on hedging transactions

The Bank uses hedge accounting as follows: identifying hedging transactions, producing appropriate hedging documentation, conducting efficiency checks, and evidencing efficiency on the basis of their results.

Further elements of the risk management and hedging policy are described in Note 2 in the Notes to the consolidated Annual Reports, where the main accounting principles are summarized.

XI.2.4. Compliance

In accordance with European Union and Hungarian legislative requirements the Company employs a dedicated Compliance Officer responsible for identifying and managing compliance risks and ensuring compliance with the law and prudent operations. In line with Recommendation no. 27/2018. (XII.10.) of the Magyar Nemzeti Bank, in which it recommends internal lines of defence to be established and operated also at group level and that the governing financial entity should set up and operate a governance and oversight function over the group members, the Compliance Officer performs compliance duties predicated on the same principles as the Compliance Policy of

OTP Bank, the Company's parent bank. The Compliance Officer carries out their tasks on the basis of the Compliance Workplan approved by the Board of Directors of the Company. At least once every year the Compliance Officer produces a comprehensive report for the Board of Directors and the Supervisory Board, as required by the Credit Institutions Act and with the content required by the law.

XI.2.5. Data Protection Officer

The Company employs a Data Protection Officer to comply with EU and Member state data protection regulations. The status and the duties of the Data Protection Officer are described in the Company's Organizational and Operational Regulations and its Data Protection and Data Security Regulation, as amended from time to time. The most important task of the DPO is to help the Company achieve compliance with the rules on the protection of personal data, doing so in the manner provided for in law. Among other things, the DPO provides information and professional advice to the Company and its employees responsible for data processing as regards their obligations under EU or Member State data protection provisions, and monitors compliance with the Company's internal regulations on the protection of personal data. At least once a year, the Data Protection Officer presents to the Board of Directors a proposal and/or information note approved by the Management Meeting, describing the DPO's activities in this respect.

XI.2.6. Sustainability Officer

The Sustainability Officer coordinates the Company's tasks relating to climate change and environmental risks as well as green lending and green mortgage bond issuance. The Sustainability Officer takes part in developing the Company's green strategy and, with professional guidance from OTP Bank's Green Program Directorate, oversees the implementation of OTP Group's climate change strategy and environmental sustainability objectives in the course of the Company's operations. The Sustainability Officer is a Management Meeting member designated by the CEO. The Sustainability Officer reports on their duties annually to the Board of Directors and the Supervisory Board of the Company.

XI.2.7. Auditor

The books of OTP Jelzálogbank are audited by Ernst & Young Könyvvizsgáló Kft. (Cg. 01-09-267553).

The decision to select the statutory auditor entity and to appoint the member personally responsible for the audit resides with the founding shareholder.

Ernst & Young Könyvvizsgáló Kft. provided OTP Jelzálogbank with the following non-auditing services in 2023:

- Consultancy services
- Other services providing assurance

XI.2.8. Coverage supervisor

OTP Jelzálogbank retains a coverage supervisor to perform the tasks required in Act XXX of 1997 on Mortgage Banks and Mortgage Bonds. The coverage supervisor checks and confirms the availability at all times of the required coverage for the mortgage bonds and ensures that the mortgaged assets serving as ordinary coverage for the mortgage bonds, their land register data and collateral values as well as the ordinary and the additional collaterals are registered in the coverage records.

The Coverage Supervisor for OTP Jelzálogbank is KPMG Hungária Kft. (Cg.01-09-063183).

XI.2.9. Disclosure

The Company complies with the disclosure requirements applicable to its activities by adhering to the provisions in Act CXX of 2001 on the Capital Market (Capital Market Act), Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Credit Institutions Act) and Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR). OTP Jelzálogbank satisfies its annual disclosure obligation through disclosure on its own website (www.otpjzb.hu), the website of the Budapest Stock Exchange (www.bet.hu) and a dedicated website operated by Magyar Nemzeti Bank (www.kozzetetelek.hu).

The Company has detailed internal regulations in place regarding insiders and potential insider persons; these regulations are fully compliant with the limits and prohibitions defined in the prevailing Capital Market Act. The persons concerned receive appropriate information from the Compliance department regarding the prohibitions applicable. The regulatory and record-keeping duties associated with insider trading and insider persons are the responsibility of the Compliance Officer of the Company, with information systems constantly being enhanced in order to deliver these duties efficiently.

DECLARATION BY OTP JELZÁLOGBANK ZRT. (MoF Decree no. 24/2008. (VIII. 15.), Annex 1, Section 2.4)

In the Annual Report the audited separate and consolidated Financial Statements produced in line with the applicable accounting requirements and the International Financial Reporting Standards (IFRS) adopted by the European Union present a true and fair view of the assets, liabilities, financial position and profit/loss of OTP Jelzálogbank Zrt. as issuer of mortgage bonds.

The Management Report offers a fair view of the position, development and performance of OTP Jelzálogbank Zrt. as an issuer of mortgage bonds, describing the main risks and uncertainties.

OTP Jelzálogbank Zrt. has a liability for compensating for damage caused by misleading content in the Annual Report.

Budapest, 22 March 2024

………………………….	………………………………
András Becsei	Péter Radics
Chief Executive Officer	Chief Financial Officer

OTP MORTGAGE BANK LTD.

CONSOLIDATED FINANCIAL STATEMENTS
IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING
STANDARDS AS ADOPTED BY
THE EUROPEAN UNION

FOR THE YEAR ENDED
31 DECEMBER 2023

This is a translation of the Hungarian Version

OTP MORTGAGEBANK LTD.

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OTP MORTGAGE BANK LTD.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023 (in HUF million)

	Note	2023	2022
Cash, amounts due from banks and balances with the National Bank of Hungary	5.	30,366	16,778
Placements with other banks	6.	371,556	217,553
Financial assets at fair value through other comprehensive income	7.	15,257	13,544
Securities at amortised cost	9.	301,776	296,619
Loans at amortised cost	8.	1,200,249	1,164,795
Loans mandatorily measured at fair value through profit or loss	8.	463,917	454,164
Property and equipment	10.	55	54
Intangible assets	10.	302	228
Right of use assets	10.	243	281
Deferred tax assets	27.	269	441
Current income tax assets		111	1,054
Derivative financial assets designated as hedge accounting relationships	11.	7,822	11,786
Other assets	12.	4,043	4,131
TOTAL ASSETS		**2,395,966**	**2,181,428**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	13.	1,117,388	1,059,717
Repo liabilities	14.	13,211	13,947
Leasing liabilities	28.	240	296
Liabilities from issued securities	15.	1,122,699	971,466
Derivative financial liabilities designated as hedge accounting relationships	16.	3,728	3,889
Deferred tax liabilities		1	-
Current income tax liabilities		39	7
Provisions	17.	452	1,448
Other liabilities	17.	5,813	5,985
TOTAL LIABILITIES		**2,263,571**	**2,056,755**
Share capital	18.	82,000	82,000
Retained earnings and reserves	19.	50,395	42,673
TOTAL SHAREHOLDER'S EQUITY		**132,395**	**124,673**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**2,395,966**	**2,181,428**

Budapest, 22 March 2024

…………………………………………….	………………………………………...
András Becsei	Péter Radics
Chief Executive Officer	Chief Financial Officer

OTP MORTGAGE BANK LTD.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2023 (in HUF million)

	Note	2023	2022
Interest Income:			
Interest income calculated using the effective interest method	21.	149,113	103,496
Income similar to interest income	21.	40,600	17,700
Total Interest Income		**189,713**	**121,196**
Interest Expense:			
Total Interest Expense	21.	**(154,852)**	**(108,417)**
NET INTEREST INCOME		**34,861**	**12,779**
Release of loss allowance on loan, placement and repo receivables losses	22.	5,886	2,296
Release of loss allowance / (Loss allowance) on securities at fair value through other comprehensive income and on securities at amortised cost	22.	440	(2,071)
Release of provision / (Provision) for loan commitments and financial guarantees given	22.	982	(616)
Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit of loss	22.	(3)	355
Risk cost total		**7,305**	**(36)**
NET INTEREST INCOME AFTER RISK COST		**42,166**	**12,743**
LOSSES ARISING FROM DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTISED COST	24.	**(61)**	**(61)**
MODIFICATION LOSS	4.	**(17,518)**	**(22,278)**
Income from fees and commissions	23.	4,935	6,825
Expenses from fees and commissions	23.	(8,394)	(9,348)
NET PROFIT FROM FEES AND COMMISSIONS		**(3,459)**	**(2,523)**
Foreign exchange gains / (losses)	24.	(33)	2
Losses on derivative instruments, net		(648)	-
Gains / (Losses) on financial instruments at fair value through profit or loss	24.	318	13,793
Net other operating (expense) / income	25.	87	186
Other operating expenses	25.	(1,574)	(18)
Net operating (expense)/income		**(1,850)**	**13,963**
Personnel expenses	25.	(1,643)	(1,387)
Depreciation and amortization	25.	(236)	(256)
Other administrative expenses	25.	(5,134)	(9,919)
Other administrative expenses		**(7,013)**	**(11,562)**
PROFIT / (LOSS) BEFORE INCOME TAX		**12,265**	**(9,718)**
Income tax expense	27.	(1,356)	(622)
NET PROFIT / (LOSS) AFTER INCOME TAX		**10,909**	**(10,340)**
Basic and diluted	29.	13,304	(21,438)

OTP MORTGAGE BANK LTD.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023 (in HUF million)

	Note	2023	2022
PROFIT / (LOSS) AFTER INCOME TAX		**10,909**	**(10,340)**
Items that may be reclassified subsequently from other comprehensive income to profit or loss:			
Fair value adjustment of securities fair value through other comprehensive income	19.	2,134	(1,998)
Deferred tax related to securities fair value through other comprehensive income	19.	(193)	187
Gains / (Losses) on separated currency spread of financial instruments designated as hedging instrument	37.	1,219	-
Gains on derivative financial instruments designated as cash flow hedge	37.	(6,383)	6,052
Other comprehensive income, net of income tax		**(3,223)**	**4,241**
TOTAL COMPREHENSIVE INCOME / (LOSS)		**7,686**	**(6,099)**

OTP MORTGAGE BANK LTD.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023 (in HUF million)

	Notes	Share capital	Capital reserve	Retained earnings and other reserves	Total
Balance as at 1 January, 2022		**37,000**	**476**	**66,264**	**103,740**
Net profit after income tax		-	-	(10,340)	(10,340)
Other comprehensive income		-	-	4,241	4,241
Total comprehensive income		**37,000**	**476**	**60,165**	**97,641**
Share-based payment		-	-	32	32
Dividend paid		-	-	(18,000)	(18,000)
Share capital raise	18.	45,000	-	-	45,000
Balance as at 31 December, 2022		**82,000**	**476**	**42,197**	**124,673**
Balance as at 1 January, 2023		**82,000**	**476**	**42,197**	**124,673**
Net profit after income tax		-	-	10,909	10,909
Other comprehensive income		-	-	(3,223)	(3,223)
Total comprehensive income		**82,000**	**476**	**49,883**	**132,359**
Share-based payment	32.	-	-	36	36
Balance as at 31 December, 2023		**82,000**	**476**	**49,919**	**132,395**

OTP MORTGAGE BANK LTD
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2023 (in HUF million)

OPERATING ACTIVITIES	**Note**	**2023**	**2022**
Profit before income tax		**12,265**	**(9,718)**
Net interest (paid) / received		6,008	(10,610)
Depreciation and amortization		236	256
Loss allowance on loans and placements	22.	(5,886)	(2,296)
Loss allowance / (Release of loss allowance) on securities at fair value through other comprehensive income	22.	(10)	75
Loss allowance / (Release of loss allowance) on securities at amortised cost	22.	(430)	1,996
Loss allowance / (Release of loss allowance) on other assets	12.	4	7
Provision on off-balance sheet commitments and contingent liabilities		(996)	579
Share-based payment	32.	37	32
Losses / (gains) on fair value adjustment of financial instruments at fair value through profit or loss		(313)	(14,147)
Losses on fair value adjustment of derivative financial instruments designated in hedge relationship		3,269	(3,544)
Interest expense form leasing liabilities		(13)	(6)
Foreign exchange loss	24.	(66)	(4)
Proceeds from sale of tangible and intangible assets		8	6
Net changing in assets and liabilities in operating activities			
Net increase in placements with other banks before allowance for placement losses	6.	(153,114)	(66,608)
Net increase in loans		(45,930)	(50,303)
Increase in other assets, excluding advances for investments and before provisions for losses	12.	2,518	(237)
Net (decrease) / increase in amounts due to banks and deposits from the National Bank of Hungary and other banks	13.	56,959	50,896
(Decrease) / Increase in other liabilities	17.	(1,273)	(4,298)
Net increase in the compulsory reserve established by the National Bank of Hungary		(41)	(126)
Income tax paid	27.	267	-
Net cash provided by operating activities		**(126,501)**	**(108,050)**

OTP MORTGAGE BANK LTD
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2023 (in HUF million)

	Note	2023	2022
INVESTING ACTIVITIES			
Change in securities at fair value through other comprehensive income	7.	(5,244)	7,079
Change in derivative financial instruments designated as hedge accounting		(230)	(760)
Increase in securities at amortised cost	9.	(4,727)	(153,424)
Redemption of securities at amortised cost	9.	-	29,934
Additions to property, equipment and intangible assets	10.	(273)	(125)
Disposal of property, equipment and intangible assets	10.	8	6
Net cash used in investing activities		**(10,466)**	**(117,290)**
FINANCING ACTIVITIES			
Leasing payments		(76)	(110)
Cash received from issuance of securities	15.	215,732	200,000
Cash used for redemption of issued securities	15.	(65,142)	(545)
Dividends paid		-	(18,000)
Share capital raise		-	45,000
Net cash provided by financing activities		**150,514**	**226,345**
Net increase in cash and cash equivalents		**13,547**	**1,005**
Cash and cash equivalents at the beginning of the year		**16,624**	**15,619**
Cash and cash equivalents at the end of the year		**30,171**	**16,624**

NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

1.1. General information

OTP Bank Plc. ("OTP Bank") established OTP Mortgage Bank Ltd. ("OTP Mortgage Bank"; "Mortgage Bank" or the "Group") as a fully owned subsidiary on 15 May 2001. The State Financial Supervisory Authority issued the operating license on 10 January 2002, and the Bank commenced operations on 1 February 2002.

OTP Bank (headquarters Nádor utca 16. Budapest 1051) is the ultimate parent of OTP Mortgage Bank, and also the ultimate parent of OTP Group.

These consolidated financial statements authorised for issue on 22 March 2024 by the Board of OTP Mortgage Bank. The Bank's owners have the power to amend the separate financial statements after issue if applicable.

The Group completed its publication in accordance with Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises, 575/2013/EU directive (CRR). OTP Mortgage Bank completed its publication with Consolidated Financial Statements prepared in accordance with IFRS as adopted by European Union jointly with OTP Bank Plc on the homepage of OTP Bank Plc (http://www.otpbank.hu/), on the homepage of the Bank (http://www.otpjzb.hu). Separate Financial Statements in accordance with IFRS as adopted by the EU is published on the homepage of the Bank, on the homepage Budapest Stock Exchange (http://www.bet.hu), furthermore on the website of the National Bank of Hungary (www.kozzetetelek.hu).

The Bank's registered office address is Váci út. 135-139. D Building, Budapest 1138.

Internet homepage: https://www.otpbank.hu/OTP_JZB/online/index.jsp

Signatory of the consolidated financial statements is the Executive Officer, András Becsei and Financial Officer, Péter Radics.

The Mortgage Bank's Financial Statements were prepared by OTP Bank Plc. based on the Services Agreement between The Mortgage Bank and OTP Bank Plc. Responsible person for the control and management of accounting services: Zoltán Tuboly (Budapest), Managing Director of Accounting and Financial Department, Registration Number: 177289, IFRS qualified chartered accountant.

Due to Hungarian legislation audit services are statutory for OTP Mortgage Bank. Disclosure information about the auditor: Ernst &Young Auditing Ltd. (001165), 1132 Budapest Váci Street 20. Registered under 01-09-267553 by Budapest-Capital Regional Court, as registry court. Statutory registered auditor: Zsolt Kónya, registration number: 007383.

Audit service fee agreed by the Articles of Association for the year ended 2023 is an amount of HUF 50.75 million + VAT. Fees for non-audit services provided in 2023 an amount of HUF 9.5 million + VAT, other services providing assurance in an amount of HUF 106.7 million + VAT

The shared capital of the Bank consists of 820,000 ordinary shares with a nominal value of HUF 100,000, embodying the same ownership rights.

The Group is a specialized financial institution with its main business being governed by Act XXX of 1997 on Mortgage Lending Institutions and Mortgage Bonds. The Group's business is limited to the relevant activities by the aforementioned Act.

The main activity of the Group is financing of purchase, renovation and development of residential properties. The purchased portfolio contains mainly subsidised housing loans, in addition housing and free purpose mortgage loans denominated in foreign currency that were converted back to foreign exchange. Over the past few years, the granted subsidized HUF housing loans and the granted HUF housing and free purpose mortgage loan are the dominant part of the entire mortgage bank portfolio. The Group provides presently HUF denominated subsidised and not subsidised housing and free purpose mortgage loans. From 2017, the Group expanded their services with independent liens purchase and sale by instalment, provided also by refinancing loans to commercial banks.

The Group employs limited number of staff at its head office and use 345 branches of OTP Bank engaged in the housing loan business. Under syndication agreement between OTP Bank and OTP Mortgage Bank, OTP Bank provides services for OTP Mortgage Bank concerning the administration of the mortgage loans, for which fees are paid by OTP Mortgage Bank. Credit scoring and lending are performed at the branches of OTP Bank in accordance with the regulations of OTP Mortgage Bank. Loans are approved by OTP Mortgage Bank and OTP Bank acts for and on behalf of OTP Mortgage Bank during the conclusion of a loan agreement. The mortgage right, along with the restraint of transfer and encumbrance on property pledged to secure loans is entered in the property register for the benefit of OTP Mortgage Bank. Pledge of the mortgage bonds is the actual loans registered as normal collateral – collateralised by property inspector – and additional collateral values – prescribed by law – registered in the Group's collateral register.

As the sole shareholder, OTP Bank provides financial and administrative support to the Group. Details of related party balances and transactions are summarised in Note 34 to these financial statements.

A significant proportion of mortgage loans are extended for periods for more than ten or fifteen years whereas mortgage bonds generally have a shorter maturity (1-10 years). The remaining average maturity of the loan portfolio of the Group is 16,16 years. The Group is lengthening the average maturity of its outstanding mortgage bonds to reduce the liquidity gaps.

NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS [continued]

As at 31 December 2023 and 2022 the number and the average number of the employees at the Bank were 92 and 113 respectively.

1.2. Basis of Accounting

The Group maintains its accounting records and prepares its statutory accounts in accordance with the commercial, banking and fiscal regulations prevailing in Hungary.

OTP Mortgage Bank's presentation and functional currency is the Hungarian Forint ("HUF"). The annual report contains the data expressed in millions of forints.

The financial statements of the subsidiaries used during the preparation of Consolidated Financial Statements of the Group have the same reporting period – starting from 1 January ending as at 31 December – like the reporting period of the Group.

The consolidate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

1.2.1. The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2023

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- **Amendments to IAS 1 "Presentation of Financial Statements" and IFRS Practice Statement 2** – **Disclosure of Accounting policies** – adopted by the EU on 2 March 2022 (effective for annual periods beginning on or after 1 January 2023; earlier application permitted):
  - The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures.
- **Amendments to IAS 8 "Accounting policies, Changes in Accounting Estimates and Errors"** – **Definition of Accounting Estimates** – adopted in the EU on 2 March 2022 (effective for annual periods beginning on or after 1 January 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period):
  - The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty, if they do not result from a correction of prior period error. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors.
- **IFRS 17 "Insurance Contracts"** – adopted by the EU on 19 November 2021 (effective for annual periods beginning on or after 1 January 2023). IFRS 17 is not applicable in case of these Consolidated Financial Statements. This is a comprehensive new accounting standard for insurance contracts, covering recognition and measurement, presentation and disclosure. IFRS 17 applies to all types of insurance contracts issued, as well as to certain guarantees and financial instruments with discretional participation contracts.
- **Amendments to IFRS 17 "Insurance Contracts" – Initial application of IFRS 17 and IFRS 9 – Comparative Information –** in December 2021, the IASB issued amendments to IFRS 17 to add a transition option for a "classification overlay" to address possible accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented on initial application of IFRS 17. IFRS 17 is not applicable in case of these Consolidated Financial Statements.
- **Amendments to IAS 12 "Income Taxes" – Deferred Tax related to Assets and Liabilities arising from a Single Transaction** – adopted by the EU on 11 August 2022 (effective for annual periods beginning on or after 1 January 2023; earlier application permitted):
  - The amendments narrow the scope of and provide further clarity on the initial recognition exception under IAS 12 and specify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement, having considered the applicable tax law, whether such deductions are attributable for tax purposes to the liability or to the related asset component. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS [continued]

1.2. Basis of Accounting [continued]

1.2.1. The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2023 [continued]

- **Amendments to IAS 12 "Income taxes" – International Tax Reform - Pillar Two Model Rules** – The amendments are effective immediately upon issuance, but certain disclosure requirements are effective later. The Organisation for Economic Co-operation and Development's (OECD) published the Pillar Two model rules in December 2021 to ensure that large multinational companies would be subject to a minimum 15% tax rate. On 23 May 2023, the IASB issued International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12.
  - The amendments introduce a mandatory temporary exception to the accounting for deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules and disclosure requirements for affected entities on the potential exposure to Pillar Two income taxes. The Amendments require, for periods in which Pillar Two legislation is (substantively) enacted but not yet effective, disclosure of known or reasonably estimable information that helps users of financial statements understand the entity's exposure arising from Pillar Two income taxes. To comply with these requirements, an entity is required to disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. The disclosure of the current tax expense related to Pillar Two income taxes and the disclosures in relation to periods before the legislation is effective are required for annual reporting periods beginning on or after 1 January 2023.

The adoption of these amendments to the existing standards has not led to any material changes in these Consolidated Financial Statements.

1.2.2. New and revised Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

- **Amendments to IAS 1 "Presentation of Financial Statements" –** Classification of Liabilities as Current or Non-current. **–** The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted, and will need to be applied retrospectively in accordance with IAS 8.
  - The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current. The amendments clarify the meaning of a right to defer settlement, the requirement for this right to exist at the end of the reporting period, that management intent does not affect current or non-current classification, that options by the counterparty that could result in settlement by the transfer of the entity's own equity instruments do not affect current or non-current classification. Also, the amendments specify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period.
- **Amendments to IFRS 16 "Leases" –** Lease Liability in a Sale and Leaseback – The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted.
  - The amendments are intended to improve the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction in IFRS 16, while it does not change the accounting for leases unrelated to sale and leaseback transactions. In particular, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease. A seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, being the beginning of the annual reporting period in which an entity first applied IFRS 16.

NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS [continued]

1.2. Basis of Accounting [continued]

1.2.3. Standards and Interpretations issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at date of publication of these financial statements:

- **Amendments to IAS 7 "Statement of Cash Flows" and IFRS 7 "Financial Instruments Disclosure - Supplier Finance Arrangements"** – The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted.
  - The amendments supplement requirements already in IFRS and require an entity to disclose the terms and conditions of supplier finance arrangements. Additionally, entities are required to disclose at the beginning and end of reporting period the carrying amounts of supplier finance arrangement financial liabilities and the line items in which those liabilities are presented as well as the carrying amounts of financial liabilities and line items, for which the finance providers have already settled the corresponding trade payables. Entities should also disclose the type and effect of non-cash changes in the carrying amounts of supplier finance arrangement financial liabilities, which prevent the carrying amounts of the financial liabilities from being comparable. Furthermore, the amendments require an entity to disclose at the beginning and end of the reporting period the range of payment due dates for financial liabilities owed to the finance providers and for comparable trade payables that are not part of those arrangements.
- **Amendments to IAS 21 "The Effects of Changes in Foreign Exchange Rates" –** Lack of Exchangeability – The amendments are effective for annual reporting periods beginning on or after January 1, 2025, with earlier application permitted.
  - The amendments specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. A currency is considered to be exchangeable into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations. If a currency is not exchangeable into another currency, an entity is required to estimate the spot exchange rate at the measurement date. An entity's objective in estimating the spot exchange rate is to reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions. The amendments note that an entity can use an observable exchange rate without adjustment or another estimation technique.
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded).
  - The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.

The Group anticipates that the adoption of these new standards, amendments to the existing Standards and new interpretations will have no significant impact on the Consolidated Financial Statements of the Group in the period of initial application.

NOTE 2: SUMMARY OF MATERIAL ACCOUNTING POLICIES

Material accounting policies applied in the preparation of the accompanying consolidated financial statements are summarized below:

2.1. Basis of presentation

These consolidated financial statements have been prepared under the historical cost convention with the exception of certain financial instruments, which are recorded at fair value. Revenues and expenses are recorded in the period in which they are earned or incurred. The Group does not offset assets and liabilities or income and expenses unless it is required or permitted by an IFRS standard.

During the preparation of consolidated financial statements assets and liabilities, income and expenses are presented separately, except in certain cases, when one of the IFRS standards prescribes net presenting related to certain items.

The presentation of consolidated financial statements in conformity with IFRS requires the Management of the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Future changes in economic conditions, business strategies, regulatory requirements, accounting rules and other factors could result in a change in estimates that could have a material impact on future separate financial statements.

2.2. Foreign currency translation

Initial recognise of foreign currency transactions is based on exchange rate prevailing on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into HUF at exchange rates quoted by the National Bank of Hungary ("NBH") as at the reporting date. Income and expenses arising in foreign currencies are converted at the average of Bid and Ask exchange rate of OTP Bank Plc. prevailing on the transaction date. Resulting foreign exchange gains or losses on monetary items are recorded to the Consolidate Statement of Comprehensive Income. The parent entity and all the components are using HUF as both functional and presentational currency.

2.3. Consolidated financial statements

As the parent, OTP Mortgage Bank is preparing Consolidated Financial Statements of the Group.

These Consolidated Financial Statements combine the assets, liabilities, equity, income, expenses and cash flows of the Bank and of those subsidiaries of the Bank in which the Bank exercises control.
All intra-group transactions are consolidated fully on a line-by-line basis while under equity method other consolidation rules are applied. Determination of the entities which are involved into the consolidation procedures based on the determination of the Group's Control over another entity. Control exists when the Bank has power over the investee, is able to use this power and is exposed or has right to variable returns. Consolidation of a subsidiary should begin from the date when the Group obtains control and cease when the Group loses control. Therefore, income and expenses of a subsidiary should be included in the Consolidated Financial Statements from the date the Group gains control of the subsidiary until the date when the Group ceases to have control of the subsidiary.

Details of subsidiaries:

OTP Pénzügyi Pont Ltd.

Headquarters : 1138 Budapest, Váci street 135-139. A. building
OTP Mortgage Bank Ltd. ownership ratio:100%
Share capital: 52,5 million HUF
part of OTP Mortgage Bank: 52,5 million HUF

OTP Ingatlanpont Llc.

Headquarters : 1138 Budapest, Váci street 135-139. A. building
OTP Mortgage Bank Ltd. ownership ratio:100%
Share capital: 8 million HUF
part of OTP Mortgage Bank: 8 million HUF

NOTE 2: SUMMARY OF MATERIAL ACCOUNTING POLICIES [continued]

2.3. Consolidated financial statements [continued]

i-gen.hu Llc.

Headquarters : 1138 Budapest, Babér street 1-5.
OTP Ingatlanpont Llc. ownership ratio:100%
Share capital: 5,5 mn HUF
part of OTP Ingatlanpont Llc: 5,5 million HUF

The acquisition of 'I-gen.hu Pénzügyi Szolgáltató Kft' (I-gen.hu Financial Service Ltd) company was completed in January 2023. The purchase price was HUF 35 million. On 26 January 2023, Ingatlanpont Llc carried out a HUF 10 million capital increase in this company. The primary purpose of the purchase of the Company is to improve the value proposition provided by OTP Pénzügyi Pont Zrt. in the dependent intermediary market, to compensate for the loss of customers who reject OTP Bank through other bank offers, and to create objective competitor monitoring.

2.4. Financial assets

2.4.1. Business model and SPPI test

A business model refers to how the Group manages its financial instruments in order to generate cash flows. It is determined at a level that reflects how groups of financial instruments are managed rather than at an instrument level.

The financial assets held by the Group are classified into three categories depending on the business model within the financial assets are managed.

- Business model whose objective is to hold financial assets in order to collect contractual cash flows. Some sales can be consistent with hold to collect business model and the Group assesses the nature, frequency and significance of any sales occurring. The Group does not consider the sale frequent when at least six months have elapsed between sales. The significant sales are those when the sales exceed 2% of the total hold to collect portfolio. Within this business model the Group manages mainly loans and advances and long-term securities and other financial assets.
- Business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Within this business model the Group only manages securities.
- Business model whose objective is to achieve gains in a short-term period. Within this business model the Group manages securities and derivative financial instrument.

If cash flows are realised in a way that is different from the expectations at the date that the Bank/Group assessed the business model, that does not give rise to a prior error in the Group's financial statements, nor does it change the classification of the remaining financial assets held in that business model.
When, and only when the Group changes its business model for managing financial assets it reclassifies all affected assets. Such changes are determined by the Group's senior management as a result of external or internal changes and must be material to the Group's operations and demonstrable to external parties. The Group shall not reclassify any financial liability.

Classification of a financial asset is based on the characteristics of its contractual cash flows if the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. The Group should determine whether the asset's contractual cash flows are solely payments of principal and interest on the principal amount outstanding (SPPI test). Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending arrangement.

Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The Group assesses whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding for the currency in which the financial asset is denominated.

NOTE 2: SUMMARY OF MATERIAL ACCOUNTING POLICIES [continued]

2.4. Financial assets [continued]

2.4.1. Business model and SPPI test [continued]

The time value of money is the element of interest that provides consideration for only the passage of time. However, in some cases, the time value of money element may be modified. In such cases, the Group assesses the modification to determine whether the contractual cash flows represent solely payments of principal and interest on the principal amount outstanding.

When assessing a modified time value of money element, the objective is to determine how different the undiscounted contractual cash flows could be from undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). The benchmark instrument can be an actual or a hypothetical financial asset. If the undiscounted contractual cash flows significantly – above 2% – differ from the undiscounted benchmark cash flows, the financial asset should be subsequently measured at fair value through profit or loss.

2.4. Financial assets [continued]

2.4.2. Contractual cash-flow characteristics of financial assets

Classification of a financial asset is based on the characteristics of its contractual cash flows if the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

The Group should determine whether the asset’s contractual cash flows are solely payments of principal and interest on the principal amount outstanding (SPPI test). Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending arrangement.

Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The Group assesses whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding for the currency in which the financial asset is denominated.

Time value of money is the element of interest that provides consideration for only the passage of time. However, in some cases, the time value of money element may be modified. In such cases, the Group assesses the modification to determine whether the contractual cash flows represent solely payments of principal and interest on the principal amount outstanding.

When assessing a modified time value of money element, the objective is to determine how different the undiscounted contractual cash flows could be from undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). The benchmark instrument can be an actual or a hypothetical financial asset. If the undiscounted contractual cash flows significantly – above 2% – differ from the undiscounted benchmark cash flows, the financial asset should be subsequently measured at fair value through profit or loss.

2.4.3. Securities at amortised cost

The Group measures at amortized cost those securities which are held for contractual cash collecting purposes, and contractual terms of these securities give rise to cash flows that are solely payment of principal and interest on the principal amount outstanding. The Group initially recognizes these securities at fair value. Securities at amortized cost are subsequently measured using the effective interest (“EIR”) method and are subject to impairment. The amortisation of any discount or premium on the acquisition of a security at amortized cost is part of the amortized cost and is recognized as interest income so that the revenue recognized in each period represents a constant yield on the investment. Securities at amortized cost are accounted for on a trade date basis.

Such securities comprise mainly securities issued by the Hungarian and foreign Governments, corporate bonds, mortgage bonds and discounted treasury bills.

2.4.4. Securities at fair value through other comprehensive income (“FVOCI securities”)

FVOCI securities are held within a business model whose objective is achieved by both collecting of contractual cash flows and selling securities. Furthermore contractual terms of FVOCI securities give rise on specified dates to cash flows that are solely payment of principal and interest on the principal amount outstanding.

NOTE 2: SUMMARY OF MATERIAL ACCOUNTING POLICIES [continued]

2.4.4. Securities at fair value through other comprehensive income ("FVOCI securities") [continued]

Investments in debt securities are accounted for on a trade date basis and are initially measured at fair value. Securities at fair value through other comprehensive income are measured at subsequent reporting dates at fair value. Unrealised gains and losses on FVOCI financial instruments are recognized in other comprehensive income, except for interest and foreign exchange gains/losses on monetary items, unless such FVOCI security is part of an effective hedge. Such gains and losses will be reported when realised in profit or loss for the applicable period. The Bank applies FIFO[1] inventory valuation method for FVOCI securities.

For debt securities at fair value through other comprehensive income the loss allowance is calculated based on expected credit loss model. The expected credit loss is accounted for against Other Comprehensive Income.

FVOCI securities are remeasured at fair value based on quoted prices or values derived from cash flow models. In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of the future cash flows.

2.4.5. Financial assets at fair value through profit or loss

2.4.5.1. Derivative financial instruments

In the normal course of business, the Group is a party to contracts for derivative financial instruments, which represent a low initial investment compared to the notional value of the contract and their value depends on value of underlying asset and are settled in the future. The derivative financial instruments used include interest rate forward or swap agreements and currency forward or swap agreements and options. These financial instruments are used by the Group both for hedge interest rate risk and currency exposures associated with its transactions in the financial markets.

Derivative financial instruments are accounted for on a trade date basis and are initially measured at fair value and at subsequent reporting dates also at fair value. Fair values are obtained from quoted market prices, discounted cash-flow models and option pricing models as appropriate. The Group adopts a multi curve valuation approach for calculating the net present value of future cash-flows – based on different curves used for determining forward rates and used for discounting purposes. It shows the best estimation of such derivative deals that are collateralised as the Group has almost all of its open derivative transactions collateralised.

Certain derivative transactions, while providing effective economic hedges under risk management positions of the Bank, do not qualify for hedge accounting under the specific rules of IFRS 9 and are therefore treated as derivatives held for trading with fair value gains and losses charged directly to the separate statement of profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss and are included in the Consolidated Statement of Profit or Loss for the period. Each derivative deal is determined as asset when fair value is positive and as liability when fair value is negative.

Foreign currency contracts

Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot date (settlement occurs two days after the trade date) or at a forward date (settlement occurs more than two days after the trade date). The notional amount of forward contracts does not represent the actual market or credit risk associated with these contracts.

Foreign currency contracts are used by the Bank for risk management and trading purposes. The Bank's risk management foreign currency contracts were used to hedge the exchange rate fluctuations of loans and deposits denominated in foreign currency.

Interest rate swaps

The Group enters into interest rate swap ("IRS") transactions.

IRS transactions oblige two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount (the base of the interest calculation). Notional principal is the amount upon which interest rates are applied to determine the payment streams under IRS transactions. Such notional principal amounts often are used to express the volume of these transactions but are not actually exchanged between the counterparties.

[1] First In First Out

2.4.5. Financial assets at fair value through profit or loss [continued]

2.4.5.1. Derivative financial instruments [continued]

Cross-currency interest rate swaps

The Bank enters into cross-currency interest rate swap ("CCIRS") transactions which have special attributes, i.e. the parties exchange the notional amount at the beginning and also at the maturity of the transaction. A special type of these deals is the mark-to-market CCIRS agreements. At this kind of deals the parties – in accordance with the foreign exchange prices – revalue the notional amount during lifetime of the transaction.

2.4.6. Hedge accounting

Derivative financial instruments designated as a fair-value hedge

Changes in the fair value of derivatives that are designated and qualify as hedging instruments in fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the Consolidated Statement of Profit or Loss along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. Changes in the fair value of hedging instrument in fair value hedges is charged directly to the Consolidated Statement of Profit or Loss.

The conditions of hedge accounting applied by the Bank are the following: formally designated as hedge relationship, proper hedge documentation is prepared, effectiveness test is performed and based on it the hedge is qualified as effective. In the case of a financial instrument measured at amortised cost the Group recognises the hedging gain or loss on the hedged item as the modification of its carrying amount and it is recognised in profit or loss. These adjustments of the carrying amount are amortised to the profit or loss using the effective interest rate method. The Group starts the amortisation when the hedged item is no longer adjusted by the hedging gains or losses. If the hedged item is derecognised, the Group recognises the unamortised fair value in profit or loss immediately. For fair value hedges inefficiencies and the net revaluation of hedged and hedging item are recognized in the Gains /(Losses) on financial instruments at fair value through profit or loss and net result on hedge relationship.
The foreign currency basis spread (in case of CIRS deals) is separated and excluded from the designation of the financial instruments as the hedging instruments. The change of fair value attributable to the (aligned) foreign currency basis spread (in case of CIRS deals) is recognized in other comprehensive income.

The Group implemented hedge accounting rules prescribed by IFRS 9 in 2018. For further details please see Note 37.

Interest income and interest expense (accrued and paid) are presented in the Consolidated Statement of Proft or Loss in line item of "Income similar to interest income" or "Interest Expense". Ineffective element of the hedge is charged directly to the Consolidated Statement of Proft or Loss to "Gains / (Losses) on financial instruments at fair value through profit or loss and net result on hedge relationship".

Derivative financial instruments designated as cash-flow hedge

Changes in the fair value of derivatives that are designated and qualify as hedging instrument in cash-flow hedges and that prove to be highly effective in relation to the hedged risk are recognized in their effective portion as reserve in Other Comprehensive Income. The ineffective element of the changes in fair value of hedging instrument is charged directly to the Consolidated Statement of Profit or Loss in the Gains /(Losses) on financial instruments at fair value through profit or loss and net result on hedge relationship.

The Group terminates the hedge relationship if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting. In the case of cash-flow hedges – in line with the standard - hedge accounting is still applied by the Group as long as the underlying asset is derecognized or terminated. When the Group discontinues hedge accounting to a cash-flow hedge the amount in the cash flow hedge reserve is reclassified to the profit or loss if the hedged future cash flows are no longer expected to occur. If the hedged future cash flows are still expected to occur, the amount remains in the cashflow hedge reserve and reclassified to the profit and loss only when the future cash flows occur.

Interest income and interest expense (accrued and paid) are presented in the Consolidated Statement of Proft or Loss in line item of "Income similar to interest income" or "Interest Expense". Effective element of the hedge is presented in the "Consolidated Statement of Other Comprehensive Income" (Cash flow hedge reserve). Ineffective element of the hedge is charged directly to the Consolidated Statement of Proft or Loss to "Gains / (Losses) on financial instruments at fair value through profit or loss and net result on hedge relationship".

NOTE 2: SUMMARY OF MATERIAL ACCOUNTING POLICIES [continued]

2.4. Financial assets [continued]

2.4.7. Loans, placements with other banks and allowance for loan and placement losses

The Group measures at amortized cost those Loans and placements with other banks and repo receivables, which are held to collect contractual cash flows, and contractual terms of these assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These loans are recognized as Loans at amortized cost in the Consolidated Statement of Financial Position. The Group recognizes those financial assets which are not held for trading and do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding as loans mandatorily measured at fair value through profit or loss. These loans are recognized as Loans mandatorily at fair value through profit or loss in the Consolidated Statement of Financial Position.

Loans, placements with other banks are accounted at amortised cost, stated at the principal amounts outstanding including accrued interest, net of allowance for loan or placement losses, respectively.

In case of the above mentioned financial assets measured at amortised cost transaction fees and charges adjust the carrying amount at initial recognition and are included in effective interest calculation. In case of loans at fair value through profit or loss fees and charges are recognised when incurred in the Consolidated Statement of Profit or Loss.

Loans and placements with other banks and repo receivables are derecognized when the contractual rights to the cash-flows expire or they are transferred. When a financial asset is derecognized the difference of the carrying amount and the consideration received is recognized in the profit or loss in case of financial assets at amortised cost the gains or losses from derecognition are presented in “Gains/losses from derecognition of financial assets at amortised cost” line while in case of loans at fair value through profit or loss the gains or losses from derecognition are presented in “Net operating income”.

Change in the fair value of loans at fair value through profit or loss is broken down into two components and presented in the Consolidated Statement of Profit or Loss as follows:

- Portion of the change in fair value arising from changes in credit risk are presented within “Risk cost” as “Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit of loss”.
- The remaining component of the change is presented in fair value within “Net operating income” as “Fair value adjustment on financial instruments measured at fair value through profit or loss”.

Initially, financial assets shall be recognised at fair value which is usually equal to the transaction value in case of loans and placements. However, when the amounts are not equal, the initial fair value difference should be recognized.

If the fair value of financial assets is based on a valuation technique using only inputs observable in market transactions, the Group recognises the initial fair value difference in the Consolidated Statement of Profit or Loss.

When the fair value of financial assets is based on models for which inputs are not observable, the difference between the transaction price and the fair value is deferred and only recognised in profit or loss when the instrument is derecognised or the inputs became observable.

Initial fair value of loans lent at interest below market conditions is lower than their transaction price, the subsequent measurement of these loans is under IFRS 9.

The Group recognises a loss allowance for expected credit losses on a financial asset at each reporting date. The loss allowance for a financial asset equals to 12-month expected credit loss or equals to the lifetime expected credit losses. The maximum period over which expected credit losses shall be measured is the maximum contractual period over which the Group is exposed to credit risk.

If the credit risk on a financial asset has not increased significantly since initial recognition then 12-month expected credit losses, otherwise (in case of significant credit risk increase) lifetime expected credit losses should be calculated. The expected credit loss is the present value of the difference between the contractual cash flows that are due to the Group under the contract and the cash flows that the Group expects to receive.

When the contractual cash flows of a financial asset are modified and the modification does not result in the derecognition of the financial asset the Group recalculate the gross carrying amount of the financial asset by discounting the expected future cash flows with the original effective interest rate of the asset. The difference between the carrying amount and the present value of the expected cash flows is recognised as a “Modification gain or loss” in the statement of profit or loss. Interest income and amortised cost are accounted for using the effective interest rate method.

NOTE 2: SUMMARY OF MATERIAL ACCOUNTING POLICIES [continued]

2.4. Financial assets [continued]

2.4.7. Loans, placements with other banks and allowance for loan and placement losses [continued]

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote. The loan is written off against the related account "Gain / (Loss) from derecognition of financial assets at amortized cost" in the Consolidated Statement of Profit or Loss.

OTP Group applies partial or full write-off for loans based on the definitions and prescriptions of financial instruments in accordance with IFRS 9. If the Group has no reasonable expectations regarding a financial asset (loan) to be recovered, it will be written off partially or fully at the time of emergence.

The gross amount and loss allowance of the loans shall be written off in the same amount to the estimated maximum recovery amount while the net carrying value remains unchanged. Subsequent recoveries for loans previously written-off partially or fully, which may have been derecognized from the books with no reasonable expectations for the recovery will be booked in the Consolidated Statement of Profit or Loss on "Income from recoveries of written-off, but legally existing loan" line in Risk cost.

2.4.8. Modified financial assets

If the net present value of the contracted cash flows changes due to the modification of the contractual terms and it is not qualified as derecognition, modification gain or loss should be calculated and accounted for in the separate statement of profit or loss. Modification gain or loss is accounted in cases like restructuring – as defined in internal policies of the Group – prolongation, renewal with unchanged terms, renewal with shorter terms and prescribing capital repayment rate, if it doesn't exist or has not been earlier.

The changes of net present value should be calculated on portfolio level in case of retail exposures. Each retail contract is restructured based on restructuring frameworks. The Group has to evaluate these frameworks (and not individual contracts). The changes of net present value should be calculated individually on contract level in case of corporate portfolio.

Among the possible contract amendments, the Group considers as a derecognition and a new recognition the followings:

- merging several debts into a single debt,
- change of currency,
- change in counterparty,
- failing SPPI test after modification,
- interest rate change (fixed to floating or floating to fixed),
- when the discounted present value – discounted at the original effective interest rate – of the cash flows under the new terms is at least 10 per cent different from the discounted present value of the remaining cash flows.

In case of derecognition and new recognition of a financial asset, the unamortized fees of the derecognized asset should be presented as Income similar to interest income. The newly recognized financial asset is initially measured at fair value and is placed in stage 1 if the derecognized financial asset was in stage 1 or stage 2 portfolio. The newly recognized financial asset will be purchased or originated credit impaired financial asset ("POCI") if the derecognized financial asset was in stage 3 portfolio or it was POCI.

The modification gain or loss shall be calculated at each contract amendments unless they are handled as a derecognition and new recognition. In case of modification the Group recalculates the gross carrying amount of the financial asset. To do this, the new contractual cash flows should be discounted using the financial asset's original effective interest rate (or credit-adjusted effective interest rate for POCI financial asset). Any costs or fees incurred adjust the carrying amount of the modified financial asset are amortized over the remaining term of the modified financial asset.

NOTE 2: SUMMARY OF MATERIAL ACCOUNTING POLICIES [continued]

2.5. Loss allowance

A loss allowance for loans and placements with other banks is recognized by the Group based on the expected credit loss model in accordance with IFRS 9. Based on the three-stage model the recognized loss allowance equals to 12-month expected credit loss from the initial recognition. On financial assets with significantly increased credit risk or credit impaired financial assets (based on objective evidence) the recognized loss allowance is the lifetime expected credit loss.

In the case of purchased or originated credit impaired financial assets, a loss allowance is recognized in the amount of the lifetime expected credit loss since initial recognition. The impairment gain in the Consolidated Statement of Profit or Loss is recognized if lifetime expected credit loss for purchased or originated credit impaired financial assets at measurement date is less than the estimated credit loss at initial recognition.

A loss allowance for loans and placements with other banks represents Management's assessment for potential losses in relation to these activities.

The default occurs when either or both of the following events have taken place:

- objective criterion meaning that the credit obligation of the client is overdue exceeding the materiality threshold for more than 90 consecutive days (90+ default DPD), or the obligor has breached the limit of the overdraft with an amount exceeding the materiality threshold for more than 90 consecutive days (90+ default DPD), or
- probability criterion meaning the probability that the obligor will be unable to pay its credit obligations in full (UTP= Unlikely to Pay). The following conditions indicate the occurrence of the probability criterion: specific credit risk adjustment, sell of credit obligation with significant loss, distressed restructuring, termination of the contract on the initiative of the Bank, Bankruptcy, liquidation, personal bankruptcy, forced deleted status.

Previously described conditions should result in default status mandatorily. Moreover, during the individual expert-based assessment the client's default status shall be established if in the specific case the default can be justified on subjective basis. The default status should be terminated if in the last 3 months no other default criterion exists and the condition (either probability criterion or objective criterion) that resulted in the default status ceased at least 3 months ago.

The expected loss calculation should be forward looking. Available forward-looking information has to be included in the parameter estimation by using different scenarios, including forecasts of future economic conditions. The determination of probability-weighted forward-looking scenarios are based on the OTP Group' macro model. In general, there are two crisis scenarios (4-5), and three non-crisis scenarios (1-3) but the calculation of impairment should be based on at least two scenarios in the OTP Group. The macro conditioning is performed by Vasicek-model, which captures the relationship between point-in-time (PiT) and through-the-cycle (TTC) PD.

The Vasicek PD transformation can also be used to estimate the PIT PDs of the buckets. The required parameters (such as correlation coefficient and macro condition parameter) can be derived from the OTP's macro model.

In the collective provisioning methodology credit risk and the change of credit risk can be correctly captured by understanding the risk characteristics of the portfolio. At portfolio segmentation, setting the segments is a key element of the provisioning calculation and requires the extensive knowledge of the portfolio. The segmentation is expected to stay stable from month to month. The segmentation must be performed separately for each parameter, since in each case different factors may have relevance.

For Consumer loans and car finance: recovery based LGD methodology estimated from historical recoveries. The LGD calculation should not be automatically identified with historic actual data. The direction and degree of the shift in the factors impacting the LGD, also considering the macroeconomic effects, in addition to the anticipated developments in those, must always be analysed. The LGD – just like the PD – is not independent of the business cycles either; typically it increases in parallel with the economic downturn.

2.5. Loss allowance [continued]

Two different methods are applied in OTP Group for LGD parameter calculation: Retail mortgage loans and non-retail portfolios (MSE and Wholesale) that are significantly secured by mortgage: modified LGD methodology based on the Asset Quality Review (AQR) – the primary source of the recovery the collateral itself but cash recovery is also taken into account. The calculation is performed for each exposure individually based on the estimated parameters (main parameters: FSR – foreclosure success rate, SR – sales ratio, TTS – time to sale, C – cost, REC – cash recovery) and the actual value of collaterals (e.g. property, guarantee, surety, bail).

For Consumer loans and car finance: recovery based LGD methodology estimated from historical recoveries. The LGD calculation should not be automatically identified with historic actual data. The direction and degree of the shift in the factors impacting the LGD, also considering the macroeconomic effects, in addition to the anticipated developments in those, must always be analysed. The LGD – just like the PD – is not independent of the business cycles either; typically it increases in parallel with the economic downturn.

Loss allowance for loan and placements are determined at a level that provides coverage for individually identified credit losses. For loans for which it is not possible to determine the amount of the individually identified credit loss in the absence of objective evidence, a collective impairment loss is recognized. With this, the Group reduces the carrying amount of financial asset portfolios with similar credit risk characteristics to the amount expected to be recovered based on historical loss experience.

At subsequent measurement the Group recognizes an impairment gain or loss through "Impairment gain on POCI loans" in the Consolidated Statement of Profit or Loss as part of "Risk cost" line as an amount of expected credit losses or reversal which is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized in accordance with IFRS 9. If the reason for the impairment no longer exist the impairment is released in the Consolidated Statement of Profit or Loss for the current period.

If a financial asset, for which previously there were no indicators of significant increase in credit risk (i.e. classified in Stage 1) is subsequently classified in Stage 2 or Stage 3 then loss allowance is adjusted to lifetime expected credit loss. If a financial asset, which was previously classified in Stage 2 or Stage 3 is subsequently classified in Stage 1 then the loss allowance is adjusted to the level of 12 month expected credit loss.

Classification into risk classes

According to the requirements of the IFRS9 the Group classifies the financial assets measured at amortized cost, at fair value through other comprehensive income and loan commitments and financial guarantees into the following stages:

- Stage 1 – performing financial instruments without significant increase in credit risk since initial recognition
- Stage 2 – performing financial instruments with significant increase in credit risk since initial recognition but not credit-impaired
- Stage 3 – non-performing, credit-impaired financial instruments
- POCI – purchased or originated credit impaired

In the case of trade receivables the Group applies the simplified approach and calculates only lifetime expected credit loss. The simplified approach is the following:

- for the past 3 years the average annual balance of receivables under simplified approach is calculated,
- the written-off receivables under simplified approach are determined in the past 3 years,
- historical losses are adjusted to reflect information about current conditions and reasonable forecasts of future economic conditions,
- the loss allowance ratio is the sum of the written-off amounts divided by the sum of the average balances,
- the loss allowance is multiplied by the end-of-year balance, it is the actual loss allowance on these receivables,
- loss allowance should be recalculated annually.

NOTE 2: SUMMARY OF MATERIAL ACCOUNTING POLICIES [continued]

2.5. Loss allowance [continued]

Classification into risk classes [continued]

The Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the reporting date. This might occur if the financial asset has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers sovereign exposures as having low credit risk.

Stage 1: financial instruments for which the events and conditions specified in respect of Stage 2 and Stage 3 do not exist on the reporting date.

A client or loan must be qualified as default if one or both the following two conditions occur:

- The client delays more than 90 days. This is considered a hard trigger.
- There is reasonable probability that the client will not pay all of its obligation. This condition is examined on the basis of probability criteria of default.

The subject of default qualification is that exposure (on-balance and off-balance) which originates credit risk (so originated from loan commitments, risk-taking contracts).

A financial instrument shows significant increase in credit risk, and is allocated to Stage 2, if in respect of which any of the following triggers exist on the reporting date, without fulfilling any of the conditions for the allocation to the non-performing stage (stage 3):

- the payment delay exceeds 30 days,
- it is classified as performing forborne,
- based on individual decision, its currency suffered a significant "shock" since the disbursement of the loan,
- the transaction/client rating exceeds a predefined value or falls into a determined range, or compared to the historic value it deteriorates to a predefined degree,
- in the case retail mortgage loans, the loan-to-value ratio exceeds a predefined rate,
- default on another loan of the retail client, if no cross-default exists,
- monitoring classification of corporate and municipal clients above different thresholds defined on group
  - financial difficulties at the debtor (capital adequacy, liquidity, deterioration of the instrument quality),
  - significant decrease of the liquidity or the activity on the active market of the financial instrument can be observed,
  - the rating of the client reflects high risk, but it is better than the default one,
  - significantly decrease in the value of the recovery from which the debtor would disburse the loan,
  - clients under liquidation.

A financial instrument is non-performing and it is allocated to Stage 3 when any of the following events or conditions exists on the reporting date:

- default (based on the group level default definition),
- classified as non-performing forborne (based on the group level forborne definition),
- the monitoring classification of corporate and municipal clients above different thresholds defined on group level (including but not limited to):
  - breaching of contracts,
  - significant financial difficulties of the debtor (like capital adequacy, liquidity, deterioration of the instrument quality),
  - bankruptcy, liquidation, debt settlement processes against debtor,
  - forced strike-off started against debtor,
  - termination of loan contract by the Bank,
  - occurrence of fraud event,
  - termination of the active market of the financial instrument.

If the exposure is no longer considered as credit impaired, the Group allocates this exposure to Stage 2.

NOTE 2: SUMMARY OF MATERIAL ACCOUNTING POLICIES [continued]

2.5. Loss allowance [continued]

When loss allowance is calculated at exposures categorized into stages the following process is needed by stages:

- Stage 1 (performing): loss allowance at an amount equal to 12-month expected credit loss should be recognized,
- Stage 2 (significant increase in credit risk): loss allowance at an amount equal to lifetime expected credit loss should be recognized,
- Stage 3 (non-performing): loss allowance at an amount equal to lifetime expected credit loss should be recognized.

For lifetime expected credit losses, an entity shall estimate the risk of a default occurring on the financial instrument during its expected life. 12-month expected credit losses are a portion of the lifetime expected credit losses and represent the lifetime cash shortfalls that will result if a default occurs in the 12 months after the reporting date (or a shorter period if the expected life of a financial instrument is less than 12 months), weighted by the probability of that default occurring.

An entity shall measure expected credit losses of a financial instrument 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.

2.6. Sale and repurchase agreements, security lending

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on the Consolidated Statement of Financial Position and the consideration received is recorded in Other liabilities or Amounts due to banks, the National Governments, deposits from the National Banks and other banks. Conversely, debt or equity securities purchased under a commitment to resell are not recognized in the Consolidated Statement of Financial Position and the consideration paid is recorded either in Placements with other banks or Deposits from customers. Interest is accrued based on the effective interest method evenly over the life of the repurchase agreement.
In the case of security lending transactions, the Bank as a transferor does not derecognize the securities because it believes that it retains substantially all the risks and rewards of the ownership of the securities. Only a financial liability is recognized against the consideration received. If the Bank is the transferee in security lending transactions, the Bank does not recognize the securities because it believes that the transferor retains substantially all the risks and rewards of the ownership of the securities. Only a financial receivable is recognized against the consideration paid.

2.7. Liabilities from issued securities

Issued mortgage bonds are measured at amortized cost. The costs related to their issuance is included in the amortized cost of the issued securities and amortized over the term of the securities using effective interest method. Collateral of mortgage bonds are secured by the actual amount of loan receivables – involved by collateral in the Group’s collateral register. In 2023 the issued mortgage bonds were covered only by ordinary collateral (loan receivables).

NOTE 2: SUMMARY OF MATERIAL ACCOUNTING POLICIES [continued]

2.8. Property, equipment and intangible assets

Property, equipment and intangible assets are stated at cost, less accumulated depreciation and amortization and impairment, if any. The depreciable amount (book value less residual value) of the non-current assets must be allocated over their useful lives. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets based on the following annual percentages:

Intangible assets	
Software	20% - 33.3%
Property rights	16.7% - 33.3%
Property	1% - 2.0%
Office equipment and vehicles	11.1% - 33.3%

Depreciation and amortization on properties, equipment and intangible assets starts on the day when such assets are placed into service. At each balance sheet date, the Group reviews the carrying value of its tangible and intangible assets to determine if there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated to determine the extent (if any) of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where the carrying value of property, equipment, other tangible fixed assets and intangible assets is greater than the estimated recoverable amount, it is written down immediately to the estimated recoverable amount.

The Bank has no intangible assets with indefinite useful life.

2.9. Financial liabilities

The financial liabilities are presented within these lines in the Consolidated Financial Statements:

- Amount due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks
- Repo liabilities
- Liabilities from issued securities
- Derivative financial liabilities designated as hedge accounting
- Other financial liabilities

At initial recognition, the Group measures financial liabilities at fair value plus or minus – in the case of a financial liability not at fair value through profit or loss – transaction costs that are directly attributable to the acquisition or issue of the financial liability.

Usually, the initial fair value of financial liabilities equals to transaction value. However, when the amounts are not equal, the initial fair value difference should be recognized.

If the fair value of financial liabilities is based on a valuation technique using only inputs observable in market transactions, the Group recognizes the initial fair value difference in the Consolidated Statement of Profit or Loss.

When the fair value of financial liabilities is based on models for which inputs are not observable, the difference between the transaction price and the fair value is deferred and recognized in profit or loss on a systematic manner.

In the case of financial liabilities measured at amortized cost fees and commissions related to the origination of the financial liability are recognized through profit or loss during the maturity of the instrument using effective interest method. In certain cases, the Group repurchases a part of financial liabilities (mainly issued securities or subordinated bonds) and the difference between the carrying amount of the financial liability and the amount paid for it is recognized in the net profit or loss for the period and included in other operating income.

NOTE 2: SUMMARY OF MATERIAL ACCOUNTING POLICIES [continued]

2.10. Leases

An agreement is a lease or contains a lease if it transfers the rights to control the use of an identified asset for a given period in exchange for compensation.

Expenses related to the use of lease assets, the majority of which were previously recognised in external services costs, will be currently classified as depreciation/amortisation and interest costs. Usufruct rights are depreciated using a straight line method, while lease liabilities are settled using an effective discount rate.

Recognition of lease liabilities

The Group will recognise lease liabilities related to leases which were previously classified as "operating leases" in accordance with IFRS 16 Leases. These liabilities will be measured at the present value of lease payments receivable as at the date of commencement of the application of IFRS 16. Lease payments shall be discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate. Interest rate applied by the Group: weighted average lessee's incremental borrowing rate: ~4.8%

At their date of initial recognition, lease payments contained in the measurement of lease liabilities comprise the following types of payments for the right to use the underlying asset for the life of the lease:

- fixed lease payments less any lease incentives,
- variable lease payments which are dependent on market indices,
- amounts expected to be payable by the lessee under residual value guarantees,
- the strike price of a purchase option, if it is reasonably certain that the option will be exercised, and
- payment of contractual penalties for terminating the lease, if the lease period reflects that the lessee used the option of terminating the lease.

The Group makes use of expedients with respect to short-term leases (less than 12 months) as well as in the case of leases in respect of which the underlying asset has a low value (less than HUF 1.5 million) and for which agreements it will not recognise financial liabilities nor any respective right-of-use assets. These types of lease payments will be recognised as costs using the straight-line method during the life of the lease.

Recognition of right-of-use assets

Right-of-use assets are initially measured at cost.

The cost of a right-of-use asset comprises:

- the amount of the initial measurement of lease liabilities,
- any lease payments made at or before the commencement date, less any lease incentives received,
- any initial direct costs incurred by the lessee,
- estimates of costs to be incurred by the lessee as a result of an obligation to disassemble and remove an underlying asset or to carry out renovation/restoration.

Right-of-use assets are presented separately in the financial statements.

2.11. Share capital

Share capital is the capital determined in the Articles of Association and registered by the Budapest-Capital Regional Court. Share capital is the capital the Bank raised by issuing common stocks at the date the shares were issued. The amount of share capital has not changed over the current period

NOTE 2: SUMMARY OF MATERIAL ACCOUNTING POLICIES [continued]

2.12. Interest income and income similar to interest income and interest expense

Interest income and expenses are recognised in profit or loss in the period to which they relate, using the effective interest rate method.

For exposures categorized into stage 1 and stage 2 the interest income is recognized on a gross basis. For exposures categorized into stage 3 (using effective interest rate) the interest income is recognized on a net basis.

The time-proportional income similar to interest income of derivative financial instruments calculated without using the effective interest method and the positive fair value adjustment of interest rate swaps are also included in income similar to interest income. Interest income of FVTPL loans is calculated based on interest fixed in the contract and presented in “Income similar to interest income” line. Refer to note 2.4.3. for the presentation of derivative financial instruments.

Interest from loans and deposits are accrued on a daily basis. Interest income and expense include certain transaction cost and the amortisation of any discount and premium between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

All interest income and expense recognised are arising from loans, placements with other banks, repo receivables, securities at fair value through other comprehensive income, securities at amortised cost, and amounts due to banks, repo liabilities, deposits from customers, liabilities from issued securities, subordinated bonds and loans are presented under these lines of financial statements.

2.13. Fees and Commissions

Fees and commissions that are not involved in the amortized cost model are recognized in the Consolidated Statement of Profit or Loss on an accrual basis according to IFRS 15 Revenue from contracts with customers These fees are related to, cash withdrawals, security trading etc.

The Group recognizes income if performance obligations related to the certain goods or services are satisfied, performed, and control over the asset is transferred to the customer, and it is probable that consideration payable will probably flow to the entity. In case of those services, where the Group transfers control over the asset continuously, income is recognised on accrual basis.

The Group provides foreign exchange trading services to its customers, the profit margin achieved on these transactions is presented as Net profit from fees and commissions in the Consolidated Statement of Profit or Loss.

The other fees mainly consist of the cost of services in connection with lending activity and mortgage bond issues, which are not directly attributable to separate issuance, and includes fees related to FVTPL loans, which are settled when incurred.

The Group’s fee and commission income from services where performance obligations are satisfied over time are followings:

Net insurance fee income

Due to the fact that the Bank does not provide insurance services to its clients, only acts as an agent, the fee income charged to the customers and fees payable to the insurance company are presented net in the fee income. Fees for ongoing services are charged on a monthly basis during the period when they are provided.

Other

Fees that are not material in the Banks total income are included in Other fees category. Such fees are, special procedure fee, account rent fee, fee of a copy of document, etc.
Other fees may include charges for continuous services or for ad hoc administration services. Continuous fees are charged monthly at the beginning of the period, typically at a fixed rate. Fees for ad hoc services are charged immediately after the service obligation had been met, typically also in a fixed amount.
Fees for ongoing services are charged on a monthly basis during the period when they are provided.
Fees for ad hoc services are charged when the transaction takes places.

NOTE 2: SUMMARY OF MATERIAL ACCOUNTING POLICIES [continued]

2.14. Income tax

The Group considers corporate income tax as current tax according to IAS 12. The Group also considers local business tax and the innovation contribution as income tax in Hungary.

Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences between the tax bases of assets and liabilities and their carrying value for financial reporting purposes, measured at the tax rates that apply to the future period when the asset is expected to be realized or the liability is settled.

Current tax asset or current tax liability is presented related to income tax and innovation contribution separately in the Consolidated Statement of Financial Position.

Pillar Two – Global Anti-base Erosion Model Rules (“GloBE), global minimum tax – introduces a minimum effective tax rate of at least 15%, calculated based on a specific rule set. Pillar Two legislation has been enacted or substantively enacted in certain jurisdictions the Group operates. The legislation will be effective for the Group’s financial year beginning 1 January 2024. The Group considers this top-up tax as an income tax according to IAS 12.

Deferred tax assets are recognized by the Group for the amounts of income taxes that are recoverable in future periods in respect of deductible temporary differences as well as the carryforward of unused tax losses and the carryforward of unused tax credits.

The Group recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint arrangements, to the extent that, and only to the extent that, it is probable that:

- the temporary difference will reverse in the foreseeable future; and
- taxable profit will be available against which the temporary difference can be utilised.

The Group considers the availability of qualifying taxable temporary differences and the probability of other future taxable profits to determine whether future taxable profits will be available according to IAS 12.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, except to the extent that both of the following conditions are satisfied:

- the Bank is able to control the timing of the reversal of the temporary difference, and
- it is probable that the temporary difference will not reverse in the foreseeable future.

The Group only offsets its deferred tax liabilities against deferred tax assets when:

- there is a legally enforceable right to set-off current tax liabilities against current tax assets, and
- the taxes are levied by the same taxation authorities on either
  - the same taxable entity or
  - different taxable entities which intend to settle current tax liabilities and assets on a net basis.

2.15. Banking tax

The Group and some of its subsidiaries are obliged to pay banking tax based on Act LIX of 2006. As the calculation is not based on the taxable profit but on the adjusted total assets as reported in the Separate Financial Statements of the Bank and its entities for the second period preceding the current tax year, therefore, the banking tax is considered as another administrative expense, not as income tax. Pursuant to Government Decree No. 197/2022 published on 4 June 2022, the Hungarian Government decided to impose a windfall tax on credit institutions and financial enterprises temporarily, that is for 2022 and 2023.

NOTE 2: SUMMARY OF MATERIAL ACCOUNTING POLICIES [continued]

2.16. Off-balance sheet commitments and contingent liabilities

In the ordinary course of its business, the Group enters into off-balance sheet commitments such as guarantees, letters of credit, commitments to extend credit and transactions with financial instruments. The provision for off-balance sheet commitments and contingent liabilities is maintained at a level adequate to absorb future cash outflows which are probable and relate to present obligations.

In the case of commitments and contingent liabilities, the Management determines the adequacy of the loss allowance based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors. The Group recognizes provision for off-balance sheet commitment and contingent liabilities in accordance with IAS 37 when it has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the obligation.

Other provision includes provision for litigation, provision for retirement and expected liabilities and provision for confirmed letter of credit.

A provision is recognized by the Group when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

For financial guarantees and loan commitments given which are under IFRS 9 the expected credit loss model is applied when the provision is calculated. After initial recognition the Group subsequently measures those contracts at a higher of the amount of the loss allowance or of the amount initially recognised less the cumulative amount of income recognized in accordance with IFRS 15.

2.17. Share-based payment

The Group has applied the requirements of IFRS 2 Share-based Payment.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the year, based on the Bank's estimate of shares that will eventually vest.

Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on Management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

2.18. Employee benefit

The Group has applied the requirement of IAS 19 Employee Benefits. The Group's short-term employee benefits are wages, salaries and bonuses, premium, paid annual leave and paid sick leave and other free services (health care, reward holiday).

Short-term employee benefits are expected to pay by the Bank within 12 month. These benefits are recognised as an expense and liability undiscounted in the consolidated financial statements.

Long-term employee benefits are mostly the jubilee reward. Long-term employee benefits are recognised as an expense and liability in the separate financial statements. Liabilities are regularly remeasured. Gains or losses due to the remeasurement are recognised in the consolidated statement of profit or loss (Personnel expenses)

2.19. Statement of Cash Flows

Cash flows arising from the operating, investing or financing activities are reported in the Statement of Cash-Flows of the Group primarily on a gross basis. Net basis reporting are applied by the Group in the following cases:

- when the cash flows reflect the activities of the customer rather than those of the Group, and
- for items in which the turnover is quick, the amounts are large, and the maturities are short.

For the purposes of reporting cash flows "Cash, due from banks and balances with the NBH" line item excluding compulsory reserve are considered as cash and cash equivalents by the Group. This line item shows balances of HUF and foreign currency cash amounts, and sight depos from NBH and from other banks, furthermore balances of current accounts.

Cash flows from hedging activities are classified in the same category as the item being hedged. The unrealised gains and losses from the translation of monetary items to the closing foreign exchange rates and the unrealised gains and losses from derivative financial instruments are presented separately net in the statement of cash flows for the monetary items, which have been revaluated. Hedging gains and losses are presented on the same line item, refer to note 2.4.5.1.

NOTE 2: SUMMARY OF MATERIAL ACCOUNTING POLICIES [continued]

2.20. Comparative figures

These consolidated financial statements are prepared in accordance with the same accounting policies in all respects as the Financial Statements prepared in accordance with IFRS as adopted by the EU for the year ended 31 December 2023.

NOTE 12: OTHER ASSETS

- Receivables related to Hungarian Government subsidies were reclassified to other non financial assets, to align with the presentation of the Ultimate parent and FINREP requirements.

NOTE 30: FINANCIAL RISK MANAGEMENT

- Receivables related to Hungarian Government subsidies were reclassified to other non financial assets, to align with the presentation of the Ultimate parent and FINREP requirements.

NOTE 36: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK

- Receivables related to Hungarian Government subsidies were reclassified to other non financial assets, to align with the presentation of the Ultimate parent and FINREP requirements.

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS

- Receivables related to Hungarian Government subsidies were reclassified to other non financial assets, to align with the presentation of the Ultimate parent and FINREP requirements.

2.21. Government subsidies to client

The Group receives subsidies from the Hungarian government designed to compensate for the difference between the amount of interest charged to the customer, such interest being capped by legislation, and the interest charge on the issued mortgage bonds. Such subsidies are calculated on a monthly basis, are applicable over the life of the loan and are recognized among interest income in the Consolidate Statement of Profit or Loss in the period to which they relate.

2.22. Segment report

Operating segments are components of a business that can generate income or expenses, the operating results of which are regularly reviewed by the Chief Operating Decision Maker (CODM), and about which discrete financial information is available. The CODM is the person or group of people who allocates resources and evaluates the unit's performance. The duties of the CODM are performed by the Group's Executive Board. OTP Mortgage Bank is a subsidiary of OTP Bank engaged in mortgage lending, its activity is regulated by Act XXX of 1997 on Mortgage Loan Companies and on Mortgage Bonds.
As a specialized credit institution, the main activity of OTP Mortgage Bank is retail mortgage lending covered by Hungarian real estate. As a supplementary commercial activity, the company is engaged in real estate appraisal. The company is authorized to issue mortgage bonds, on the other hand it cannot collect deposits.

Based on the evaluation of the Bank's internal reporting structure, the management has identified only one operational segment, which segment is not broken down geographically either, because its activities are carried out exclusively in Hungary. As the Bank’s and the Group’s operation is simple with a less complex product portfolio the Group’s management manages and controls the activity of the Bank as a single product and geographical segment.

NOTE 3: SIGNIFICANT ACCOUNTING ESTIMATES AND DECISIONS IN THE APPLICATION OF ACCOUNTING POLICIES

The presentation of financial statements in conformity with IFRS as adopted by the European Union requires the management of the Group to make judgements about estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period. Actual results could differ from those estimates. Significant areas of subjective judgements include:

3.1. Loss allowances on financial instruments exposed to credit risk

The Group regularly assesses its financial instruments portfolio for loss allowance. Management determines the adequacy of the loss allowances based upon reviews of individual loans and placements, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. The use of the three-stage model was implemented for IFRS 9 purposes. The impairment methodology is used to classify financial instruments in order to determine whether credit risk has significantly increased since initial recognition and to identify the credit-impaired assets. For instruments with credit-impairment or significant increase of credit risk lifetime expected losses are recognized.

3.2. Valuation of instruments without direct quotations

Financial instruments without direct quotations in an active market are valued using the valuation model technique. The models are regularly reviewed and each model is calibrated for the most recent available market data. While the models are built only on available data, their use is subject to certain assumptions and estimates (e.g. correlations, volatilities, etc.). Changes in the model assumptions may affect the reported fair value of the relevant financial instruments.
IFRS 13 Fair Value Measurement seeks to increase the consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. The hierarchy categorises the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The Group evaluates the levelling at each reporting period on an instrument-by-instrument basis and reclassifies instruments when necessary, based on the facts at the beginning of the reporting period. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

3.3. Provisions

Provision is recognized and measured for commitments to extend credit and for warranties arising from Grouping activities based on IFRS 9 Financial Instruments. Provision for these instruments is recognized based on the credit conversion factor, which shows the proportion of the undrawn credit line that will probably be drawn.

Other provision includes provision for litigation, provision for retirement and expected liabilities and provision for confirmed letter of credit.

A provision is recognized by the Group when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

NOTE 4: IMPACT OF ECONOMIC SITUATION ON THE OTP MORTGAGE GROUP (in HUF mn)

Risks relating to the Russian-Ukrainian Armed Conflict

On 24 February 2022 Russia launched a military operation against Ukraine which is still ongoing at the date of this Report. Until now many countries, as well as the European Union imposed sanctions due to the armed conflict on Russia and Russian businesses and citizens. Russia responded to these sanctions with similar measures.
The armed conflict and the international sanctions influence the business and economic activities significantly all around the world. There are a number of factors associated with the Russian-Ukrainian armed conflict and the international sanctions as well as their impact on global economies that could have a material adverse effect on (among other things) the profitability, capital and liquidity of financial institutions such as the OTP Group.
The armed conflict and the international sanctions cause significant economic damage to the affected parties and in addition they cause disruptions in the global economic processes, of which the precise consequences (inter alia the effects on energy and grain markets, the global transport routes and international trade as well as tourism) are difficult to be estimated at the moment.
It remains unclear how this will evolve going forward and the OTP Group continues to monitor the situation closely. However, the OTP Group's ability to conduct business may be adversely affected by disruptions to its infrastructure, business processes and technology services. This may cause significant customer detriment, costs to reimburse losses incurred by the OTP Group's customers, and reputational damage.
Furthermore, the OTP Group relies on models to support a broad range of business and risk management activities, including informing business decisions and strategies, measuring and limiting risk, valuing exposures, conducting stress testing and assessing capital adequacy. Models are, by their nature, imperfect and incomplete representations of reality because they rely on assumptions and inputs, and as such assumptions may later potentially prove to be incorrect, this can affect the accuracy of their outputs. This may be exacerbated when dealing with unprecedented scenarios, such as the Russian-Ukrainian armed conflict and the international sanctions, due to the lack of reliable historical reference points and data.
Any and all such events mentioned above could have a material adverse effect on the OTP Group's business, financial condition, results of operations, prospects, liquidity, capital position and credit ratings, as well as on the OTP Group's customers, employees and suppliers.

- **Windfall tax:**
  - On 24 April 2023 Government Decree No. 144/2023 was published amending the previously laid down methodology of windfall tax calculation for the second half of 2023.
    According to the new rules, the gross amount of the windfall tax for the year 2023 changed to HUF 41 billion in the case of OTP Group, of which HUF 1 billion is related to Mortgage Bank.
  - Government decree No. 206/2023 (V.31.) published on 31 May 2023 outlined the details of the extra profit tax payable by credit institutions in 2024. The basis of the tax is the 2022 profit before tax (adjusted for several items). The tax rate is 13% for the part of the tax base that does not exceed HUF 20 billion, and 30% for the amount above HUF 20 billion. According to the decree, if the average amount of Hungarian government bonds owned by the financial institution increases over a certain period, the windfall tax payable by the credit institution will be reduced. The reduction cannot be more than 10% of the increase in government bond holdings and cannot exceed 50% of the windfall tax payment obligation calculated without the reduction.
  - The gross amount of the windfall tax for the year 2024 will be HUF 13 billion in the case of the Hungarian Group members, which can be reduced to HUF 6.5 billion subject to the increase in government bond holdings. In the case of the Mortgage Bank, there is no extra profit tax liability for 2024 due to the negative tax base.

- **Interest rate cap**:
  - Government decree No. 175/2023. (V. 12.) published on 12 May 2023 further extended the interest rate cap scheme by 6 months, until the end of 2023, in the case of the affected floating and fixed rate residential mortgages, as well as floating rate micro and small enterprises loan and leasing contracts.
  - Pursuant to Government Decree No. 522/2023. (XI. 30.):
    - The interest rate cap for the outstanding volume of certain residential mortgage loans was extended by six months, until 30 June 2024.
    - The rate cap for the existing volume of certain MSE loans was extended until 1 April 2024.
    - Furthermore, Government Decree No. 471/2022 (XI. 21.) was amended, thus the provision that the interest rate on HUF-denominated demand deposits and time deposits with a maximum term of one year shall not exceed the average auction yield of the most recently issued three-month discount Treasury Bill was extended by three months, until 1 April 2024. In another amendment, starting from 1 December 2023, the scope of this cap was extended for entities who qualify as business customers in Hungary's Civil Code.
      These provisions shall be applied to deposit contracts concluded after 1 December 2023, as well as to demand deposit contracts existing on 1 December 2023.

NOTE 4: IMPACT OF ECONOMIC SITUATION ON THE OTP MORTGAGE GROUP (in HUF mn) [continued]

- **Voluntary interest rate cap on newly granted loans:**
  - At the beginning of October 2023, the Ministry of Economic Development proposed that banks impose voluntary interest rate caps on newly granted HUF-denominated working capital loans for businesses, and on residential housing loans. OTP Mortgage Bank has joined the initiative.
  - Effective from October 2023, the Government set the voluntary interest rate cap on new housing loans at 8.5% and that on working capital loans to businesses at 12%. From 2 November the latter was reduced to 11.5%. From January 2024, the Government reduced the voluntary interest rate cap on housing loans to 7.3% and that on corporate loans to 9.9%. In addition, the Government and the Hungarian Banking Association agreed that the voluntary interest rate cap scheme will be abolished simultaneously with the withdrawal of the interest rate cap for certain outstanding MSE volumes from 1 April 2024, i.e. in the future, interest rates will be determined by market competition.

- **Family support schemes:**
  - Housing Subsidy for Families (CSOK), village CSOK: from 1 January 2024 the village CSOK non-refundable amounts will increase, but in towns and settlements with more than 5,000 inhabitants the CSOK subsidy will no longer be available.

- **Mandatory minimum reserve requirements**:
  - pursuant to NBH decree No. 6/2023. (III. 8.) and NBH decree No. 11/2023. (III. 31.), from April the minimum reserve requirement was increased to 10%, and the effective rate paid on the reserves was reduced to 9.75% from the previous 13%, since the national bank doesn't pay any interest for the first 2.5% reserve requirement, and for the remaining amount the national bank pays the base rate.
  - NBH decree No. 25/2023. (VI. 14.) amended the reserve requirement rules: among others, from 1 July 2023 up to 15% of the minimum reserve requirement can be met by central bank deposits with at least 14 days original maturity. Also, from July until further notice (by the end of the year according to plans) the reserve requirement will be based on the volumes in the statistical balance sheet as at 31 March 2023.

Financial assets modified during the year ended 31 December 2023 related to interest rate cap

Modification due to prolongation of existing interest rate cap till 31 December 2023

Gross carrying amount before modification	220,026
Modification due to interest rate cap	(11,009)
Gross carrying amount after modification	**209,017**
Loss allowance before modification	(4,705)
Net amortised cost after modification	**204,312**

Modification due to prolongation of existing interest rate cap till 30 June 2024

Gross carrying amount before modification	204,915
Modification due to interest rate cap	(6,509)
Gross carrying amount after modification	**198,406**
Loss allowance before modification	(3,790)
Net amortised cost after modification	**194,616**

NOTE 4: IMPACT OF ECONOMIC SITUATION ON THE OTP MORTGAGE GROUP (in HUF mn) [continued]

Financial assets modified during the year ended 31 December 2022 related to government measures

Modification due to prolongation of deadline of covid moratoria till 31 July 2022

With its Government Decree No. 216/2022 published on 17 June, the Government further extended the expiry of the moratorium of retail client loans, until the end on 2022. Eligible clients had to notify their bank about their intention to participate in the payment holiday until the end of July, the extended period was effective from 1 August until 31 December.

As a further mesure, Government Decree No. 292/2022 published on 8 August included certain agricultural entrepreneurs in the moratorium from 1 September to 31 December 2023.

Loss HUF 172 million from the modification of amortized cost and further HUF 0.2 million fair value decrease was recognized at the end of July, 2022 due to one month of extension for all clients.

Changes of book value of related loans measured at amortized cost on 31 July 2022:

Gross carrying amount before modification	78,862
Modification loss due to covid moratoria	(172)
Gross carrying amount after modification	**78,690**
Loss allowance before modification	(7,574)
Net amortised cost after modification	**71,116**

Modification due to prolongation of interest rate cap (30 June 2022)

Pursuant to Government Decree No. 215/2022 (issued on 17 June) the Government extended the interest rate cap for variable-rate retail mortgage loans by an additional 6 months, i.e. until 31 December 2022. The expected one-off effect of the extension of the interest rate cap amounted to -HUF 8.7 billion (after tax) and was booked in 2Q 2022. Loss effect on FVTPL loans was less than HUF 0.1 billion.

Changes of book value of related loans measured at amortized cost on 30 June 2022:

Gross carrying amount before modification	223,497
Modification due to interest rate cap	(8,739)
Gross carrying amount after modification	**214,758**
Loss allowance before modification	(6,191)
Net amortised cost after modification	**208,567**

Modification due to moratoria related to agriculture and prolongation of the existing moratoria (30 September 2022)

On 30 September, 2022 further HUF 560 million modification loss and HUF 0.7 million fair value decrease was recognized due to clients eligible for the extension of the moratorium between 1 September and 31 December 2022, thereof HUF 27 million modification loss, HUF 413 million gross loan amount and HUF 60 million was related to agricultural entrepreneurs.

Changes of book value of related loans measured at amortized cost on 30 September 2022:

Gross carrying amount before modification	56,491
Modification loss due to covid moratoria	(560)
Gross carrying amount after modification	**55,931**
Loss allowance before modification	(5,506)
Net amortised cost after modification	**50,425**

NOTE 4: IMPACT OF ECONOMIC SITUATION ON THE OTP MORTGAGE GROUP (in HUF mn) [continued]

Modification due to prolongation of interest rate cap (30 November 2022)

With its Government Decree No. 415/2022 published on 26 October, the Government extended interest rate cap measures to variable, reference rate based and non-subsidized loans of micro, small and medium entrepreneurs. Reference rates of 28 June shall be applied for the outstanding volume as at 27 June 2022. Eligible clients had to notify their bank about their intention to participate in the payment holiday until 15 September, the extended period was effective from 15 November. Only HUF 5 million loss resulted from this measure, because of the small rate of corporate loans in Mortgage Banks portfolio.

Changes of book value of loans of agricultural entrepreneurs measured at amortized cost on 30 November 2022:

Gross carrying amount before modification	3,103
Modification due to interest rate cap	(5)
Gross carrying amount after modification	**3,098**
Loss allowance before modification	(90)
Net amortised cost after modification	**3,008**

Modification due to scope extension (mortgage loans with 5 year fixing without subsidy) and prolongation of the existing interest rate cap (31 December 2022)

With its Government Decree No. 216/2022 published on 17 June 2022 Government extended its measures on interest rates. Firstly, the interest rate cap was further extended by 6 months, until the end of June 2023. Secondly, from 1 November 2022 the provisions of the interest rate cap must applied to the market-based mortgages with up to 5 years interest rate repricing period, too.
The expected negative after tax effect of the measures taken in October 2022 amounted to HUF 12.8 billion modification loss and HUF 2.0 billion fair value decrease.

Changes of book value of related loans measured at amortized cost on 30 June 2022:

Gross carrying amount before modification	216,310
Modification due to interest rate cap	(12,802)
Gross carrying amount after modification	**203,508**
Loss allowance before modification	(5,689)
Net amortised cost after modification	**197,819**

In 2022 overall ECL significantly decreased due to the migration of clients exiting the moratoria in 2021 from Stage2 to stage1. Uncertainties related to the macro environment are considered via different macro scenarios in the ECL calculation. The bank’s direct exposure towards Ukrainian and Russian citizens is non material, the effect is reflected in lower GDP expectations related to ECL.

NOTE 5: CASH, AMOUNTS DUE FROM BANKS AND BALANCES WITH THE NATIONAL BANK OF HUNGARY (in HUF million)

The Group shall deposit compulsory reserve in a determined percent of its liabilities at NBH. Liabilities considered in compulsory reserve calculation are as follows:

	2023	2022
Within one year:		
In HUF	30,194	16,751
In foreign currency	23	15
	30,217	**16,766**
Loss allowance	(46)	(142)
Subtotal	**30,171**	**16,624**
Compulsory reserve	195	154
Closing balance of cash	**30,366**	**16,778**
From this: amounts due from OTP Bank	30,227	16,618

An analysis of the change in the loss allowance	**2023**	**2022**
Balance as at 1 January	**142**	**33**
Provision for the period	1,052	710
Release of loss allowance	(1,148)	(601)
Closing balance	**46**	**142**

Rate of the compulsory reserve	10% (until 31 March 2023)*	10%
	15% (after 1 April 2023)**	10%

*From 1. October 2022 the rate of the compulsory reserve is changed.

** From 1 April 2023 the rate of the compulsory reserve is chosen by the financial institution from a range of 10-15%.

From 1 July 2023 the basis of the compulsory rate is changed: the range of items taken into account increased and the calculation is based on the balance sheet as at 31 March 2023.

The Bank shall deposit compulsory reserve in a determined percent of its liabilities at NBH. Liabilities considered in compulsory reserve calculation are as follows:

a) deposits and loans,
b) debt instruments,
c) after 1 July 2023 repos,

The amount of the compulsory reserve is the multiplication of the daily average of the liabilities considered in the compulsory reserve calculation and compulsory reserve rate, which are (from 1 October 2022, with multiple modifications, the minimum and maximum rate that can be chosen) determined by the NBH in a specific decree. The Bank is required to complete compulsory reserve requirements in the second month after the reserve calculation period, requirements shall be completed on a monthly average until 30 September 2022 after date daily. After 1 July 2023, the basis used for the calculation of the compulsory reserve is the balance sheet as at 31 March 2023. The Bank complies with the compulsory reserve requirements by the deposit of the adequate amount of cash as the calculated compulsory reserve on the bank account at NBH.

NOTE 6: PLACEMENTS WITH OTHER BANKS (in HUF million)

	2023	**2022**
Within one year		
In HUF	14,034	59,721
Over one year		
In HUF	357,992	159,095
Subtotal	**372,026**	**218,816**
Impairment	(470)	(1,263)
Total	**371,556**	**217,553**
From this: amounts due from OTP Bank	206,662	58,703

An analysis of the change in the loss allowance on placements with other banks

	2023	**2022**
Balance as at 1 January	**1,263**	**342**
Provision for the period	2,410	1,256
Release of loss allowance	(3,203)	(335)
Closing balance	**470**	**1,263**

Interest conditions of placements with other banks	**2023**	**2022**
Within one year		
in HUF	11.40%	15.45%-16.87%
Over one year		
in HUF	6.49%-11.68%	17.52%-17.79%
Average interest of placements with other banks		
Placements with other banks in HUF	11.25%	8.71%

NOTE 7: SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (in HUF million)

	2023	2022
Hungarian Government bonds	15,257	13,544
Total	**15,257**	**13,544**

The whole portfolio was denominated in HUF as at 31 December 2023.

Remaining maturity of securities at fair value through other comprehensive income can be analysed as follows:

	2023	2022
Over one year, fixed interest	14,822	13,108
Total	**14,822**	**13,108**
Interest rate:	5.5%	5.5%

The valuation of the securities at fair value through other comprehensive income was as follows as at 31 December 2023:

	Amortized cost	Net fair value
Hungarian Government bonds	15,650	14,822
Total	**15,650**	**14,822**

The valuation of the securities at fair value through other comprehensive income was as follows as at 31 December 2022:

	Amortized cost	Net fair value
Hungarian Government bonds	16,079	13,108
Total	**16,079**	**13,108**

NOTE 8: LOANS (in HUF million)

Loans mandatorily measured at fair value through profit or loss

	2023	2022
Within one year	31,754	31,189
Over one year	432,163	422,975
Loans mandatorily measured at fair value through profit or loss total	**463,917**	**454,164**

Loans at amortised cost

	2023	2022
Within one year	86,821	89,012
Over one year	1,125,479	1,092,384
Loans gross total	**1,212,300**	**1,181,396**
Provision for impairment on loan losses	(12,051)	(16,601)
Total	**1,200,249**	**1,164,795**

An analysis of the loan portfolio by currency (%):

	2023	2022
In HUF	99.99%	99.99%
In foreign currency	0.01%	0.01%
Total	**100.00%**	**100.00%**

Interest rates of the loan portfolio mandatorily measured at fair value through profit or loss are as follows (%):

	2023	2022
Loans denominated in HUF	1.31% - 25.36%	1.12% - 17.17%
Average interest on loans denominated in HUF	8.91%	4.22%

Interest rates of the loan portfolio measured at amortised cost are as follows (%):

	2023	2022
Loans denominated in HUF, with a maturity within one year	0.01% - 22.75%	1% - 19.05%
Loans denominated in HUF, with a maturity over one year	0.62% - 19.05%	0.62% - 15.37%
Loans denominated in foreign currency	1.74% - 5.8%	1.74% - 6.87%
Average interest on loans denominated in HUF	8.03%	6.62%
Average interest on loans denominated in foreign currency	4.33%	4.66%

NOTE 8: LOANS (in HUF million) [continued]

An analysis of the change in the loss allowance on loans at amortised cost is as follows:

	2023	2022
Balance as at 1 January	**16,601**	**19,451**
Loss allowance for the period	21 557	17,819
from this: effect of change in parameters used for loss allowance calculation	*160*	*710*
Release of loss allowance	(25 069)	(19,428)
Other movement	(338)	(180)
Partial write-off	(700)	(1,061)
Closing balance	**12,051**	**16,601**

A significant part of the loans above are mortgage loans for purchasing real estate or home equity loans. The loans have collateral notified in the public property register in favour of OTP Mortgage Bank. Such loans and their collateral are included in the Bank's register and mortgage bonds can be issued up to this registered amount. The remaining parts of the loans are real estate development loans given to individual farmers that work in the agro-industry. Real estate and arable land can be accepted as collateral of these loans.

OTP Mortgage Bank Ltd. only provides loans with the original maturity over one year.

Loss allowance on loans at amortised cost and placements with other banks is summarized as below:

	2023	2022
Loss allowance on placements with other banks	(889)	1,030
Loss allowance on loans at amortised cost	(4,997)	(3,326)
Total	**(5,886)**	**(2,296)**

The Bank sells non-performing non-subsidised loans without recourse at estimated fair value to an OTP Group member, OTP Faktoring Ltd. In addition, the Bank sells non-performing subsidised loans without recourse at estimated fair value to OTP Bank Plc.

NOTE 9: SECURITIES AT AMORTISED COST (in HUF million)

	2023	2022
Government bonds	303,671	298,944
Subtotal	**303,671**	**298,944**
Provision for impairment	(1,895)	(2,325)
Total	**301,776**	**296,619**

An analysis of change in the loss allowance on securities at amortised cost:

	2023	2022
Balance as at 1 January	**2,325**	**329**
Loss allowance	103	2,170
Release of loss allowance	(533)	(174)
Closing balance at 31 December	**1,895**	**2,325**

The distribution of the securities at amortised cost by currency (%):

	2023	2022
Interest rates on securities at amortised cost	1% - 6.75%	1% - 6.75%
Average interest on securities at amortised cost denominated in HUF	5.71%	3.71%

Interest conditions and the remaining maturities of securities at amortised cost can be analysed as follows:

	2023	2022
Within one year:		
fixed interest	31,942	-
Over one year:		
fixed interest	268,081	295,286
Total	**300,023**	**295,286**

NOTE 10: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS AND RIGHT OF USE ASSETS (in HUF million)

There are different kinds of tangible and intangible assets held by the Group. In the followings there are presented reasons of the changes from opening values to closing ones in the gross values, the accumulated depreciation and amortization and in the impairment of the tangible and intangible assets in the Group. Here can be found information about the fair values of the tangible assets and gross amounts of those assets which were fully depreciated but which are still in use.

For the year ended 31 December 2023

	Intangible assets	Property	Office equipment and vehicles	Construction in progress	Right of use assets	Total
Cost						
Balance as at January 1, 2023	**2,048**	**9**	**232**	**10**	**392**	**2,691**
Additions	429	-	31	22	39	521
Disposals	(222)	-	(41)	(32)	(21)	(316)
Balance as at December 31, 2023	**2,255**	**9**	**222**	**-**	**410**	**2,896**
Accumulated Depreciation and Amortization						
Balance as at January 1, 2023	**1,820**	**1**	**196**	**-**	**111**	**2,128**
Charge for the year	133	1	19	-	84	237
Disposals	-	(1)	(40)	-	(28)	(69)
Balance as at December 31, 2023	**1,953**	**1**	**175**	**-**	**167**	**2,296**
Net book value						
Balance as at January 1, 2023	**228**	**8**	**36**	**10**	**281**	**563**
Balance as at December 31, 2023	**302**	**8**	**47**	**-**	**243**	**600**
Fair Value	-	8	46	-	-	54
Gross amount of any fully depreciated tangible and intangible asset that is still in use	1,791	-	116	-	-	1,907

NOTE 10: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS AND RIGHT OF USE ASSETS (in HUF million) [continued]

For the year ended 31 December 2022

	Intangible assets	Property	Office equipment and vehicles	Construction in progress	Right of use assets	Total
Cost						
Balance as at January 1, 2022	**1,890**	**6**	**260**	**-**	**618**	**2,774**
Additions	267	5	16	31	233	552
Disposals	(109)	(2)	(44)	(21)	(459)	(635)
Balance as at December 31, 2022	**2,048**	**9**	**232**	**10**	**392**	**2,691**
Accumulated Depreciation and Amortization						
Balance as at January 1, 2022	**1,699**	**2**	**212**	**-**	**280**	**2,193**
Charge for the year	121	-	25	-	115	261
Disposals	-	(1)	(41)	-	(284)	(326)
Balance as at December 31, 2022	**1,820**	**1**	**196**	**-**	**111**	**2,128**
Net book value						
Balance as at January 1, 2022	**191**	**4**	**48**	**0**	**338**	**581**
Balance as at December 31, 2022	**228**	**8**	**36**	**10**	**281**	**563**
Fair Value	**-**	**8**	**35**	**-**	**-**	**43**
Gross amount of any fully depreciated tangible and intangible asset that is still in use	1,629	-	131	-	-	1,760

There was no carrying amount of the temporarily idle properties as at 31 December 2023 and 31 December 2022, respectively.
There were no restrictions on title and properties, plants or equipment pledged as security for liabilities as at 31 December 2023 and 31 December 2022.
There were no contractual commitments for the acquisition of tangible and intangible assets as at 31 December 2023 and 31 December 2022.

NOTE 11: DERIVATIVE FINANCIAL ASSETS DESIGNATED AS HEDGE ACCOUNTING (in HUF million)

	2023	2022
Interest rate swaps designated as fair value hedge	1,952	-
CCIRS designated as fair value hedge	898	-
Interest rate swaps designated as cash flow hedge	4,972	11,786
Total	**7,822**	**11,786**

NOTE 12: OTHER ASSETS (in HUF million)

	2023	2022
Other financial assets		
Receivables from OTP Employee Stock Ownership Program (OTP ESOP)	1,466	1,213
Prepayments and accrued income	88	157
Trade receivables	501	523
Receivables from suppliers	34	54
Other	166	74
Loss allowance	(162)	(169)
Other financial assets total[2]	**2,093**	**1,852**
Other non-financial assets		
Current income tax receivable	835	1,225
Receivable related to Hungarian Government subsidies	1,030	1,031
Inventories	3	3
Accrued expenses	65	29
Other	28	8
Provision for impairment on other assets	(11)	(17)
Other non-financial assets total[3]	**1,950**	**2,279**
Total	**4,043**	**4,131**

An analysis of the movement in the loss allowance on other financial assets is as follows:

	2023	2022
Balance as at 1 January	**169**	**179**
Charge for the period	82	84
Release of loss allowance	(72)	(94)
Use of loss allowance	(17)	-
Balance as at 31 December	**162**	**169**

An analysis of the movement in the loss allowance on other non-financial assets is as follows:

	2023	2022
Balance as at 1 January	**17**	**6**
Charge for the period	6	13
Release of provision	(12)	(2)
Balance as at 31 December	**11**	**17**

[2] Comparative figures adjusted. Refer to Note 2.20
[3] Comparative figures adjusted. Refer to Note 2.20

NOTE 12: OTHER ASSETS (in HUF million) (continued)

Other financial assets under simplified approach:

2023	Without delay	< 30 days	31 - 60 days	61 - 90 days	> 91 days	Closing balance
Expected credit loss rate						
Gross value	1,307	-	-	-	55	1,362
Loss allowance	-	-	-	-	55	55
Net carrying amount	**1,307**	**-**	**-**	**-**	**-**	**1,307**

2022	Without delay	< 30 days	31 - 60 days	61 - 90 days	> 91 days	Closing balance
Expected credit loss rate						
Gross value	976	-	-	-	49	1,025
Loss allowance	-	-	-	-	49	49
Net carrying amount	**976**	**-**	**-**	**-**	**-**	**976**

NOTE 13: AMOUNTS DUE TO BANKS AND HUNGARIAN GOVERNMENT, DEPOSITS FROM THE NATIONAL BANK OF HUNGARY AND OTHER BANKS (in HUF million)

	2023	2022
Within one year:		
in HUF	100,120	110,099
in foreign currency	161	185
EUR	8	8
JPY	147	171
CHF	6	6
Subtotal	**100,281**	**110,284**
Over one year:		
in HUF	1,017,107	949,433
Subtotal	**1,017,107**	**949,433**
Total	**1,117,388**	**1,059,717**
From this: amounts due to OTP Bank	930,142	875,761

Interest conditions on amounts due to OTP Bank and other banks

	2023	2022
Within one year:		
in HUF	3.45%	0.9% - 15.97%
in foreign currency	0.41% - 4.23%	0.1% - 2.83%
Over one year:		
in HUF	0%-13.45%	0%-15.97%

NOTE 14: REPO LIABILITIES (in HUF million)

	2023	2022
Within one year:		
In HUF	13,211	13,947
Total	**13,211**	**13,947**

Interest rates on amounts due to banks and deposits from the NBH are as follows:

	2023	2022
Within one year:		
In HUF	4.75%	4.75%
Average interest on repo liabilities in HUF	4.75%	4.75%

NOTE 15: LIABILITIES FROM ISSUED SECURITIES (in HUF million)

	2023	2022
Within one year		
In HUF	280,038	55,173
In EUR	264	-
Subtotal	**280,302**	**55,173**
Over one year		
In HUF	648,655	916,293
In EUR	193,742	-
Subtotal	**842,397**	**916,293**
Total	**1,122,699**	**971,466**
Issued mortgage bonds during the period (nominal value)	216,390	200,000
Mortgage bonds became due or repurchased during the period (nominal value)	70,000	-
Interest conditions on issued securities		
Interest conditions in HUF	1.25%-11.32%	1.25%-17.36%
Interest conditions in EUR	3.60%	-

A reconciliation of the face value and the amortized cost is as follows:

	2023	2022
Nominal value of the issued securities	1,117,510	971,120
Unamortized premiums	(5,632)	(5,853)
Fair value hedge adjustment	1,200	(3,799)
Accrued interest	9,621	9,998
Amortized cost	**1,122,699**	**971,466**

Face value and interest of mortgage bonds issued by OTP Mortgage Bank shall not exceed registered normal and additional collaterals (face value and interest). The Mortgage Bank keeps record of loans, normal and additional collateral values, which are shown separately. Independent property inspector monitors the availability of mortgage bond's collateral values in accordance with regulations, the registration of loans, and its pledges as collaterals as the normal collateral of the mortgage bonds, the property register data and the normal and additional collateral in the coverage register.

NOTE 15: **LIABILITIES FROM ISSUED SECURITIES (in HUF million) [continued]**

Issuance Programs of OTP Mortgage Bank

OTP Mortgage Bank has a Mortgage Bond and Bond Program in the value of HUF 1,000 billion with the intention of issuing dematerialized bonds in Hungary, approved by the NBH on 28 September 2023 and a Mortgage Note Program in the value of EUR 5 billion with the intention of issuing dematerialized mortgage notes in Luxembourg, approved by the CSSF on 12 December 2023. Both prospectuses are valid for 12 months following their approval.

There were maturing mortgage bonds in amount of 70 billion in 2023. Mortgage bonds were issued in amount of HUF 25 billion and in EUR 500 million in 2023, the fees paid during the issue are HUF 81 million.

Issued securities denominated in HUF and foreign currency as at 31 December 2023 (in HUF million)

Name	Currency	Date of issue	Maturity	Nominal value in foreign currency million	Nominal value in HUF million	Amortised cost in HUF million	Interest condition in % p.a.		Hedged
OJB2024/A	HUF	9/17/2018	5/20/2024	70,000	70,000	70,306	11.32%	variable	not hedged
OJB2024/C	HUF	2/24/2020	10/24/2024	100,000	100,000	100,207	10.90%	variable	not hedged
OJB2024_II	HUF	10/10/2018	10/24/2024	101,000	101,000	101,177	2.50%	fix	not hedged
OJB2025/II	HUF	2/3/2020	11/26/2025	90,000	90,000	88,510	1.50%	fix	partially hedged
OJB2025_I	HUF	7/31/2009	7/31/2025	150,000	150,000	158,785	11.00%	fix	not hedged
OJB2027/I	HUF	7/23/2020	10/27/2027	120,100	120,100	119,263	1.25%	fix	not hedged
OJB2029/A	HUF	7/25/2022	5/24/2029	175,000	175,000	175,346	10.85%	variable	not hedged
OJB2031/I	HUF	8/18/2021	10/22/2031	95,020	95,020	90,074	2.50%	fix	not hedged
OJB2032/A	HUF	9/20/2023	11/24/2032	25,000	25,000	25,026	10.85%	variable	not hedged
OMB 2029/I	EUR	12/20/2023	3/7/2029	500	191,390	194,005	3.60%	fix	hedged
Total issued securities					**1,117,510**	**1,122,699**			

Issued securities denominated in HUF as at 31 December 2022 (in HUF million)

Name	Currency	Date of issue	Maturity	Nominal value in HUF million	Amortised cost in HUF million	Interest condition in % p.a.		Hedged
OJB2023/I	HUF	4/5/2018	11/24/2023	45,000	45,261	1.75%	fix	not hedged
OJB2024/A	HUF	9/17/2018	5/20/2024	70,000	70,466	17.36%	variable	not hedged
OJB2024/C	HUF	2/24/2020	10/24/2024	100,000	100,322	17.18%	variable	not hedged
OJB2024/II	HUF	10/10/2018	10/24/2024	101,000	100,801	2.50%	fix	not hedged
OJB2025/I	HUF	7/31/2009	7/31/2025	150,000	159,793	11.00%	fix	not hedged
OJB2025/II	HUF	2/3/2020	11/26/2025	90,000	85,727	1.50%	fix	hedged
OJB2027/I	HUF	7/23/2020	10/27/2027	120,100	118,983	1.25%	fix	not hedged
OJB2031/I	HUF	8/18/2021	10/22/2031	95,020	89,479	2.50%	fix	not hedged
OJB2029/A	HUF	7/25/2022	5/24/2029	200,000	200,634	17.13%	variable	not hedged
Total issued securities				**971,120**	**971,466**			

NOTE 16: DERIVATIVE FINANCIAL LIABLITIES DESIGNATED AS HEDGE ACCOUNTING (in HUF million)

	2023	2022
Interest rate swap designated as fair value hedge	3,728	3,889
Interest rate swap designated as cash flow hedge	-	-
Total	3,728	3,889

NOTE 17: OTHER LIABILITIES AND PROVISIONS (in HUF million)

	2023	2022
Other financial liabilities		
Accounts payable	2,275	2,896
Accrued expenses	875	830
Clearing account	2,029	1,700
Other financial liabilities total	5,179	5,426
Other non-financial liabilities		
Current income tax payable	440	420
Social contribution	77	73
Settlement accounts	65	18
Other	52	48
Other non-financial liabilities total	634	559
Other liabilities total	5,813	5,985

The provision on other liabilities, off-balance sheet commitments and contingent liabilities are detailed as follows:

	2023	2022
Provision for losses on other off-balance sheet commitments and contingent liabilities	413	1,395
Provisions in accordance with IFRS 9	**413**	**1,395**
Provision for litigation	39	53
Provisions in accordance with IAS 37	**39**	**53**
Total	452	1,448

Movements in the provision for losses on commitments and contingent liabilities in accordance with IFRS 9 can be summarized as follows:

	2023	2022
Opening balance	**1,395**	**779**
Provision for the period	1,904	5,261
Release of provision	(2,886)	(4,645)
Closing balance	413	1,395

Movements in the provision for losses on commitments and contingent liabilities in accordance with IAS 37 can be summarized as follows:

	2023	2022
Opening balance	**53**	**90**
Provision for the period	17,841	17,280
Release of provision	(17,855)	(17,317)
Closing balance	39	53

NOTE 18: SHARE CAPITAL (in HUF million)

All 820,000 shares are ordinary shares with a nominal value of HUF 100 thousand and are authorised and fully paid.

	2023	2022
Authorized, issued and fully paid:		
Share capital (in HUF million)	**82,000**	**82,000**

All of the shares are ordinary shares representing the same rights to the shareholders. Furthermore, there are no restrictions on the distribution of dividends and the repayment of capital.
In 2022, OTP Bank Plc. carried out a capital increase in OTP Mortgage Bank Ltd. in two phases:

Period opening date	Period closing date	Quantity of change	Quantity of total
31/12/2021	29/06/2022	370,000	370,000
29/06/2022	15/12/2022	200,000	570,000
15/12/2022	31/12/2022	250,000	820,000
Total			**820,000**

In 2023, OTP Bank Plc. did not carry out a capital increase in OTP Mortgage Bank Ltd.

NOTE 19: RETAINED EARNINGS AND RESERVES (in HUF million)

The Bank is not expected to pay dividends on its 2023 results. In 2022 dividend of HUF 18 billion was proposed by the Management after the result of 2021, which was fully paid.

Share capital

Share capital is the portion of a the Bank's equity that has been obtained by the issue of shares in the corporation to a shareholder, usually for cash.

Retained earnings

Profit of previous years generated by the Bank that are not distributed to shareholders as dividends.

Other comprehensive income

Other comprehensive income comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other IFRSs. This line contains changes in fair value of financial assets at fair value through other comprehensive income and cash flow hedge reserve.

General reserve

The Bank shall place ten per cent of the after-tax profit of the year into general reserve prescribed by the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises. The Bank is allowed to use general reserves only to cover operating losses arising from their activities.

The equity correlation table of the Bank based on paragraph 114/B of Act on Accounting as at 1 January 2023:

Balance as at 1 January, 2023	Share capital	Capital reserve	Retained earnings and other reserves	Evaluation reserve	Tied-up reserve	Net profit/(loss) for the period	Total
Capital items according to IFRS	**82,000**	**-**	**42,673**	**-**	**-**	**-**	**124,673**
Other comprehensive income	-	-	(7,307)	7,307	-	-	-
Net profit for the year	-	-	10,340	-	-	(10,340)	-
Share based payment	-	137	(137)	-	-	-	-
General reserve	-	-	(20,464)	-	20,464	-	-
Capital items according to 114/B.§ of Accounting Act	**82,000**	**137**	**25,105**	**7,307**	**20,464**	**(10,340)**	**124,673**

NOTE 19: RETAINED EARNINGS AND RESERVES (in HUF million) [continued]

The equity correlation table of the Bank based on paragraph 114/B of Act on Accounting as at 31 December 2023:

Balance as at 31 December, 2023	Share capital	Capital reserve	Retained earnings and other reserves	Evaluation reserve	Tied-up reserve	Net profit/(loss) for the period	Total
Capital items according to IFRS	**82,000**	**-**	**50,395**	**-**		**-**	**132,395**
Other comprehensive income	-	-	(4,084)	4,084		-	-
Net profit for the year	-	-	(10,909)	-		10,909	-
Share based payment		173	(173)	-		-	-
General reserve	-	-	(21,639)	-	21,639	-	-
Capital items according to 114/B.§ of Accounting Act	**82,000**	**173**	**13,590**	**4,084**	**21,639**	**10,909**	**132,395**

Under the Hungarian Act on Accounting, the untied retained earnings presented below indicate the maximum possible dividend pay-out, calculated based on equity correlation as per paragraph 114/B of the Act on Accounting. Untied retained earnings are not compatible with any equity component under IFRS.

	2023	2022
Retained earnings	13,114	24,629
Net profit for the year	10,909	(10,340)
Untied retained earnings	**24,023**	**14,289**

Items of retained earnings and other reserves

	2023	2022
Retained earnings	13,114	24,629
Capital reserve	476	476
General reserves	21,639	20,464
Fair value of financial instruments measured at fair value through other comprehensive income	562	(2,598)
Share-based payment reserve	173	137
Fair value of derivative financial instruments designated as cash-flow hedge	3,522	9,905
Net (loss) /profit after income tax	10,909	(10,340)
Retained earnings and other reserves	**50,395**	**42,673**

Fair value adjustment recognised through other comprehensive income:

	2023	2022
Balance as at 1 January	(2,704)	(818)
Change of fair value	3,363	(2,073)
Deferred tax related to change of fair value	(193)	187
Balance as at 31 December	**466**	**(2,704)**

Expected credit loss on securities at fair value through other comprehensive income:

	2023	2022
Balance as at 1 January	**105**	**30**
Increase of loss allowance	15	75
Release of loss allowance	(25)	-
Balance as at 31 December	**95**	**105**

NOTE 19: RETAINED EARNINGS AND RESERVES (in HUF million) [continued]

Change in fair value of securities at fair value through other comprehensive income

	2023	2022
Balance as at 1 January	**(2,598)**	**(787)**
Increase	2,159	(2,073)
Deferred tax related to change of fair value correction	(193)	187
Gains / (Losses) on separated currency spread of financial instruments designated as hedging instrument	1,219	-
Release os loss alowance	(25)	75
Balance as at 31 December	**562**	**(2,598)**

Change in fair value of derivative financial instruments designated as cash-flow hedge

	2023	2022
Balance as at 1 January	**9,905**	**3,853**
Increase	(47,235)	(71,999)
Release	40,852	78,051
Balance as at 31 December	**3,522**	**9,905**

Change on separated currency spread of financial instruments designated as hedging instrument

	2023	2022
Balance as at 1 January	-	-
Increase	287,124	-
Release	(285,905)	-
Balance as at 31 December	**1,219**	**-**

NOTE 20: INTEREST SUBSIDIES RELATED TO HOUSING LOANS

During 202 6 types of interest-subsidised loans were among OTP Mortgage Bank's portfolio:

(i) loans granted before 16 June 2003
(ii) loans granted between 16 June 2003 and 21 December 2003
(iii) loans granted between 22 December 2003 and 30 June 2009
(iv) loans granted after 1 October 2009
(v) Family Housing loans granted after 2012 including interest subsidy of families with three or more children, and including interest subsidy of housing loans at preferred townships
(vi) loans granted under the Green Home Program of the MNB-funded Growth Loan Program from 2021.

Relevant elements of the currently available interest subsidised loans.

Dedicated beneficiaries can benefit from the Government Decree, the purpose of the loan:

- the applicants can be dedicated people in the Government Regulation
- purpose of the loan:
    - purchasing or building of new property
    - purchasing or modernisation or enlargement of used property
- in case of building or purchasing of property the building costs or the purchase price without the building plot price shall not exceed the amount of HUF 30 million, in case of purchase of used properties the amount of HUF 20 million, in case of modernization, enlargement and building/purchasing at a preferred township the cost shall not exceed the amount of HUF 15 million. Interest subsidy loan amount shall not exceed in case of new properties the amount of HUF 15 million, and in case of used properties the amount of HUF 10 million. The interest subsidy is determined in the per cent of government bonds' yields depending on the purpose of the loan, and it can be granted as a maximum for 5 years.
- Support for a loan applied for by families with several children lasts until the end of the term, but up to a maximum of 25 years, except for the renovation loan, which is supported for 10 years. The State will provide support for the payment of interest on a loan taken out for the investment of real estate in a preferred small town during the first twenty-five years of the term.

The MNB NHP ZOP loan provided for the implementation of environmentally friendly properties can only be used for the construction or purchase of an energy-efficient new home, for which the MNB provides a favorable interest rate until the end of the loan, but for a maximum of 25 years. In the case of families with several children, the state provides additional interest subsidies, so that the loan becomes interest-free for them during the subsidy period.

Demand for subsidized loans decreased significantly – in parallel with general demand - during the year. Of these, OTP Mortgage Bank disbursed a total of HUF 62,6 billion in 2023, which is 48% less than in the previous year. At the end of the year, the supported loan portfolio of the Mortgage Bank was HUF 495,3 billion, almost unchanged compared to a year earlier (nominal gross data, include the MNB NHP ZOP loan).

NOTE 21: INTEREST INCOME AND EXPENSES (in HUF million)

	2023	2022
Interest income accounted for using the effective interest rate method from / on		
Loans at amortised cost	93,674	72,426
FVOCI securities	395	405
Placements with other banks	33,165	16,134
Amounts due from banks and balances with National Bank of Hungary	3,058	1,685
Securities at amortised cost	17,074	8,754
Interest subsidy on housing loans financed by mortgage bonds	1,747	4,092
Subtotal	**149,113**	**103,496**
Income similar to interest income		
Loans mandatorily measured at fair value through profit or loss	40,797	18,162
Swap and forward deals related to Placements with other banks	(197)	(462)
Subtotal	**40,600**	**17,700**
Interest income total	**189,713**	**121,196**
Interest expense due to / from / on		
Amounts due to banks and deposits from the National Bank of Hungary and other banks	64,030	52,554
Leasing liabilities	13	6
Liabilities from issued securities	86,836	55,081
Financial assets	1,009	769
Repo liabilities	2,964	7
Subtotal	**154,852**	**108,417**

NOTE 22: RISK COST (in HUF million)

	2023	2022
Loss allowance of loans at amortised cost		
Loss allowance	(20,857)	(16,758)
Release of loss allowance	25,854	20,084
Total	**4,997**	**3,326**
Loss allowance of placements with other banks		
Loss allowance	(3,462)	(1,966)
Release of loss allowance	4,351	936
Total	**889**	**(1,030)**
Loss allowance on FVOCI securities		
Loss allowance	(15)	(82)
Release of loss allowance	25	7
Total	**10**	**(75)**
Loss allowance of securities at amortised cost		
Loss allowance	(103)	(2,170)
Release of loss allowance	533	174
Total	**430**	**(1,996)**
Provision on loan commitments and financial guarantees		
Loss allowance	(1,904)	(5,261)
Release of loss allowance	2,886	4,645
Total	**982**	**(616)**
Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit of loss		
Loss allowance	(3)	355
Total	**(3)**	**355**
Net loss allowance / (release of loss allowance) total	**7,305**	**(36)**

NOTE 23: NET PROFIT FROM FEES AND COMMISSIONS (in HUF million)

Income from fees and commissions

	2023	2022
Fees and commissions relating to lending	1,676	2,731
Other	3,259	4,094
part of OTP Ingatlanpont Llc.	*3,256*	*4,041*
part of OTP Pénzügyi Pont Ltd.	*(237)*	*(391)*
Total	**4,935**	**6,825**

Expense from fees and commissions

	2023	2022
Fees and commissions relating to issued securities	665	358
Fees and commissions relating to lending	2,451	3,403
Others	5,278	5,587
part of OTP Ingatlanpont Llc.	*2,543*	*3,115*
part of OTP Pénzügyi Pont Ltd.	*295*	*338*
Total	**8,394**	**9,348**
Net loss from fees and commissions	**(3,459)**	**(2,523)**

The other fees mainly consist of the cost of services in connection with lending activity and mortgage bond issues, which are not directly attributable to separate issuance, and includes fees related to FVTPL loans, which are settled when incurred.

NOTE 24: GAINS AND LOSSES (in HUF mn)

	2023	2022
Losses arising from derecognition of financial assets measured at amortised cost		
Loss from loans	(35)	(29)
Other	(26)	(32)
Total	**(61)**	**(61)**

Derecognition of financial assets measured at amortised cost was due to sale of non-perfoming loans.

	2023	2022
Foreign exchange (gains) / losses		
Loss from foreign exchange	(30)	7
Margin gains	2	1
Margin losses	(5)	(6)
Total	**(33)**	**2**
Gains on derivative instruments, net	**(648)**	**-**
Gains / (Losses) on financial instruments at fair value through profit or loss		
Gains on loans mandatorily measured at fair value through profit or loss and result on hedge relationships	14,596	29,413
Losses on loans mandatorily measured at fair value through profit or loss and result on hedge relationships	(14,278)	(15,620)
Total	**318**	**13,793**
Total gains and losses from operating income (without other operating income)	**(363)**	**13,795**

For the year ended 31 December 2023 gains and losses attributable to the hedged risk on the hedged item and on the hedging instruments and also ineffectiveness in case of fair value hedge on amortised cost line items as follows

	Hedged items	Hedging instrument	Hedge ineffectiveness
Fair value hedge	(2,268)	1,868	(400)

For the year ended 31 December 2022 gains and losses attributable to the hedged risk on the hedged item and on the hedging instruments and also ineffectiveness in case of fair value hedge on amortised cost line items as follows

	Hedged items	Hedging instrument	Hedge ineffectiveness
Fair value hedge	2,045	(2,047)	(2)

NOTE 25: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF million)

	2023	2022
Other operating income		
Income from closed lawsuits	12	17
Green home program, part of the funding for growth scheme	(36)	112
Other	111	57
Total	**87**	**186**
Other operating expenses		
Provisions for future liabilities	10	30
Non-repayable assets contributed	(1,544)	(2)
Other	(40)	(46)
Total	**(1,574)**	**(18)**
Other administrative expenses:	**-**	**-**
Personnel expenses:	**-**	**-**
Wages	(1,274)	(1,087)
Taxes related to personnel expenses	(182)	(152)
Other personnel expenses	(187)	(148)
Total	**(1,643)**	**(1,387)**
Depreciation and amortization	**(236)**	**(256)**
Other administrative expenses:	**-**	**-**
Bank tax	*(1,928)*	*(2,891)*
Credit institution's extra profit tax	*(1,034)*	*(4,782)*
Other taxes	*(2)*	*(86)*
Total taxes, other than income	**(2,964)**	**(7,759)**
Services	(674)	(550)
Professional fees	(1,197)	(1,332)
Rental fees	(132)	(118)
Material type expenses	(28)	(31)
Advertising	(129)	(123)
Other	(10)	(6)
Total	**(5,134)**	**(9,919)**

The table below contains the detailing of the fees for audit services, which is presented in professional fees line item.

	2023	2022
Annual audit without VAT	50.75	47.45
Non-audit service without VAT	9.50	-
Sevices providing assurance without VAT	106,70	-
Total	**166.95**	**47.45**

NOTE 26: COMPENSATION OF KEY MANAGEMENT PERSONNEL (in HUF million)

	2023	2022
Key executives		
part of salaries	109	92
part of premiums	14	12
part of other personnel expenses	8	12
Total	**131**	**116**

The remunerations of key management personnel include only short-term benefits.

NOTE 27: INCOME TAX (in HUF million)

The Group is presently liable for income tax at a rate of 9% of taxable income, local business tax at a rate of 2% of taxable revenue, innovation contribute at a rate of 0.3% of taxable revenue.

A reconciliation of the total income tax charge for the years ended 31 December 2023 and 2022 is as follows:

	2023	2022
Current tax charge	1,378	660
Deferred tax (benefit)	(22)	(38)
Total income tax charge	**1,356**	**622**

A reconciliation of the deferred tax assets as at 31 December 2023 and 2022 is as follows:

	2023	2022
Balance as at January 1	**441**	**216**
Recognized in other comprehensive income tax as tax benefit	(194)	187
Deferred tax benefit	22	38
Balance as at December 31	**269**	**441**

A reconciliation of deferred tax assets and liabilities as at 31 December 2023 and 2022 is as follows:

	2023	2022
Fair value adjustment for at fair value through other comprehensive income final assets	75	268
Provision for untaken leave	1	1
Amortised cost of loans	197	176
Difference in depreciation and amortization	(4)	(4)
Deferred tax assets	**269**	**441**

NOTE 27: INCOME TAX (in HUF million) [continued]

A reconciliation of the effective tax rate as at 31 December 2023 and 2022 is as follows:

	2023	**2022**
Profit / (loss) before income tax	12,265	(9,718)
Consolidation adjustment	(805)	(587)
Income tax at statutory tax rate (9%)	1,176	-
Income tax adjustments due to permanent differences are as follows:		
Use of tax	(820)	-
Difference in depreciation and amortization	1	1
Tax refund in accordance with Acts on customer Loans	-	(1)
Business tax and innovation contribution	1,111	660
Other	(90)	-
Income tax	**1,378**	**660**
Effective tax-rate	*11.24%*	*-6.79%*

Global minimum tax

The global minimum tax legislation has been enacted, or substantively enacted, in certain jurisdictions the OTP Group operates, generally in the EU Member States. OTP Group is in scope of the enacted global minimum tax legislation. The legislation will be effective for the OTP Group's financial year beginning 1 January 2024 and introduces a minimum rate of effective taxation of 15%. The global minimum tax legislation has been adopted in Hungary in Act No. LXXXIV of 2023 on the top-up taxes ensuring a global minimum level of taxation and the amendment of related acts.

From an accounting perspective, it is unclear if the global minimum rules create additional temporary differences, whether to remeasure deferred taxes for the global minimum tax rules and which tax rate to use to measure deferred taxes. In response to this uncertainty, IAS 12 'Income taxes' has been amended to introduce a mandatory temporary exception to the requirements of IAS 12. Under the mandatory temporary exception, a company does not recognise or disclose information about deferred tax assets and liabilities related to the global minimum tax rules. The Group applied the temporary exception for the year ended 31 December 2023.

The Hungarian global minimum tax legislation provides for various options as to who is obliged to pay the Hungarian top-up tax (i.e., the Hungarian Group entities based on certain allocation ratios or OTP Bank Plc.). OTP group plans to choose the option where OTP Bank Plc pays the Hungarian top-up tax (if any). Therefore, even if top-up tax obligation arose with respect to Hungary, it would have to be paid by OTP Bank Plc. and not the OTP Mortgage Bank.

NOTE 28: LEASE (in HUF million)

The Bank as a lessee:

Average weighted amount of the implicit interest rate/incremental borrowing rate applied to recognise the lease liabilities: ~5.9 %.

Amounts recognised in profit and loss	**2023**	**2022**
Interest expense on lease liabilities	13	6
Expense relating to short-term leases	131	117
Leasing liabilities by maturities:		
Within one year	88	48
Over one year	152	248
Total	**240**	**296**

An analysis of movement in the carrying amount of right-of-use assets by category is as follows:

	2023	**2022**
Balance as at 1 January	**392**	**618**
Additions due to new contracts	-	232
Derecognition due to expired contracts	(67)	(433)
Change due to revaluation and modification	(33)	(25)
Closing balance	**292**	**392**
Depreciation		
Balance as at 1 January	**111**	**280**
Depreciation charge	84	108
Derecognition due to expired contracts	(28)	(283)
Change due to revaluation and modification	-	6
Closing balance	**167**	**111**
Net carrying amount	**125**	**281**

NOTE 29: EARNINGS PER SHARE

Earnings per share attributable to ordinary shares are determined by dividing Net profit for the year by the weighted average number of ordinary shares outstanding during the period. The Group has no preference shares and no options or other rights related to shares. There are no dilutions.

	2023	**2022**
Net income after taxes (in million HUF)	10,909	(10,340)
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (piece)	820,000	482,329
Earnings per share (in HUF)	**13,304**	**(21,438)**

NOTE 30: FINANCIAL RISK MANAGEMENT (in HUF million)

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial instruments may result in certain risks to the Group. The most significant risks the Group faces include[1]:

30.1. Credit risk

The Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or banks of borrowers, and to geographical areas and loan types. Such risks are monitored on a periodical basis and subject to an annual or more frequent review. The exposure to any borrower including banks and brokers is further restricted by sublimit covering on- and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is partly managed obtaining collateral, corporate and personal guarantees.

30.1.1. Analysis by loan types

Defining the expected credit loss on individual and collective basis

On individual basis:

The following non-retail, micro- and small enterprise exposures fall under the individual assessment:

- exposure in stage 3,
- exposure in workout management
- purchased or originated credit-impaired instruments which are in accordance with the conditions mentioned above

The calculation of impairment must be prepared and approved by the risk management functional areas. The calculation, all relevant factors (amortised cost, original and current EIR, contracted and expected cash flows (from business and/or collateral) for the individual periods of the entire lifecycle, other essential information enforced during the valuation) and the criteria thereof (including the factors underlying the classification as stage 3) must be documented individually.
The expected credit loss of the exposure equals the difference of the receivable's AC (gross book value) on the valuation date and the present value of the receivable's expected cash flows discounted to the valuation date by the exposure's original effective interest rate (EIR) (calculated at the initial recognition, or in the case of variable rate, recalculated due to the last interest rate change). The estimation of the expected future cash flows should be forward looking, it must also take into account the effects of the possible change of macroeconomic outlook.
At least two scenarios must be used for the estimation of the expected cash flow. At least one scenarios should anticipate the possible difference between the realised cash flows and the contractual cash flows. Probability weights must be allocated to the individual scenarios. The estimation must reflect the probability of the occurrence and non-occurrence of the credit loss, even if the most probable result is the non-occurrence of the loss.
The net carrying amount of financial assets are considered as maximum exposure to credit risk.

[1] The management of liquidity risk related to financial instruments are shown in Note 36.

30.1. Credit risk [continued]

30.1.1. Analysis by loan types [continued]

On a collective valuation basis:

The following exposures are subject to collective assessment:

- retail exposure irrespective of the amount,
- micro and small enterprise exposures irrespective of the amount,
- all other exposures which are insignificant on a stand-alone basis and not part of the workout management,
- exposure which are not in stage 3, and are significant on a stand-alone basis,
- purchased or originated credit-impaired instruments which are in accordance with the conditions mentioned above.

In the collective impairment methodology credit risk and the change of credit risk can be correctly captured by understanding the risk characteristics of the portfolio. In order to achieve these the main risk drivers shall be identified and used to form homogeneous segments having similar risk characteristics. The segmentation is expected to stay stable from month to month however a regular (at least yearly) revision of the segmentation process should be set up to capture the change of risk characteristics. The segmentation must be performed separately for each parameter, since in each case different factors may have relevance.
The Group's Headquarters Group Reserve Committee stipulates the guidelines related to the collective impairment methodology at group level. In addition, it has right of agreement in respect of the risk parameters (PD -probability of default, LGD - loss given default, EAD – exposure at default) and segmentation criteria proposed by the group members.

The review of the parameters must be performed at least annually and the results should be approved by the Group Reserve Committee. Local Risk Managements is responsible for parameter estimations and updates, macroeconomic scenarios are calculated by OTP Bank Headquarters for each subsidiary and each parameter. Based on the consensus proposal of Local Risk Management and OTP Bank Headquarters, the Group Reserve Committee decides on the modification of parameters (all parameters for impairment calculation).
The impairment parameters should be backtested at least annually.
The expected loss calculation should be forward looking, including forecasts of future economic conditions. This may be achieved by applying 3-5 different macroeconomic scenarios, which may be integrated in the PD, LGD and EAD parameters.

During 2023 there were ECL SICR methodological changes in Hungary. The previously used methodology – which was based on rating category changes – was replaced by the advanced, lifetime-based methodology to identify the significant increase in credit risk. The changes resulted HUF 200 million more impairment in 2023. The impact of the SICR methodology changes and parameter updates are presented under Note 8 as part of effect of change in parameters used for loss allowance calculation line item.

NOTE 30: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

30.1. Credit risk [continued]

30.1.1. Analysis by loan types [continued]

Gross carrying amount and accumulated impairment of financial assets at amortized cost by IFRS 9 stages as at 31 December 2023:

		Gross carrying amount					Loss allowance				
	Carrying amount	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Cash amount due from banks and balances with the National Bank of Hungary	30,366	30,412	-	-	-	30,412	46	-	-	-	46
Placements with other banks	371,556	372,026	-	-	-	372,026	470	-	-	-	470
Mortgage loans	1,198,568	1,069,175	123,446	17,283	590	1,210,494	2,840	5,054	4,005	27	11,926
Corporate loans	1,681	1,137	436	233	-	1,806	9	39	77	-	125
Loans at amortized cost	1,200,249	1,070,312	123,882	17,516	590	1,212,300	2,849	5,093	4,082	27	12,051
FVOCI securities	15,257	15,257	-	-	-	15,257	95	-	-	-	95
Securities at amortised cost	301,776	303,671	-	-	-	303,671	1,895	-	-	-	1,895
Other financial assets	2,093	2,186	59	10	-	2,255	108	50	4	-	162
Financial assets total	**1,921,297**	**1,793,864**	**123,941**	**17,526**	**590**	**1,935,921**	**5,463**	**5,143**	**4,086**	**27**	**14,719**
Off balance sheet items	62,657	59,044	3,918	108	-	63,070	224	167	22	-	413

NOTE 30: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

30.1. Credit risk [continued]

30.1.1. Analysis by loan types [continued]

Gross carrying amount and accumulated impairment of financial assets at amortized cost by IFRS 9 stages as at 31 December 2022:

		Gross carrying amount					Loss allowance				
	Carrying amount	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Cash amount due from banks and balances with the National Bank of Hungary	16,778	16,920	-	-	-	16,920	142	-	-	-	142
Placements with other banks	217,553	218,816	-	-	-	218,816	1,263	-	-	-	1,263
Mortgage loans	1,162,760	1,026,682	105,940	45,966	599	1,179,187	2,905	4,865	8,615	42	16,427
Corporate loans	2,035	884	1,116	209	-	2,209	5	97	72	-	174
Loans at amortized cost	1,164,795	1,027,566	107,056	46,175	599	1,181,396	2,910	4,962	8,687	42	16,601
FVOCI securities	13,544	13,544	-	-	-	13,544	105	-	-	-	105
Securities at amortised cost	296,619	298,944	-	-	-	298,944	2,325	-	-	-	2,325
Other financial assets[1]	1,852	1,956	53	12	-	2,021	-	166	3	-	169
Financial assets total	**1,711,141**	**1,577,746**	**107,109**	**46,187**	**599**	**1,731,641**	**6,745**	**5,128**	**8,690**	**42**	**20,605**
Off balance sheet items	99,690	77,930	23,079	76	-	101,085	200	1,184	11	-	1,395

[1] Comparative figures adjusted. Refer to Note 2.20

NOTE 30: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

30.1. Credit risk [continued]

30.1.1. Analysis by loan types [continued]

Changes in the Gross carrying amount of financial assets at amortised cost by IFRS 9 stages

Loans at amortised cost

31 December 2023	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired**	**Total**
Gross carrying amount as at 1 January 2023 IFRS 9	**1,029,515**	**107,056**	**46,175**	**599**	**1,183,345**
Transfer to Stage 1	74,536	(52,071)	(22,465)	-	-
Transfer to Stage 2	(72,071)	79,856	(7,785)	-	-
Transfer to Stage 3	(2,047)	(3,122)	5,169	-	-
New financial assets originated or purchased	150,058	5,475	368	36	155,937
Increase in opening balance	104,072	12,755	(206)	129	116,750
Financial assets derecognised (other than write-offs)	(199,634)	(23,441)	(2,966)	(174)	(226,215)
Changes due to modifications without derecognition (net)	(14,117)	(2,626)	(774)	-	(17,517)
Gross carrying amount as at 31 December 2023	**1,070,312**	**123,882**	**17,516**	**590**	**1,212,300**

Loans at amortised cost

31 December 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired**	**Total**
Gross carrying amount as at 1 January 2022 IFRS 9	**862,891**	**254,321**	**38,032**	**497**	**1,155,741**
Transfer to Stage 1	138,177	(135,748)	(2,429)	-	-
Transfer to Stage 2	(22,487)	29,892	(7,405)	-	-
Transfer to Stage 3	(1,316)	(20,459)	21,775	-	-
New financial assets originated or purchased	173,455	5,985	279	238	179,957
Increase in opening balance	53,577	19,023	(507)	38	72,131
Financial assets derecognised (other than write-offs)	(160,363)	(42,403)	(1,214)	(174)	(204,154)
Changes due to modifications without derecognition (net)	(16,368)	(3,555)	(2,356)	-	(22,279)
Gross carrying amount as at 31 December 2022	**1,027,566**	**107,056**	**46,175**	**599**	**1,181,396**

NOTE 30: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

30.1. Credit risk [continued]

30.1.1. Analysis by loan types [continued]

Changes in the Gross carrying amount of financial assets at amortised cost by IFRS 9 stages

Placements with other banks, net of allowance for placement[6] losses 31 December 2023	Stage 1	Total
Gross carrying amount as at 1 January 2023 IFRS 9	**218,816**	**218,816**
New financial assets originated or purchased	303,233	303,233
Financial assets derecognised (other than write-offs)	(150,023)	(150,023)
Gross carrying amount as at 31 December 2023	**372,026**	**372,026**

Placements with other banks, net of allowance for placement losses 31 December 2022	Stage 1	Total
Gross carrying amount as at 1 January 2022 IFRS 9	**152,317**	**152,317**
New financial assets originated or purchased	150,166	150,166
Financial assets derecognised (other than write-offs)	(83,667)	(83,667)
Gross carrying amount as at 31 December 2022	**218,816**	**218,816**

Changes in the Gross carrying amount of financial assets at fair value through other comprehensive income by IFRS 9 stages

FVOCI Securities[3] 31 December 2023	Stage 1	Total
Gross carrying amount as at 1 January 2023 IFRS 9	**13,544**	**13,544**
New financial assets originated or purchased	1,714	1,714
Financial assets derecognised (other than write-offs)	(1)	(1)
Gross carrying amount as at 31 December 2023	**15,257**	**15,257**

FVOCI Securities 31 December 2022	Stage 1	Total
Gross carrying amount as at 1 January 2022 IFRS 9	**16,037**	**16,037**
Financial assets derecognised (other than write-offs)	(2,493)	(2,493)
Gross carrying amount as at 31 December 2022	**13,544**	**13,544**

[6] No instruments are in stage 2, 3 or in POCI category

NOTE 30: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

30.1. Credit risk [continued]

30.1.1. Analysis by loan types [continued]

Changes in the Gross carrying amount of financial assets at amortised cost by IFRS 9 stages

Securities at amortised cost[7]

31 December 2023	**Stage 1**	**Total**
Gross carrying amount as at 1 January 2023 IFRS 9	**298,944**	**298,944**
New financial assets originated or purchased	4,737	4,737
Financial assets derecognised (other than write-offs)	(10)	(10)
Gross carrying amount as at 31 December 2023	**303,671**	**303,671**

Securities at amortised cost

31 December 2022	**Stage 1**	**Total**
Gross carrying amount as at 1 January 2022 IFRS 9	**175,454**	**175,454**
New financial assets originated or purchased	150,664	150,664
Financial assets derecognised (other than write-offs)	(27,174)	(27,174)
Gross carrying amount as at 31 December 2022	**298,944**	**298,944**

Changes in the carrying amount of contingent assets by IFRS 9 stages

Off Balance sheet items

31 December 2023	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2023 IFRS 9	**77,930**	**23,079**	**76**	**101,085**
Transfer to Stage 1	20,133	(20,113)	(20)	-
Transfer to Stage 2	(5,818)	5,853	(35)	-
Transfer to Stage 3	(158)	(26)	184	-
New financial assets originated or purchased	29,458	375	-	29,833
Financial assets derecognised (other than write-offs)	(62,501)	(5,250)	(97)	(67,848)
Gross carrying amount as at 31 December 2023	**59,044**	**3,918**	**108**	**63,070**

Off Balance sheet items

31 December 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2022 IFRS 9	**56,939**	**5,637**	**117**	**62,693**
Transfer to Stage 1	5,004	(4,974)	(30)	-
Transfer to Stage 2	(3,436)	3,441	(5)	-
Transfer to Stage 3	(102)	(23)	125	-
New financial assets originated or purchased	68,770	21,489	43	90,302
Financial assets derecognised (other than write-offs)	(49,245)	(2,491)	(174)	(51,910)
Gross carrying amount as at 31 December 2022	**77,930**	**23,079**	**76**	**101,085**

[7] No instruments are in stage 2, 3 or in POCI category

NOTE 30: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

30.1. Credit risk [continued]

30.1.1. Analysis by loan types [continued]

Changes in the Loss allowance of financial assets at amortised cost by IFRS 9 stages

Loans at amortised cost

31 December 2023	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired**	**Total**
Loss allowance as at 1 January 2023 IFRS 9	**2,910**	**4,962**	**8,687**	**42**	**16,601**
Transfer to Stage 1	5,394	(1,908)	(3,486)	-	-
Transfer to Stage 2	(348)	1,702	(1,354)	-	-
Transfer to Stage 3	(16)	(348)	364	-	-
Net remeasurement of loss allowance	(5,273)	849	597	(15)	(3,842)
New financial assets originated or purchased	330	120	30	-	480
Financial assets derecognised (other than write-offs)	(148)	(284)	(756)	-	(1,188)
Loss allowance as at 31 December 2023	**2,849**	**5,093**	**4,082**	**27**	**12,051**

Loans at amortised cost

31 December 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired**	**Total**
Loss allowance as at 1 January 2022 IFRS 9	**2,284**	**7,659**	**9,462**	**46**	**19,451**
Transfer to Stage 1	4,477	(4,002)	(475)	-	-
Transfer to Stage 2	(86)	1,794	(1,708)	-	-
Transfer to Stage 3	(7)	(669)	676	-	-
Net remeasurement of loss allowance	(4,354)	377	1,459	1	(2,517)
New financial assets originated or purchased	749	464	62	-	1,275
Financial assets derecognised (other than write-offs)	(153)	(661)	(789)	(5)	(1,608)
Loss allowance as at 31 December 2022	**2,910**	**4,962**	**8,687**	**42**	**16,601**

In the current year, all loans were originated in stage 1, however, in the table above, the loans that were disbursed in the current year, but by the end of the year are already in stage 2 or 3, are shown as impairment losses originated in stage 2 and 3.

NOTE 30: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

30.1. Credit risk [continued]

30.1.1. Analysis by loan types [continued]

Changes in the Loss allowance of financial assets at amortised cost by IFRS 9 stages

Placements with other banks, net of allowance for placement losses[8] 31 December 2023	Stage 1	Total
Loss allowance as at 1 January 2023	**1,263**	**1,263**
Net remeasurement of loss allowance	(234)	(234)
New financial assets originated or purchased	370	370
Financial assets derecognised (other than write-offs)	(929)	(929)
Loss allowance as at 31 December 2023	**470**	**470**

Placements with other banks, net of allowance for placement losses 31 December 2022	Stage 1	Total
Loss allowance as at 1 January 2022	**342**	**342**
Net remeasurement of loss allowance	128	128
New financial assets originated or purchased	930	930
Financial assets derecognised (other than write-offs)	(137)	(137)
Loss allowance as at 31 December 2022	**1,263**	**1,263**

Changes in the Gross carrying amount of financial assets at fair value through other comprehensive income by IFRS 9 stages

FVOCI Securities[5] 31 December 2023	Stage 1	Total
Loss allowance as at 1 January 2023	**105**	**105**
Net remeasurement of loss allowance	(10)	(10)
Loss allowance as at 31 December 2023	**95**	**95**

FVOCI Securities 31 December 2022	Stage 1	Total
Loss allowance as at 1 January 2022	**30**	**30**
Net remeasurement of loss allowance	75	75
Loss allowance as at 31 December 2022	**105**	**105**

Changes in the Gross carrying amount of financial assets at amortised cost by IFRS 9 stages

Securities at amortised cost[5] 31 December 2023	Stage 1	Total
Loss allowance as at 1 January 2023	**2,325**	**2,325**
Net remeasurement of loss allowance	(430)	(430)
Loss allowance as at 31 December 2023	**1,895**	**1,895**

Securities at amortised cost 31 December 2022	Stage 1	Total
Loss allowance as at 1 January 2022	**329**	**329**
Net remeasurement of loss allowance	1,423	1,423
New financial assets originated or purchased	624	624
Financial assets derecognised (other than write-offs)	(51)	(51)
Loss allowance as at 31 December 2022	**2,325**	**2,325**

[8] No instruments are in stage 2, 3 or in the POCI category

NOTE 30: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

30.1. Credit risk [continued]

30.1.1. Analysis by loan types [continued]

Changes in expected credit loss of loan commitments and financial guaranties by IFRS 9 stages

Off Balance sheet items

31 December 2023	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loss allowance as at 1 January 2023	**200**	**1,184**	**11**	**1,395**
Transfer from Stage 1 to Stage 2	1,022	(1,020)	(2)	-
Transfer from Stage 1 to Stage 3	(14)	20	(6)	-
Transfer from Stage 2 to Stage 1	-	(3)	3	-
Net remeasurement of loss allowance	(986)	(22)	16	(992)
New financial assets originated or purchased	3	9	-	12
Financial assets derecognised (other than write-offs)	(1)	(1)	-	(2)
Loss allowance as at 31 December 2023	**224**	**167**	**22**	**413**

Off Balance sheet items

31 December 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loss allowance as at 1 January 2022	**417**	**335**	**27**	**779**
Transfer from Stage 1 to Stage 2	307	(300)	(7)	-
Transfer from Stage 1 to Stage 3	(27)	28	(1)	-
Transfer from Stage 2 to Stage 1	(1)	(1)	2	-
Net remeasurement of loss allowance	(647)	29	(6)	(624)
New financial assets originated or purchased	170	1,100	7	1,277
Financial assets derecognised (other than write-offs)	(19)	(7)	(11)	(37)
Expected credit loss as at 31 December 2022	**200**	**1,184**	**11**	**1,395**

Loan portfolio by internal ratings

31 December 2023			**Gross carrying amount**		
Internal rating grade	**Stage1**	**Stage2**	**Stage3**	**POCI**	**Total**
Low grade (1-4)	993,725	17,037	-	237	1,010,999
Medium grade (5-7)	71,614	86,959	-	120	158,693
High grade (8-9)	4,973	19,886	-	52	24,911
Non performing	-	-	17,516	181	17,697
Total loans at amortized cost	**1,070,312**	**123,882**	**17,516**	**590**	**1,212,300**

31 December 2023			**Accumulated loss allowance**		
Internal rating grade	**Stage1**	**Stage2**	**Stage3**	**POCI**	**Total**
Low grade (1-4)	2,272	683	-	5	2,960
Medium grade (5-7)	490	3,194	-	2	3,686
High grade (8-9)	87	1,216	-	2	1,305
Non performing	-	-	4,082	18	4,100
Total loans at amortized cost	**2,849**	**5,093**	**4,082**	**27**	**12,051**

NOTE 30: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

30.1. Credit risk [continued]

30.1.1. Analysis by loan types [continued]

Loan portfolio by internal ratings

31 December 2022			Gross carrying amount		
Internal rating grade	**Stage1**	**Stage2**	**Stage3**	**POCI**	**Total**
Low grade (1-4)	863,843	36,964	-	151	900,958
Medium grade (5-7)	154,712	56,013	-	125	210,850
High grade (8-9)	9,011	14,079	-	65	23,155
Non performing	-	-	46,175	258	46,433
Total loans at amortized cost	**1,027,566**	**107,056**	**46,175**	**599**	**1,181,396**

31 December 2022			Accumulated loss allowance		
Internal rating grade	**Stage1**	**Stage2**	**Stage3**	**POCI**	**Total**
Low grade (1-4)	2,041	1,211	-	6	3,258
Medium grade (5-7)	659	2,598	-	4	3,261
High grade (8-9)	210	1,153	-	2	1,365
Non performing	-	-	8,687	30	8,717
Total loans at amortized cost	**2,910**	**4,962**	**8,687**	**42**	**16,601**

Loan portfolio classification by economic activities

Gross loans at amortized by economic activities	**2023**	**2022**
Retail	1,210,321	1,179,033
Agriculture, forestry and fishing	1,957	2,344
Other services	22	19
Total gross loans	**1,212,300**	**1,181,396**

Loss allowance on loans at amortized cost by economic activities	**2023**	**2022**
Retail	(11,898)	(16,400)
Agriculture, forestry and fishing	(148)	(200)
Other services	(5)	(1)
Total loss allowance on loans	**(12,051)**	**(16,601)**

Collateral

The collateral value held by the Bank by types is as follows (**total collateral value**). The collateral cover loan as well as off-balance sheet exposures.

Types of collateral	**2023**	**2022**
Government guarantees	15,394	19,957
Deposit, securities	23,572	20,803
Mortgage	5,766,895	5,050,553
Total	**5,805,861**	**5,091,313**

The collateral value held by the Bank by types is as follows (**to the extent of the exposures**). The collateral cover loan as well as off-balance sheet exposures.

Types of collateral	**2023**	**2022**
Government guarantees	10,807	13,639
Deposit, securities	13,187	14,788
Mortgage	1,608,185	1,543,688
Total	**1,632,179**	**1,572,115**

NOTE 30: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

Fair value of collaterals held, received (maximum exposure)

		Fair value collateral							
31 December 2023	**Maximum exposure to credit risk**	**Securities**	**Guarantee**	**Property**	**Surplus collateral**	**Total collateral**	**Net exposure**	**% of exposure subject to collateral requirements**	**Assosociated to ECL**
Cash amount due from banks and balances with the National Bank of Hungary	30,366	-	-	-	-	-	30,366	0%	46
Placements with other banks	371,556	23,572	-	-	(8,555)	15,017	356,539	4%	470
Mortgage loans	1,198,568	-	13,392	4,883,213	(3,700,679)	1,195,926	2,642	100%	11,926
Corporate loans	1,681	-	-	14,730	(13,049)	1,681	0	100%	125
Loans at amortized cost	1,200,249	-	13,392	4,897,943	(3,713,728)	1,197,607	2,642	100%	12,051
Securities at amortised cost	301,776	-	-	-	-	-	301,776	0%	1,895
Total financial assets at amortised cost	**1,903,947**	**23,572**	**13,392**	**4,897,943**	**(3,722,283)**	**1,212,624**	**691,323**	**64%**	**14,462**
Derivative financial instruments	7,822	-	-	-	-	-	7,822	0%	-
Loans mandatorily measured at fair value through profit or loss	463,917	-	2,001	2,196,501	(1,734,585)	463,917	-	100%	-
Total financial instruments at fair value through profit or loss	**471,739**	**-**	**2,001**	**2,196,501**	**(1,734,585)**	**463,917**	**7,822**	**98%**	**-**
FVOCI securities	15,257	-	-	-	-	-	15,257	0%	95
Total debt instruments at fair value through OCI	**15,257**	**-**	**-**	**-**	**-**	**-**	**15,257**	**0%**	**95**
Loan commitments	62,657	-	-	121,831	(78,097)	*43,734*	18,923	70%	413
Total off balance sheet items	**62,657**	**-**	**-**	**121,831**	**(78,097)**	***43,734***	**18,923**	**70%**	**413**

NOTE 30: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

Fair value of collaterals held, received (maximum exposure)

		Fair value collateral							
31 December 2022	**Maximum exposure to credit risk**	**Securities**	**Guarantee**	**Property**	**Surplus collateral**	**Total collateral**	**Net exposure**	**% of exposure subject to collateral requirements**	**Assosociated to ECL**
Cash amount due from banks and balances with the National Bank of Hungary	16,778	-	-	-	-	-	16,778	0%	142
Placements with other banks	217,553	*20,803*	-	-	(5,774)	15,029	202,524	7%	1,263
Mortgage loans	*1,162,760*	-	*17,559*	*4,663,190*	*(3,520,483)*	*1,160,266*	2,494	100%	*16,427*
Corporate loans	*2,035*	-	-	*14,960*	*(12,925)*	*2,035*	-	100%	*174*
Loans at amortized cost	1,164,795	-	17,559	4,678,150	(3,533,408)	1,162,301	2,494	100%	16,601
Securities at amortised cost	296,619	-	-	-	-	-	296,619	0%	2,325
Total financial assets at amortised cost	**1,695,745**	**20,803**	**17,559**	**4,678,150**	**(3,539,182)**	**1,177,330**	**518,415**	**69%**	**20,331**
Derivative financial instruments	11,786	-	-	-	-	-	11,786	0%	-
Loans mandatorily measured at fair value through profit or loss	454,164	-	2,398	1,904,054	(1,452,288)	*454,164*	-	100%	-
Total financial instruments at fair value through profit or loss	**465,950**	**-**	**2,398**	**1,904,054**	**(1,452,288)**	**454,164**	**11,786**	**97%**	**-**
FVOCI securities	13,544	-	-	-	-	-	13,544	0%	105
Total debt instruments at fair value through OCI	**13,544**	**-**	**-**	**-**	**-**	**-**	**13,544**	**0%**	**105**
Loan commitments	99,690	-	-	184,568	(113,089)	*71,479*	28,211	72%	1,395
Total off balance sheet items	**99,690**	**-**	**-**	**184,568**	**(113,089)**	***71,479***	**28,211**	**72%**	**1,395**

The Group had no income from the enforcement of collateral in 2023 and 2022.

NOTE 30: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

The collateral value (**total collateral value**) held by the Bank related to non-performing loan portfolio

The collateral value of non-performing loans at amortized cost

31 December 2023	Gross carrying amount	Loss allowance	Carrying amount	Collateral value
Mortgage loans	17,642	(4,013)	13,629	64,751
Corporate loans	283	(96)	187	957
Total	**17,925**	**(4,109)**	**13,816**	**65,708**

The collateral value of loans mandatorily measured at fair value through profit or loss

31 December 2023	Gross carrying amount	Loss allowance	Carrying amount	Collateral value
Mortgage loans	3,953	(1,044)	2,909	11,267
Total	**3,953**	**(1,044)**	**2,909**	**11,267**

The collateral value of non-performing loans at amortized cost

31 December 2022	Gross carrying amount	Loss allowance	Carrying amount	Collateral value
Mortgage loans	46,522	(8,641)	37,881	140,499
Corporate loans	252	(87)	165	938
Total	**46,774**	**(8,728)**	**38,046**	**141,437**

The collateral value of loans mandatorily measured at fair value through profit or loss

31 December 2022	Gross carrying amount	Loss allowance	Carrying amount	Collateral value
Mortgage loans	9,497	(1,449)	8,048	26,675
Total	**9,497**	**(1,449)**	**8,048**	**26,675**

Offsetting

Derivatives:
The Group does not have any derivative for trading purposes. All derivative transactions are designated in hedge relationship. Derivative transactions are concluded with the parent of the Group and this is why based on the Group risk management policies master netting agreements and margin deposits are not applied.

Repo transactions:
The Group has one repo deal with the parent of the Group open as at 31 December 2023. This repo deal is backed by one Hungarian Government Bond (2032/A) with a nominal amount HUF 15 billion. For the details of the repo transaction refer to Note 14.

Other balance sheet positions potentially subject to netting arrangements:
The Group does not have netting arrangements in addition to the above mentioned repo transactions.

Collaterals:
The Group's activity is to disburse mortgage loans to its customers. In accordance with the respective act governing the operation of the Group and in accordance with the respective internal risk management policies such mortgage loan exposures are collateralized.

The Group finances its activity by way of issuing mortgage-backed securities (in accordance with the respective act). Such issued bonds are backed by the performing mortgage portfolio.

NOTE 30: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

Restructured loans

	2023		2022	
	Gross portfolio	**Allowance**	**Gross portfolio**	**Allowance**
Retail loans	4,560	(407)	46,307	(1,706)
Corporate loans	151	(6)	480	(16)
SME loans	201	(29)	718	(83)
Total	**4,912**	**(442)**	**47,505**	**(1,805)**

The forborne definition used by the Bank is based on EU 2015/227 regulation.
Restructuring (forbearance) is a modification of the contract – initiated by either the client or the bank – that provides a concession or allowance towards the client in respect to the client's current or future financial difficulties. The table of restructured loans contains exposures classified as performing forborne. An exposure is considered performing forborne if the conditions of the non-performing status are not met at the time of the restructuring, or the exposure fulfilled the requirements of the minimum one-year cure period as non-performing forborne.
The loan volume of Group classified as performing forborne exclusively due to moratoria participation decreased significantly due the expiration of the probation period for retail exposures.

At fair value through other comprehensive income securities as at 31 December 2023

	Baa2		**Total**
Hungarian government bonds	15,257	100.00%	15,257
Total	**15,257**	**100.00%**	**15,257**

Securities at amortised cost as at 31 December 2023

	Baa2		**Total**
Hungarian government bonds	301,776	100.00%	301,776
Total	**301,776**	**100.00%**	**301,776**

At fair value through other comprehensive income securities as at 31 December 2022

	Baa2		**Total**
Hungarian government bonds	13,544	100.00%	13,544
Total	**13,544**	**100.00%**	**13,544**

Securities at amortised cost as at 31 December 2022

	Baa2		**Total**
Hungarian government bonds	296,619	100,00%	296,619
Total	**296,619**	**100,00%**	**296,619**

NOTE 30: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

30.2. Market risk

Market risks arise from positions taken in securities and other instruments. The Group takes no significant exposure to market risks. Market risks are generally monitored and controlled by the Asset and Liability Management function.

30.2.1. Interest rate sensitivity analysis[9]

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. The analysis is prepared assuming the amount of assets and liabilities outstanding at the balance sheet date was outstanding for the whole year. The main assumptions were as follows:

- Floating-rate assets and liabilities were repriced to the modelled benchmark yields at the repricing dates assuming the unchanged margin compared to the last repricing.
- Fixed-rate assets and liabilities were repriced at the contractual maturity date.
- As for liabilities with discretionary repricing feature by the Bank were assumed to be repriced with two-weeks delay, assuming no change in the margin compared to the last repricing date.
- Deposits with an interest rate lower than 0.3% even at high market rates were assumed to be unchanged for the whole period.
- The sensitivity of interest income to changes in BUBOR is analyzed.

The simulation were prepared by assuming two scenarios:
1. BUBOR increases gradually by 100 bps over the next year (scenario 1)
2. BUBOR decreases gradually by 50 bps over the next year (scenario 2)

The net interest income in a one-year period beginning with January 1, 2024 would be increased by HUF 260 million (probable scenario) and decreased by HUF 51 million (alternative scenario) as a result of these simulation. The effects of the parallel shifts of the yield-curves to the net interest income on a one-year period can be summarized as follows:

Description		**Effects to the net interest income in one year period**	
		2023	**2022**
HUF	(0.1%) parallel shift	3	42
HUF	0.1% parallel shift	(3)	(41)

[9] Quantitative data on interest rate risk are shown in Note 35

NOTE 30: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

30.2. Market risk [continued]

30.2.2. Foreign exchange rate sensitivity analysis

The foreign exchange sensitivity analysis has been determined based on the net open position, taking into account both balance sheet exposure and off-balance sheet exposure. The simulation was made on the assumption, that the price changes happen as a one-off event, and neither does it take into consideration possible balance sheet dynamics, nor the potential increase or decrease of risk costs related to foreign exchange denominated assets.

The total net open position of OTP Mortgage Bank was 478 million HUF short as at 31 December 2023 (compared to 144 million HUF as at 31 December 2022), which consisted of EUR, JPY and CHF exposure. Since OTP Mortgage Bank has completed the conversion of foreign currency consumer mortgage loans into HUF, from its operation does not arise material FX exposures. The potential loss on current open foreign exchange exposure is marginal compared to the regulatory capital of the Bank.

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30.3. Capital management

The primary objective of the capital management of the Group is to ensure the prudent operation, the entire compliance with the prescriptions of the regulator for a persistent business operation and maximising the shareholder value, accompanied by an optimal financing structure.

The capital management of the Group includes the management and evaluation of the shareholder’s equity available for hedging risks, other types of funds to be recorded in the equity and all material risks to be covered by the capital.

The basis of the capital management of the Group in the short turn is the continuous monitoring of its capital position, in the long turn the strategic and the business planning, which includes the monitoring and forecast of the capital position of the Group.

The Group maintains the capital adequacy required by the regulatory bodies and the planned risk taking mainly by means of ensuring and developing its profitability. In case the planned risk level of the Group exceeded its Core and Supplementary capital, the Group ensures the prudent operation by occasional measures including the owner of the Group.

Capital adequacy

The Capital Requirements Directive package (CRDIV/CRR) transposes the global standards on banking regulation (commonly known as the Basel III agreement) into the EU legal framework. The rules are applied from 1 January 2014. They set stronger prudential requirements for institutions, requiring them to keep sufficient capital reserves and liquidity. This framework makes institutions in the EU more solid and strengthens their capacity to adequately manage the risks linked to their activities, and absorb any losses they may incur in doing business.

The Bank has entirely complied with the regulatory capital requirements in 2023 as well as in 2022.

The Bank’s capital adequacy calculation is in line with IFRS and based on Basel III as at 31 December 2023 and 2022. The Bank uses the standard method for determining the regulatory capital requirements of the credit risk and market risk while in case of the operational risk the Advanced Measurement Approach (AMA).

Capital adequacy In HUF million	**2023**	**2022**
Core capital	136,673	126,719
Regulatory capital	**136,673**	**126,719**
Credit risk capital requirement	56,925	59,853
Operational risk capital requirement	4,342	3,368
Total required regulatory capital	**61,267**	**63,221**
Surplus capital	**75,406**	**63,498**
Capital ratio	17.8%	16.0%

The positive components of the Core capital are the following:

Issued capital, Retained earnings of the previous year, Retained earnings, Cumulative Comprehensive Income, Other Reserves

The negative components of the Core capital are the following:

Prudential filter, Intangible assets

NOTE 31: OFF-BALANCE SHEET ITEMS (in HUF million)

In the normal course of business, the Bank becomes a party to various financial transactions that are not reflected on the statement of financial position and are referred to as off-balance sheet financial instruments. The following represents notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

	2023	2022
Current litigations	883	934
Loan facilities	63,070	101,085
Contingent and future liabilities	**63,953**	**102,019**

Legal disputes

At the balance sheet date the Bank was involved in various claims and legal proceedings of a nature considered normal to its business. The level of these claims and legal proceedings corresponds to the level of claims and legal proceedings in previous years.

The Bank believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation.

Provision due to legal disputes was HUF 6 million and HUF 11 million as at 31 December 2023 and 2022, respectively.

Commitments to extend credit

The primary purpose of these instruments is to ensure that funds are available to a customer as required.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans. The Management of the Bank believes the market risk associated with guarantees, irrevocable letters of credit and undrawn loan commitments are minimal.

NOTE 32: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF million)

Previously approved option program required a modification thanks to the introduction of the Bank Group Policy on Payments accepted in resolution of Annual General Meeting regarding to the amendment of CRD III. Directives and Act on Credit Institutions and Financial Enterprises.

Key management personnel affected by the Bank Group Policy receive compensation based on performance assessment generally in the form of cash bonus and equity shares in a ratio of 50-50%. Assignment is based on OTP shares, furthermore performance based payments are deferred in accordance with the rules of Credit Institutions Act.

OTP Bank ensures the share-based payment part for the management personnel of OTP Group members.

The quantity of usable shares for individuals calculated for settlement of share-based payment shall be determined as the ratio of the amount of share-based payment and share price determined by the Supervisory Board of OTP Bank Plc.

The value of the share-based payment at the performance assessment is determined within 10 days by Supervisory Board based on the average of the three previous trade day’s middle rate of OTP Bank’s equity shares fixed on the Budapest Stock Exchange.

The parameters for the share-based payment relating to ongoing years 2023 for periods of each year as follows:

	The year 2020	**The year 2021**	**The year 2022**	**The year 2023**	**Total**
Group	1.55	3.26	5.46	26.71	36.98

Based on the CRD III directives and the amendment of the Act on Credit Institutions and Financial Enterprises, it was necessary to modify the previous option scheme by introducing the Bank Group Remuneration Policy, which was adopted by a resolution of the Bank's General Meeting.

At the same time, the specific conditions of the share entitlement at a preferential price will be established, with the share entitlement at a preferential price including a maximum discount of HUF 2 000 and the maximum income per share at the time of the share entitlement being HUF 4000.

NOTE 33: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF million)

As at 31 December 2023

	EUR	CHF	JPY	USD	Total
Assets	204,566	6	139	-	204,711
Liabilities	(205,475)	(6)	(146)	(3)	(205,630)
Net position	**(909)**	**-**	**(7)**	**(3)**	**(919)**

As at 31 December 2022

	EUR	CHF	JPY	USD	Total
Assets	12	7	183	-	202
Liabilities	(245)	(6)	(171)	(2)	(424)
Net position	**(233)**	**1**	**12**	**(2)**	**(222)**

Whilst the Group monitors its foreign exchange position for compliance with the regulatory requirements of the NBH and own limit system established in respect of limits on open positions. The measurement of the Group's open foreign currency position involves monitoring the VaR limit on the foreign exchange exposure of the Group.

NOTE 34: RELATED PARTY TRANSACTIONS (in HUF million)

34.1. Outstanding balances/Transactions due from or due to OTP Bank Plc.

34.1.1. Outstanding balances in the Consolidated Statement of Financial Position related to OTP Bank Plc.

The Group had the following assets and liabilities due from, or due to the OTP Bank Plc.:

Assets	**2023**	**2022**
Cash, amounts due from OTP Bank	30,227	16,618
Placements with OTP Bank	206,662	58,703
Accured receivables	52	99

Liabilities	**2023**	**2022**
Amounts due to OTP Bank and other banks	(930,142)	(875,761)
Repo liabilities	(13,211)	(13,947)
Face value of issued mortgage bonds held by OTP Bank	(268,197)	(316,196)
Accrued interest expense due to OTP Bank	(3,531)	(3,977)
Other liabilities due to OTP Bank	(2,115)	(2,224)

34.1.2. Transactions in the Consolidated Statement of Profit or Loss related to OTP Bank Plc.

	2023	**2022**
Interest income	8,797	579
Interest expense	(66,038)	(49,192)
Account handling fees paid to OTP Bank	(2,911)	(3,000)
Other fees and commissions relating to lending received from OTP Bank	904	2,203
of which: Revenue from the value appraisal activity from OTP Bank	901	985
Other fees and commissions relating to lending paid to OTP Bank	(1,791)	(2,550)

NOTE 34: RELATED PARTY TRANSACTIONS (in HUF million) [continued]

34.2. Outstanding balances related to key management personnel

The management, the members of the Board of Directors and the Supervisory Board and their close relatives have loans of HUF 5,788 million as at 31 December 2023. These loans were covered by HUF 12,654 million mortgages, which can be categorized into 5 different interest periods:

5 years:	1.70% - 11.02%
10 years:	2.35% - 6.75%
20 years:	2.49% - 4.24%
25 years:	0.00% - 9.20%
30 years:	6.94% - 8.49%

The APR[10] rate at the time the loan is disbursed is based on current market rates.

34.3. Outstanding balances/Transactions related to other related party[11]

34.3.1. Transactions related to OTP Building Society Ltd.

	2023	2022
Face value of issued mortgage bonds held by OTP Buliding Society Ltd.	63,816	64,696
Accrued interest expense	(1,919)	(1,926)

34.3.2. Transactions of OTP Mortgage Bank's loan portfolio related to OTP Faktoring Ltd.

	2023	2022
Book value of non-performing loans sold to OTP Faktoring Ltd.	181	114
Selling price of the non-performing loans related to OTP Faktoring Ltd.	131	95

34.3.3. Transactions related to Merkantil Bank Ltd.

	2023	2022
Face value of issued mortgage bonds held bí Merkantil Bank Ltd.	122,665	122,665
Accrued interest expense	(2,241)	(2,248)

34.3.4. Further Outstanding balances/Transactions related to other related party

	2023	2022
Other liabilities due to other related party	(496)	97
Other operating income from other related party	(51)	137
Revenue from the value appraisal activity from OTP Faktoring Ltd. and from other related party	868	1,051

Compensation of key management personnel is shown in Note 26.

In the normal course of the business the Group enters into other transactions with the entities within the OTP Group:

- DSK Bank AD – from issuance of mortgage bonds in amount of EUR 200 mn (notional),
- Nova KBM d.d. – from issuance of mortgage bonds in amount of EUR 200 mn (notional).

[10] Annual Percentage Rate

[11] The Group has significant transactions with OTP Building Society Ltd., OTP Faktoring Ltd. and Merkantil Bank Ltd. in OTP Group, these transactions are highlighted.

NOTE 35: INTEREST RATE RISK MANAGEMENT

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk.

The majority of the Group 's interest bearing assets and liabilities are structured to match either short-term assets and short-term liabilities, or long-term assets and liabilities with repricing opportunities within one year, or long-term assets and corresponding liabilities where repricing is performed simultaneously.
In addition, the significant spread existing between the different types of interest bearing assets and liabilities enables the Group to benefit from a high level of flexibility in adjusting for its interest rate matching and interest rate risk exposure.

The following table presents the interest repricing dates of the Group. Variable yield assets and liabilities have been reported in accordance with their next repricing date. Fixed income assets and liabilities have been reported in accordance with their maturity.

NOTE 35: INTEREST RATE RISK MANAGEMENT [continued]

As at 31 December 2023	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Subtotal		Total
	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	
Cash, amounts due from banks and balances with the National Banks	**30,346**	**20**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**30,346**	**20**	**30,366**
fixed interest	29,971	2	-	-	-	-	-	-	-	-	-	-	29,971	2	29,973
variable interest	375	18	-	-	-	-	-	-	-	-	-	-	375	18	393
Placements with other banks	**178,085**	**-**	**-**	**-**	**105**	**-**	**-**	**-**	**193,366**	**-**	**-**	**-**	**371,556**	**-**	**371,556**
fixed interest	13,191	-	-	-	-	-	-	-	193,366	-	-	-	206,557	-	206,557
variable interest	164,894	-	-	-	105	-	-	-	-	-	-	-	164,999	-	164,999
Financial assets at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**15,257**	**-**	**-**	**-**	**-**	**-**	**15,257**	**-**	**15,257**
fixed interest	-	-	-	-	-	-	15,257	-	-	-	-	-	15,257	-	15,257
Loans at amortised cost	**50,566**	**53**	**112,787**	**96**	**48,964**	**-**	**29,076**	**-**	**958,707**	**-**	**-**	**-**	**1,200,100**	**149**	**1,200,249**
fixed interest	-	-	-	-	-	-	-	-	352,492	-	-	-	352,492	-	352,492
variable interest	50,566	53	112,787	96	48,964	-	29,076	-	606,215	-	-	-	847,608	149	847,757
Loans mandatorily measured at fair value through profit or loss	**6,477**	**-**	**9,552**	**-**	**82,601**	**-**	**82,767**	**-**	**282,520**	**-**	**-**	**-**	**463,917**	**-**	**463,917**
variable interest	6,477	-	9,552	-	82,601	-	82,767	-	282,520	-	-	-	463,917	-	463,917
Securities at amortized cost	**-**	**-**	**-**	**-**	**32,236**	**-**	**103,506**	**-**	**166,033**	**-**	**-**	**-**	**301,776**	**-**	**301,776**
fixed interest	-	-	-	-	32,236	-	103,506	-	166,033	-			301,776	-	301,776
Derivative financial assets designated as hedge accounting relationships	**-**	**-**	**(198,972)**	**204,531**	**2,263**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(196,709)**	**204,531**	**7,822**
fixed interest	-	-	(950)	33,510	(978)	-	-	-	-	-	-	-	(1,928)	33,510	31,582
variable interest	-	-	(198,022)	171,021	3,241	-	-	-	-	-	-	-	(194,781)	171,021	(23,760)
Other financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,081**	**12**	**2,081**	**12**	**2,093**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	2,081	12	2,081	12	2,093

NOTE 35: INTEREST RATE RISK MANAGEMENT [continued]

As at 31 December 2023	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Subtotal		Total
	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	**-**	**-**	**-**	**-**	**100,121**	**161**	**124,130**	**-**	**892,976**	**-**	**-**	**-**	**1,117,227**	**161**	**1,117,388**
fixed interest	-	-	-	-	71,538	161	124,130	-	892,976	-	-	-	1,088,644	161	1,088,805
variable interest	-	-	-	-	28,583	-	-	-	-	-	-	-	28,583	-	28,583
Repo liabilities	**13,211**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**13,211**	**-**	**13,211**
fixed interest	13,211	-	-	-	-	-	-	-	-	-	-	-	13,211	-	13,211
Liabilities from issued securities	**370,884**	**-**	**-**	**-**	**101,177**	**-**	**247,295**	**-**	**209,336**	**194,005**	**-**	**-**	**928,692**	**194,005**	**1,122,697**
fixed interest	-	-	-	-	101,177	-	247,295	-	209,336	194,005	-	-	557,808	194,005	751,813
variable interest	370,884	-	-	-	-	-	-	-	-	-	-	-	370,884	-	370,884
Derivative financial liabilities designated as hedge accounting relationships	**-**	**1,678**	**56,728**	**(54,265)**	**(413)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**56,315**	**(52,587)**	**3,728**
fixed interest	-	-	56,728	-	(413)	-	-	-	-	-	-	-	56,315	-	56,315
variable interest	-	1,678	-	(54,265)	-	-	-	-	-	-	-	-	-	(52,587)	(52,587)
Leasing liabilities	**1**	**6**	**2**	**11**	**11**	**50**	**14**	**44**	**3**	**98**	**-**	**-**	**31**	**209**	**240**
fixed interest	1	-	2	-	11	-	14	-	3	-	-	-	31	-	31
variable interest	-	6	-	11	-	50	-	44	-	98	-	-	-	209	209
Other financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,067**	**4**	**5,067**	**4**	**5,071**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	5,067	4	5,067	4	5,071
Net position	**(118,622)**	**(1,611)**	**(133,363)**	**258,881**	**(34,727)**	**(211)**	**(140,833)**	**(44)**	**498,311**	**(194,103)**	**(2,986)**	**8**	**67,780**	**62,920**	**130,700**

NOTE 35: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]

As at 31 December 2022	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Subtotal		Total
	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	
Cash, amounts due from banks and balances with the National Banks	**16,766**	**12**	-	-	-	-	-	-	-	-	-	-	**16,766**	**12**	**16,778**
fixed interest	16,131	3	-	-	-	-	-	-	-	-	-	-	16,131	3	16,134
variable interest	635	9	-	-	-	-	-	-	-	-	-	-	635	9	644
Placements with other banks	**217,553**	-	-	-	-	-	-	-	-	-	-	-	**217,553**	-	**217,553**
variable interest	217,553	-	-	-	-	-	-	-	-	-	-	-	217,553	-	217,553
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	**13,544**	-	-	-	**13,544**	-	**13,544**
fixed interest	-	-	-	-	-	-	-	-	13,544	-	-	-	13,544	-	13,544
Loans at amortised cost	**61,760**	**70**	**129,748**	**124**	**62,822**	-	**26,442**	-	**883,829**	-	-	-	**1,164,601**	**194**	**1,164,795**
fixed interest	73	-	-	-	-	-	-	-	205,483	-	-	-	205,556	-	205,556
variable interest	61,687	70	129,748	124	62,822	-	26,442	-	678,346	-	-	-	959,045	194	959,239
Loans mandatorily measured at fair value through profit or loss	**8,017**	-	**10,882**	-	**69,856**	-	**49,377**	-	**316,032**	-	-	-	**454,164**	-	**454,164**
variable interest	8,017	-	10,882	-	69,856	-	49,377	-	316,032	-	-	-	454,164	-	454,164
Securities at amortised cost	-	-	-	-	-	-	**32,686**	-	**263,933**	-	-	-	**296,619**	-	**296,619**
fixed interest	-	-	-	-	-	-	32,686	-	263,933	-	-	-	296,619	-	296,619
Derivative financial assets designated as hedge accounting relationships	-	-	-	-	**11,786**	-	-	-	-	-	-	-	**11,786**	-	**11,786**
fixed interest	-	-	-	-	(2,042)	-	-	-	-	-	-	-	(2,042)	-	(2,042)
variable interest	-	-	-	-	13,828	-	-	-	-	-	-	-	13,828	-	13,828
Other financial assets[12]	-	-	-	-	-	-	-	-	-	-	**1,833**	**19**	**1,833**	**19**	**1,852**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	1,833	19	1,833	19	1,852

[12] Comparative figures adjusted. Refer to Note 2.20

NOTE 35: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]

As at 31 December 2022	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Subtotal		Total
	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	**-**	**-**	**1,610**	**-**	**99,184**	**185**	**51,309**	**-**	**907,429**	**-**	**-**	**-**	**1,059,532**	**185**	**1,059,717**
fixed interest	-	-	-	-	59,677	185	51,309	-	907,429	-	-	-	1,018,415	185	1,018,600
variable interest	-	-	1,610	-	39,507	-	-	-	-	-	-	-	41,117	-	41,117
Repo liabilities	**13,947**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**13,947**	**-**	**13,947**
fixed interest	13,947	-	-	-	-	-	-	-	-	-	-	-	13,947	-	13,947
Liabilities from issued securities	**371,423**	**-**	**-**	**-**	**45,260**	**-**	**100,801**	**-**	**453,982**	**-**	**-**	**-**	**971,466**	**-**	**971,466**
fixed interest	-	-	-	-	45,260	-	100,801	-	453,982	-	-	-	600,043	-	600,043
variable interest	371,423	-	-	-	-	-	-	-	-	-	-	-	371,423	-	371,423
Derivative financial liabilities designated as hedge accounting relationships	**4,424**	**-**	**-**	**-**	**-**	**(535)**	**-**	**-**	**-**	**-**	**-**	**-**	**4,424**	**(535)**	**3,889**
fixed interest	-	-	-	-	-	(535)	-	-	-	-	-	-	-	(535)	(535)
variable interest	4,424	-	-	-	-	-	-	-	-	-	-	-	4,424	-	4,424
Leasing liabilities	**-**	**4**	**1**	**17**	**-**	**60**	**-**	**81**	**-**	**133**	**-**	**-**	**1**	**295**	**296**
fixed interest	-	-	1	-	-	-	-	-	-	-	-	-	1	-	1
variable interest	-	4	-	17	-	60	-	81	-	133	-	-	-	295	295
Other financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,320**	**1**	**5,320**	**1**	**5,321**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	5,320	1	5,320	1	5,321
Net position	**(85,698)**	**78**	**139,019**	**107**	**20**	**290**	**(43,605)**	**(81)**	**115,927**	**(133)**	**(3,487)**	**18**	**122,176**	**279**	**122,455**

NOTE 36: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF million)

Liquidity risk is a measure of the extent to which the Group may be required to raise funds to meet its commitments associated with financial instruments. The Group maintains its liquidity profiles in accordance with regulations laid down by the NBH.

The following tables provide an analysis of liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

The contractual amounts disclosed in the maturity analyses are the contractual undiscounted cash flows like gross finance lease obligations (before deducting finance charges); prices specified in forward agreements to purchase financial assets for cash; net amounts for pay-floating/receive-fixed interest rate swaps for which net cash flows are exchanged; contractual amounts to be exchanged in a derivative financial instrument for which gross cash flows are exchanged; gross loan commitments.

Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in that statement is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the end of the period.

As at 31 December 2023	**Within 3 months**	**Within one year and over 3 month**	**Within 5 years and over one year**	**Over 5 years**	**Total**
Cash, due from banks and balances with the National Bank of Hungary	30,365	-	-	-	30,365
Placements with other banks	13,337	-	110,602	416,108	540,047
Securities at fair value through other comprehensive income	435	-	15,000	-	15,435
Loans measured at amortised cost	46,761	50,474	270,136	918,750	1,286,121
Loans mandatorily measured at fair value through profit or loss	15,489	16,505	93,161	320,192	445,347
Securities at amortised cost	3,648	31,700	174,665	133,000	343,013
Other financial assets	2,212	-	-	-	2,212
TOTAL ASSETS	**112,247**	**98,679**	**663,564**	**1,788,050**	**2,662,540**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	85,114	17,872	491,579	596,353	1,190,918
Repo liabilities	13,537	-	-	-	13,537
Liabilities from issued securities	9,621	271,000	360,100	486,410	1,127,131
Leasing liabilities	21	61	158	-	240
Other financial liabilities	5,004	-	-	-	5,004
TOTAL LIABILITIES	**113,297**	**288,933**	**851,837**	**1,082,763**	**2,336,830**
Receivables from derivative financial instruments designated as fair value hedge	8,893	14,379	101,383	207,409	332,064
Liabilities from derivative financial instruments designated as fair value hedge	(9,684)	(14,358)	(125,209)	(212,419)	(361,670)
Net position of financial instruments designated as fair value hedge	**(791)**	**21**	**(23,826)**	**(5,010)**	**(29,606)**
Commitments to extend credit	63,070	-	-	-	63,070
Off-balance sheet commitments	**63,070**	**-**	**-**	**-**	**63,070**

NOTE 36: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF million) [continued]

As at 31 December 2022	**Within 3 months**	**Within one year and over 3 month**	**Within 5 years and over one year**	**Over 5 years**	**Total**
Cash, due from banks and balances with the National Bank of Hungary	16,920	-	-	-	16,920
Placements with other banks	59,721	-	159,095	-	218,816
Securities at fair value through other comprehensive income	436	-	15,000	-	15,436
Loans measured at amortised cost	50,723	53,995	272,836	866,657	1,244,211
Loans mandatorily measured at fair value through profit or loss	14,172	17,270	98,851	305,781	436,074
Securities at amortised cost	3,658	-	196,365	143,000	343,023
Other financial assets[13]	2,021	-	-	-	2,021
TOTAL ASSETS	**147,651**	**71,265**	**742,147**	**1,315,438**	**2,276,501**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	16,205	85,321	446,625	555,824	1,103,975
Repo liabilities	13,947	-	-	-	13,947
Liabilities from issued securities	9,998	45,000	631,100	295,020	981,118
Leasing liabilities	21	61	214	-	296
Other financial liabilities	5,321	-	-	-	5,321
TOTAL LIABILITIES	**45,492**	**130,382**	**1,077,939**	**850,844**	**2,104,657**
Receivables from derivative financial instruments designated as fair value hedge	1,378	2,025	2,334	434	6,171
Liabilities from derivative financial instruments designated as fair value hedge	(618)	(1,354)	(3,631)	(443)	(6,046)
Net position of derivative financial instruments total	**760**	**671**	**(1,297)**	**(9)**	**125**
Commitments to extend credit	101,085	-	-	-	101,085
Off-balance sheet commitments	**101,085**	**-**	**-**	**-**	**101,085**

[13] Comparative figures adjusted. Refer to Note 2.20

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million)

In determining the fair value of a financial asset or liability the Bank in the case of instruments that are quoted on an active market uses the market price. In most cases, reliable and public market information is not available so the Bank has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 37) for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.
To provide a reliable estimate of the fair value of those financial instrument, that are originally measured at amortised cost, the Bank used the discounted cash-flow analysis (loans, placements with other banks, amounts due to banks, deposits from customers). The fair value of issued securities and subordinated bonds is based on quoted prices (e.g. Reuters, Bloomberg). Cash and amounts due from banks and balances with the NBH represent amounts available immediately thus the fair value equals to the carrying amount.
The assumptions used when calculating the fair value of financial assets and liabilities when using valuation technique are the following:

- the discount rates are the risk free rates related to the denomination currency adjusted by the appropriate risk premium as of the end of the reporting period,
- the contractual cash-flows are considered for the performing loans and for the non-performing loans, the amortised cost less impairment is considered as fair value,
- the future cash-flows for floating interest rate instruments are estimated from the yield curves as of the end of the reporting period,
- the fair value of the deposit which can be due in demand cannot be lower than the amount payable on demand.

For classes of assets and liabilities not measured at fair value in the statement of financial position, the income approach was used to convert future cash flows to a single current amount. Fair value of current assets is equal to carrying amount, fair value of liabilities from issued securities and other bond-type classes of assets and liabilities not measured at fair value measured based on Reuters market rates and, fair value of other classes not measured at fair value of the statement of financial position are measured using the discounted cash flow method. Fair value of loans, net of allowance for loan losses measured using discount rate adjustment technique, the discount rate is derived from observed rates of return for comparable assets or liabilities that are traded in the market.

Fair value measurements – in relation to instruments measured not at fair value – are categorized in level 3 of the fair value hierarchy.

Use of modified yield curve

During the year ended 31 December 2022 and 2023 yield curves derived from Hungarian government bonds ("ÁKK curve") have become distorted due to certain market events, which means that real liquidity has concentrated on certain part of the yield curve. Therefore, a modified yield curve - which is not observable on the market - has been used at the concerning fair value calculations. This yield curve is based on the relevant yield curve points of the original ÁKK curve. Based on Management's discretion fair value calculated with modified yield curves can represent the perspective of market participants reliable at current market conditions.

Modified yield curve was used for calculating fair value in case of subsidised represented in "Loans mandatorily measured at fair value through profit or loss" line.

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Fair value of financial assets and liabilities

	2023		2022	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash, due from banks and balances with the National Bank of Hungary	30,366	30,366	16,778	16,778
Placements with other banks	371,556	371,556	217,553	217,553
Securities at amortised cost	301,776	317,691	296,619	260,553
Loans at amortised cost	1,200,249	1,251,589	1,164,795	1,020,141
Other financial assets[14]	2,093	2,093	1,852	1,852
Total assets measured not at fair value	**1,906,040**	**1,973,295**	**1,697,597**	**1,516,877**
Securities at fair value through other comprehensive income	15,257	15,257	13,544	13,544
Loans mandatorily measured at fair value through profit or loss	463,917	463,917	454,164	454,164
Derivative financial assets designated as hedge accounting relationships	7,822	7,822	11,786	11,786
Total assets measured at fair value	**486,996**	**486,996**	**479,494**	**479,494**
FINANCIAL ASSETS TOTAL	**2,393,036**	**2,460,291**	**2,177,091**	**1,996,371**
Derivative financial instruments designated as hedging instruments	3,728	3,728	3,889	3,889
Total liabilities measured at fair value	**3,728**	**3,728**	**3,889**	**3,889**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	1,117,388	1,162,871	1,059,717	914,351
Repo liabilities	13,211	13,218	13,947	13,946
Liabilities from issued securities	1,122,699	1,099,535	971,466	849,960
Leasing liabilities	240	240	296	296
Other financial liabilities	5,071	5,071	5,321	5,321
Total liabilities measured not at fair value	**2,258,609**	**2,280,935**	**2,050,747**	**1,783,874**
FINANCIAL LIABILITIES TOTAL	**2.262.337**	**2.284.663**	**2,054,636**	**1,787,763**

[14] Comparative figures adjusted. Refer to Note 2.20

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Fair value hierarchy

Methods and significant assumptions used to determine fair value of the different classes of financial instruments:

- 1st Level: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2nd Level: inputs other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly.
- 3rd Level: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table presents an analysis of financial instruments carried at fair value and amortised cost by level of the fair value hierarchy:

As at 31 December 2023	Total	Level 1	Level 2	Level 3
Loans mandatorily measured at fair value through profit or loss	463,917	-	-	463,917
Financial assets at fair value through other comprehensive income	15,257	15,257	-	-
Positive fair value of derivative financial instruments designated as fair value hedge	7,822	-	7,822	-
Total assets measured at fair value	**486,996**	**15,257**	**7,822**	**463,917**
Placements with other banks	371,556	-	371,556	-
Securities at amortised cost	317,691	317,691	-	-
Loans at amortised cost	1,251,589	-	-	1,251,589
Other financial assets	2,093	-	-	2,093
Total assets not measured at fair value	**1,942,929**	**317,041**	**371,556**	**1,253,682**

As at 31 December 2023	Total	Level 1	Level 2	Level 3
Negative fair value of derivative financial instruments designated as fair value hedge	3,728	-	3,728	-
Total liabilities measured at fair value	**3,728**	**-**	**3,728**	**-**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	1,162,871	-	1,162,871	-
Repo liabilities	13,218	-	13,218	-
Liabilities from issued securities	1,099,535	1,099,535	-	-
Leasing liabilities	240	-	-	240
Other financial liabilities	5,071	-	-	5,071
Total liabilities not measured at fair value	**2,280,935**	**1,099,535**	**1,176,089**	**5 311**

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

As at 31 December 2022	**Total**	**Level 1**	**Level 2**	**Level 3**
Loans mandatorily measured at fair value through profit or loss	454,164	-	-	454,164
Financial assets at fair value through other comprehensive income	13,544	13,544	-	-
Positive fair value of derivative financial instruments designated as fair value hedge	11,786	-	11,786	-
Total assets measured at fair value	**479,494**	**13,544**	**11,786**	**454,164**
Placements with other banks	158,177	-	158,177	-
Securities at amortised cost	260,553	260,553	-	-
Loans at amortised cost	1,020,141	-	-	1,020,141
Other financial assets[15]	1,852	-	-	1,852
Total assets not measured at fair value	**1,440,723**	**260,553**	**158,177**	**1,021,993**

As at 31 December 2022	**Total**	**Level 1**	**Level 2**	**Level 3**
Negative fair value of derivative financial instruments designated as fair value hedge	3,889	-	3,889	-
Total liabilities measured at fair value	**3,889**	**-**	**3,889**	**-**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	854,630	-	854,630	-
Repo liabilities	13,946	-	13,946	-
Liabilities from issued securities	849,960	849,960	-	-
Leasing liabilities	296	-	-	296
Other financial liabilities	5,321	-	-	5,321
Total liabilities not measured at fair value	**1,724,153**	**849,960**	**868,576**	**5,617**

The Bank has determined that for financial assets and financial liabilities that have a short-term maturity (less than three months), are liquid and are floating rate instruments, their carrying amounts (which are net of impairment where applicable) are a reasonable approximation of their fair value. Such instruments include: cash and balances with central banks; due to and due from banks.

Bonds issued by the Bank are listed on stock exchanges, they are traded in liquid and active market with observable and transparent prices, and therefor they are classified as level 1 in the fair value hierarchy.

Valuation techniques on Level 2 instruments

The fair value of Level 2 instruments is calculated by discounting their expected interest and capital cash flows, Discounting is done with the respective swap curve of each currency.

Valuation techniques and sensitivity analysis on Level 3 instruments

Sensitivity analysis is performed on products with significant unobservable inputs (Level 3) to generate a range of reasonably possible alternative valuations. The sensitivity methodologies applied take account of the nature of the valuation techniques used, as well as the availability and reliability of observable proxy and historical date and the impact of using alternative models.
The calculation is based on range or spread data of reliable reference source or a scenario based on relevant market analysis alongside the impact of using alternative models. Sensitivities are calculated without reflecting the impact of any diversification in the portfolio.

[15] Comparative figures adjusted. Refer to Note 2.20

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Unobservable inputs used in measuring fair value

Type of financial instrument	Fair values at 31 December 2023	Valuation technique	Significant unobservable input	Range of estimates for unobservable input
Loans mandatory measured at fair value through profit and loss	463,917	Discounted cash flow model	Probability of default	+/- 20%
Loans mandatory measured at fair value through profit and loss	463,917	Discounted cash flow model	Operational costs	+/- 20%

The effect of unobservable inputs on fair value measurement

Although the Bank believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3 changing the assumptions used to reasonably possible alternative assumptions would have the following effects.

31 December 2023	Unobservable inputs	Carrying amount	Fair values		Effect on profit and loss	
			Favourable	Unfavourable	Favourable	Unfavourable
Loans mandatory measured at fair value through profit and loss	Probability of default	463,917	464,161	463,673	244	(244)
Loans mandatory measured at fair value through profit and loss	Operational costs	463,917	470,855	457,206	6,938	(6,711)

31 December 2022	Unobservable inputs	Carrying amount	Fair values		Effect on profit and loss	
			Favourable	Unfavourable	Favourable	Unfavourable
Loans mandatory measured at fair value through profit and loss	Probability of default	454,164	454,383	453,945	219	(219)
Loans mandatory measured at fair value through profit and loss	Operational costs	454,164	459,950	448,558	5,786	(5,606)

In the loans mandatory measured at fair value through profit or loss the Bank calculated the favourable and unfavourable effects of using reasonably possible alternative assumptions by modifying the rates of probability of default by +/- 20% as one of the most significant unobservable inputs.

Reconciliation of the opening and closing balances of Level 3 instruments for the year ended 31 December 2023

	Opening balance	Issuance/ Disbursement	Change in FVA due to credit risk	Change in FVA due to market factors	Settlement	Closing balance
Loans mandatorily measured at fair value through profit or loss	454,164	50,987	(3)	318	(41,549)	463,917
Total	**454,164**	**50,987**	**(3)**	**318**	**(41,549)**	**463,917**

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Reconciliation of the opening and closing balances of Level 3 instruments for the year ended 31 December 2022

	Opening balance	Issuance/ Disbursement	Change in FVA due to credit risk	Change in FVA due to market factors	Settlement	Closing balance
Loans mandatorily measured at fair value through profit or loss	405,810	76,401	355	13,792	(42,194)	454,164
Total	**405,810**	**76,401**	**355**	**13,792**	**(42,194)**	**454,164**

Derivative financial instruments

OTP Mortgage Bank regularly enters into hedging transactions in order to decrease its financial risks.

The assessment of the hedge effectiveness (both for fair value hedges and cash flow hedges) to determine the economic relationship between the hedged item and the hedging instrument is accomplished with prospective scenario analysis via different rate shift scenarios of the relevant risk factor(s) of the hedged risk component(s). The fair value change of the hedged item and the hedging instrument is compared in the different scenarios. Economic relationship is justified if the change of the fair value of the hedged item and the hedging instrument are in the opposite direction and the absolute changes are similar amounts. The hedge ratio is determined as the ratio of the notional of the hedged item and the notional of the hedging instrument. The sources of hedge ineffectiveness are the not hedged risk components (e.g. change of cross currency basis spreads in case of interest rate risk hedges), slight differences in maturity dates and interest payment dates in case of fair value hedges, and differences between the carrying amount of the hedged item and the carrying amount of the hedging instrument (e.g. caused by interest rate risk components in the fair value of the hedging instrument).

Derivative financial instruments designated as hedge accounting relationships– as at 31 December 2023

	Assets	Liabilities
Derivatives designated in fair value hedges		
Interest rate swap	1,952	3,728
Cross-currency interest rate swap	898	-
Derivatives designated in cash flow hedges		
Interest rate swaps	4,972	-
Total derivatives designated in hedge relationship	**7,822**	**3,728**

Derivative financial instruments designated as hedge accounting relationships – as at 31 December 2022

	Assets	Liabilities
Derivatives designated in fair value hedges		
Interest rate swap	-	3,889
Derivatives designated in cash flow hedges		
Interest rate swaps	11,786	-
Total derivatives designated in hedge relationship	**11,786**	**3,889**

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Hedge accounting

Interest rate risk management is centralized at OTP Mortgage Bank. Interest rate risk is measured by simulating NII and EVE under different stress and plan scenarios, the established risk limits are described in „OTP Bank's Group-Level Regulations on the Management of Liquidity Risk and Interest Rate Risk of Banking Book". The interest rate risk management activity aims to stabilize NII within the approved risk limits.

The risk management objective of these hedge relationships is to mitigate the risk of clean fair value (i.e. excluding accrued interest) change of MIRS loans due to the change of interest rate reference indexes (BUBOR) of the respective currency.

Amount, timing and uncertainty of future cash flows - hedging instruments as at 31 December 2023 in amount in million currency

2023	**Maturity** One to three months	**Three months to one year**	**One year to five years**	**More than five years**	**Total**
Fair value hedge					
Interest rate risk					
Interest rate swap					
HUF					
Notional	-	-	(15,000)	190,555	175,555
Average Interest Rate	-	-	1.50%	6.69%	
EUR					
Notional (million EUR)	-	-	-	(500)	(500)
Average Interest Rate	-	-	-	3.60%	
Fx risk					
Cross currency interest rate swap					
EUR/HUF					
Notional (million EUR)	-	-	-	500	500
Average Fx Rate	-	-	-	381.48	
Cash flow hedge					
Interest rate risk					
Interest rate swap					
Notional	-	-	28,027	-	28,027
Average Interest Rate	-	-	1.58%	-	

Amount, timing and uncertainty of future cash flows - hedging instruments as at 31 December 2022 in amount in million currency

2022 **Interest rate risk- interest rate swap (HUF)**	**One to three months**	**Three months to one year**	**Maturity** One year to five years	**More than five years**	**Total**
Fair value hedge					
Notional	-	-	15,000	-	15,000
Average Interest Rate	-	-	1.50%	-	
Cash flow hedge					
Notional	1,547	10,647	-	28,027	40,221
Average Interest Rate	4.60%	1.08%	-	1.58%	

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Hedge accounting – hedging instruments– as at 31 December 2023

	Nominal amount	Carrying amount		Line item in the statement of financial position where the hedging instrument is located	Change in fair value of hedged item for calculating ineffectiveness
		Assets	Liabilities		
Fair value hedge	**558,335**	**2,850**	**3,728**		**(1,170)**
Interest rate risk					
Interest rate swaps	366,945	1,952	3,728	Derivative financial assets designated as hedge accounting relationships / Derivative financial liabilities designated as hedge accounting relationships	(464)
Fx risk					
Cross-currency swaps	191,390	898	-	Derivative financial assets designated as hedge accounting relationships	(706)
Cash flow hedge	**28,027**	**4,972**	**-**		**1,067**
Interest rate risk					
Interest rate swaps	28,027	4,972	-		1,067

Hedge accounting – hedging instruments– as at 31 December 2022

Interest rate risk	Nominal amount	Carrying amount		Line item in the statement of financial position where the hedging instrument is located	Change in fair value of hedged item for calculating ineffectiveness
Interest rate swaps		**Assets**	**Liabilities**		
Fair value hedge	15,000	-	3,889	Derivative financial liabilities designated as hedge accounting relationships	(64)
Cash flow hedge	40,221	11,786	-	Derivative financial assets designated as hedge accounting relationships	1,170

Hedge accounting – hedged items– as at 31 December 2023

	Type of risk	Carrying amount of the hedged item Year ended 2023		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item Year ended 2023		Line item in the statement of financial position in which the hedged item is included
		Assets	Liabilities	Assets	Liabilities	
Fair value hedge						
- Liabilities from issued securities	***Interest rate risk***	-	206,390	-	1,200	Liabilities from issued securities
- Placements	***Interest rate risk***	190,555	-	2,731	-	Placements with other banks
- Liabilities from issued securities	***Fx risk***	-	191,390	-	-	Liabilities from issued securities

NOTE 37: **FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]**

Hedge accounting – hedged items– as at 31 December 2022

	Type of risk	Carrying amount of the hedged item		Amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item		Line item in the statement of financial position in which the hedged item is included
		Assets	Liabilities	Assets	Liabilities	
Fair value hedge						
- Liabilities from issued securities	Interest rate risk	-	14,976	-	(3,799)	Liabilities from issued securities

For the year ended 31 December 2023 change in basis swap spread recognised in OCI related to fair value hedges as follows:

	Type of risk	Carrying amount of the hedged items		Items recognized in other comprehensive income	Change in the items recognized in other comprehensive income	Line item in the statement of financial position in which the hedged item is included
Fair value hedge		Assets	Liabilities			
- Liabilities from issued securities	Fx risk	-	191,390	1,219	1,219	Liabilities from issued securities

Change in the fair value of the hedged item and cash flow hedge reserve for hedging instrument related to cash flow hedge:

Cash flow hedge	Type of risk	Carrying amount of the hedged item		Cash flow hedge reserve for hedging instrument	Line item in the statement of financial position in which the hedged item is included
		Assets	Liabilities		
As at 31 December 2023					
- Loans	Interest rate risk	-	28,027	(3,522)	Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks
As at 31 December 2022					
- Loans	Interest rate risk	-	41,117	(9,905)	Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks

NOTE 37: **FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]**

Change in the fair value of the hedging instrument related to cash flow hedge:

31 December 2023

Type of instrument	Type of risk	Change in the value of the hedging instrument recognised in cash flow hedge reserve	Hedge ineffectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness
Interest rate swap	Interest rate risk	(6,383)	1,067	Interest expense due to banks and deposits from the National Bank of Hungary and other banks

31 December 2022

Type of instrument	Type of risk	Change in the value of the hedging instrument recognised in cash flow hedge reserve	Hedge ineffectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness
Interest rate swap	Interest rate risk	6,052	1,170	Interest expense due to banks and deposits from the National Bank of Hungary and other banks

NOTE 38: NET GAIN OR LOSS REALISED ON FINANCIAL INSTRUMENTS (in HUF million)

Year ended 31 December 2023	Net interest income and expense	Net non-interest gain and loss	Loss allowance	Other comprehensive income
Financial assets measured at amortised cost				
Cash, amounts due from banks and balances with the National Bank of Hungary	3,058	(5)	-	-
Placements with other banks	32,156	-	889	-
Loans	95,421	(1,099)	4,997	-
Securities at amortised cost	17,074	-	430	-
Financial assets measured at amortised cost total	**147,709**	**(1,104)**	**6,316**	**-**
Financial assets measured at fair value				
Securities at fair value through other comprehensive income	395	-	10	2,134
Loans mandatorily measured at fair value through profit or loss	40,797	30	(3)	-
Financial assets measured at fair value total	**41,192**	**30**	**7**	**2,134**
Financial liabilities measured at amortised cost				
Amounts due to banks and deposits from the National Bank of Hungary and other banks	(68,948)	-	-	-
Repo liabilities	(2,964)	-	-	-
Leasing liabilities	(13)	-	-	-
Liabilities from issued securities	(84,186)	(665)	-	-
Financial liabilities measured at amortised cost total	**(156,111)**	**(665)**	**-**	**-**
Derivative financial instruments	**2,071**	**(648)**	-	-
Total	**34,861**	**(2,387)**	**6,323**	**2,134**

Derivative financial assets and liabilities designated as hedge accounting:

31 December 2023	
Balance as at 1 January	**7,897**
Change in current period	(3,803)
Interest income/Interest expense	2,072
Foreign exchange gains / (losses)	(764)
Gains / (Losses) on financial instruments at fair value through profit or loss	(648)
Realized result on closed /matured deals	(4,464)
Closing balance	**4,094**

NOTE 38: **NET GAIN OR LOSS REALISED ON FINANCIAL INSTRUMENTS (in HUF million) [continued]**

Year ended 31 December 2022	Net interest income and expense	Net non-interest gain and loss	Loss allowance	Other comprehensive income
Financial assets measured at amortised cost				
Cash, amounts due from banks and balances with the National Bank of Hungary	1,685	(3)	-	-
Placements with other banks	15,365	-	(1,030)	-
Loans	76,518	(1,397)	3,326	-
Securities at amortised cost	8,754	-	(1,996)	-
Financial assets measured at amortised cost total	**102,322**	**(1,400)**	**300**	**-**
Financial assets measured at fair value				
Securities at fair value through other comprehensive income	405	-	(75)	(1,998)
Loans mandatorily measured at fair value through profit or loss	18,162	368	355	-
Financial assets measured at fair value total	**18,567**	**368**	**280**	**(1,998)**
Financial liabilities measured at amortised cost				
Amounts due to banks and deposits from the National Bank of Hungary and other banks	(54,867)	-	-	-
Repo liabilities	(7)	-	-	-
Leasing liabilities	(6)	-	-	-
Liabilities from issued securities	(53,932)	(358)	-	-
Financial liabilities measured at amortised cost total	**(108,812)**	**(358)**	**-**	**-**
Derivative financial instruments	**702**	**-**	-	-
Total	**12,779**	**(1,390)**	**580**	**(1,998)**

Derivative financial assets and liabilities designated as hedge accounting:

31 December 2022	
Balance as at 1 January	**3,593**
Change in current period	4,304
Interest income/Interest expense	702
Foreign exchange gains / (losses)	-
Gains / (Losses) on financial instruments at fair value through profit or loss	-
Realized result on closed /matured deals	3,602
Closing balance	**7,897**

NOTE 39: POST BALANCE SHEET EVENTS

Post-balance sheet events cover the period until 20 February 2024.

- On 26 January 2024 Scope Ratings affirmed Hungary's long-term local- and foreign-currency issuer and senior unsecured debt ratings at 'BBB' with stable outlook.
- On 30 January 2024 the National Bank of Hungary cut its key policy rate by 75 bps to 10.0%.

Capital regulation:

- On 22 June 2023 the national bank announced that it postpones the activation of the Countercyclical Capital Buffer rate of 0.5% planned from 1 July 2023 by one year to 1 July 2024. In addition, it preventively reactivates the Systemic Risk Buffer aimed at risks related to commercial real estate loans (especially non-performing loans).
- Pillar 2 capital requirement: effective from 1 January 2024, the National Bank of Hungary imposed the below additional capital requirements for OTP Group, on consolidated level:
  - 0.9%-point in case of the Common Equity Tier1 (CET1) capital, accordingly the minimum requirement for the consolidated CET1 ratio is 5.4% (without regulatory capital buffers);
  - 1.2%-points in case of the Tier1 capital, accordingly the minimum requirement for the consolidated Tier1 ratio is 7.2% (without regulatory capital buffers);
  - 1.6%-points in case of the Total SREP Capital Requirement (TSCR), accordingly the minimum requirement for the consolidated capital adequacy ratio is 9.6% (without regulatory capital buffers).

As the Group's current level of capital adequacy exceeds the new levels expected above, it can fully comply with the requirements.

OTP MORTGAGE BANK LTD.

SEPARATE FINANCIAL STATEMENTS
IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING
STANDARDS AS ADOPTED BY
THE EUROPEAN UNION

FOR THE YEAR ENDED
31 DECEMBER 2023

This is a translation of the Hungarian Version

OTP MORTGAGEBANK LTD.

CONTENTS

OTP MORTGAGE BANK LTD.
SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023 (in HUF million)

	Note	2023	2022
Cash, amounts due from banks and balances with the National Bank of Hungary	5.	29,974	16,135
Placements with other banks	6.	371,451	217,553
Financial assets at fair value through other comprehensive income	7.	15,257	13,544
Securities at amortised cost	10.	301,776	296,619
Loans at amortised cost	8.	1,202,431	1,166,744
Loans mandatorily measured at fair value through profit or loss	8.	463,926	454,173
Investments in subsidiaries	9.	3,763	3,213
Property and equipment	11.	18	20
Intangible assets	11.	239	200
Right of use assets	11.	189	198
Deferred tax assets	28.	72	264
Current income tax assets		100	1,051
Derivative financial assets designated as hedge accounting relationships	12.	7,822	11,786
Other assets	13.	3,625	3,796
TOTAL ASSETS		**2,400,643**	**2,185,296**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	14.	1,117,388	1,059,717
Repo liabilities	15.	13,211	13,947
Leasing liabilities	29.	178	197
Liabilities from issued securities	16.	1,122,699	971,466
Derivative financial liabilities designated as hedge accounting relationships	17.	3,728	3,889
Current income tax liabilities		39	-
Provisions	18.	436	1,432
Other liabilities	18.	5,178	5,422
TOTAL LIABILITIES		**2,262,857**	**2,056,070**
Share capital	19.	82,000	82,000
Retained earnings and reserves	19.	55,786	47,226
TOTAL SHAREHOLDER'S EQUITY		**137,786**	**129,226**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**2,400,643**	**2,185,296**

Budapest, 22 March 2024

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András Becsei	Péter Radics
Chief Executive Officer	Chief Financial Officer

OTP MORTGAGE BANK LTD.
SEPARATE STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2023
(in HUF million)

	Note	2023	2022
Interest Income:			
Interest income calculated using the effective interest method	22.	148,783	103,170
Income similar to interest income	22.	40,600	17,700
Total Interest Income		**189,383**	**120,870**
Interest Expense:			
Total Interest Expense	22.	**(154,849)**	**(108,416)**
NET INTEREST INCOME		**34,534**	**12,454**
Release of loss allowance on loan, placement and repo receivables losses	23.	5,886	2,296
Release of loss allowance / (Loss allowance) on securities at fair value through other comprehensive income and on securities at amortised cost	23.	440	(2,071)
Release of provision / (Provision) for loan commitments and financial guarantees given	23.	982	(616)
Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit of loss	23.	(3)	355
Risk cost total		**7,305**	**(36)**
NET INTEREST INCOME AFTER RISK COST		**41,839**	**12,418**
LOSSES ARISING FROM DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTISED COST	**25.**	**(39)**	**(34)**
MODIFICATION LOSS	**4.**	**(17,518)**	**(22,278)**
Income from fees and commissions	24.	1,916	3,175
Expenses from fees and commissions	24.	(5,802)	(6,210)
NET PROFIT FROM FEES AND COMMISSIONS		**(3,886)**	**(3,035)**
Foreign exchange gains / (losses)	25.	(35)	2
Losses on derivative instruments, net	25.	(648)	-
Gains / (Losses) on financial instruments at fair value through profit or loss	25.	318	13,793
Net other operating (expense) / income	26.	(4)	104
Other operating expenses	26.	(1,553)	(73)
Net operating (expense)/income		**(1,922)**	**13,826**
Personnel expenses	26.	(862)	(708)
Depreciation and amortization	26.	(183)	(185)
Other administrative expenses	26.	(4,359)	(9,135)
Other administrative expenses		**(5,404)**	**(10,028)**
PROFIT / (LOSS) BEFORE INCOME TAX		**13,070**	**(9,131)**
Income tax expense	28.	(1,324)	(595)
NET PROFIT / (LOSS) AFTER INCOME TAX		**11,746**	**(9,726)**
Earnings per share (in HUF)			
Basic and diluted	30.	14,324	(20,165)

OTP MORTGAGE BANK LTD.
SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2023 (in HUF million)

	Note	2023	2022
PROFIT / (LOSS) AFTER INCOME TAX	20.	**11,746**	**(9,726)**
Items that may be reclassified subsequently from other comprehensive income to profit or loss:			
Fair value adjustment of securities fair value through other comprehensive income	20.	2,134	(1,998)
Deferred tax related to securities fair value through other comprehensive income	38.	(193)	187
Gains / (Losses) on separated currency spread of financial instruments designated as hedging instrument	38.	1,219	-
Gains on derivative financial instruments designated as cash flow hedge	38.	(6,383)	6,052
Other comprehensive income, net of income tax		**(3,223)**	**4,241**
TOTAL COMPREHENSIVE (LOSS) / INCOME		**8,523**	**(5,485)**

OTP MORTGAGE BANK LTD.
SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2023
(in HUF million)

	Notes	Share capital	Retained earnings and other reserves	Total
Balance as at 1 January, 2022		**37,000**	**70,680**	**107,680**
Net profit after income tax		-	(9,726)	(9,726)
Other comprehensive income		-	4,241	4,241
Total comprehensive income		**37,000**	**65,195**	**102,195**
Share-based payment		-	31	31
Dividend paid		-	(18,000)	(18,000)
Share capital raise	19.	45,000	-	45,000
Balance as at 31 December, 2022		**82,000**	**47,226**	**129,226**
Balance as at 1 January, 2023		**82,000**	**47,226**	**129,226**
Net profit after income tax		-	11,746	11,746
Other comprehensive income		-	(3,223)	(3,223)
Total comprehensive income		**82,000**	**55,749**	**137,749**
Share-based payment	33.	-	37	37
Balance as at 31 December, 2023		**82,000**	**55,786**	**137,786**

OTP MORTGAGE BANK LTD.
SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2023
(in HUF million)

OPERATING ACTIVITIES	**Note**	**2023**	**2022**
Profit before income tax		**13,070**	**(9,131)**
Net interest (paid) / received		6,008	(10,610)
Depreciation and amortization		183	185
Loss allowance on loans and placements	23.	(5,886)	(2,296)
Loss allowance / (Release of loss allowance) on securities at fair value through other comprehensive income	23.	(10)	75
Loss allowance / (Release of loss allowance) on securities at amortised cost	23.	(430)	1,996
Loss allowance / (Release of loss allowance) on other assets	13.	3	23
Provision on off-balance sheet commitments and contingent liabilities	18.	(996)	627
Share-based payment	33.	37	31
Losses / (gains) on fair value adjustment of financial instruments at fair value through profit or loss		(313)	(14,147)
Losses on fair value adjustment of derivative financial instruments designated in hedge relationship		3,269	(3,544)
Interest expense form leasing liabilities	29.	(10)	(5)
Foreign exchange loss		(63)	(3)
Proceeds from sale of tangible and intangible assets		4	-
Net changing in assets and liabilities in operating activities			
Net increase in placements with other banks before allowance for placement losses	6.	(153,009)	(66,608)
Net increase in loans		(46,163)	(50,729)
Increase in other assets, excluding advances for investments and before provisions for losses	13.	2,574	(325)
Net increase in amounts due to banks and deposits from the National Bank of Hungary and other banks	14.	56,959	50,896
(Decrease) in other liabilities	18.	(1,286)	(3,837)
Net increase in the compulsory reserve established by the National Bank of Hungary		(41)	(126)
Income tax paid	28.	267	-
Net cash provided by operating activities		**(125,833)**	**(107,528)**

OTP MORTGAGE BANK LTD.
SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2023
(in HUF million)

	Note	2023	2022
INVESTING ACTIVITIES			
Change in securities at fair value through other comprehensive income	7.	(5,244)	7,080
Change in derivative financial instruments designated as hedge accounting		(230)	(760)
Increase in investments in subsidiaries	9.	(550)	(150)
Increase in securities at amortised cost	10.	(4,727)	(153,424)
Redemption of securities at amortised cost	10.	-	29,934
Additions to property, equipment and intangible assets	11.	(173)	(114)
Disposal of property, equipment and intangible assets	11.	4	-
Net cash used in investing activities		**(10,920)**	**(117,434)**
FINANCING ACTIVITIES			
Leasing payments		(39)	(52)
Cash received from issuance of securities	16.	215,732	200,000
Cash used for redemption of issued securities	16.	(65,142)	(545)
Dividends paid		-	(18,000)
Share capital raise		-	45,000
Net cash provided by financing activities		**150,551**	**226,403**
Net increase in cash and cash equivalents		**13,798**	**1,441**
Cash and cash equivalents at the beginning of the year		**15,981**	**14,540**
Cash and cash equivalents at the end of the year		**29,779**	**15,981**
Interest received		163,729	108,731
Interest paid		141,727	82,586

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

1.1. General information

OTP Bank Plc. ("OTP Bank") established OTP Mortgage Bank Ltd. ("OTP Mortgage Bank" or the "Bank") as a fully owned subsidiary on 15 May 2001. The State Financial Supervisory Authority issued the operating license on 10 January 2002, and the Bank commenced operations on 1 February 2002.

OTP Bank (headquarters Nádor utca 16. Budapest 1051) is the ultimate parent of OTP Mortgage Bank, and also the ultimate parent of OTP Group.

These separate financial statements authorised for issue on 22 March 2024 by the Board of OTP Mortgage Bank. The Bank's owners have the power to amend the separate financial statements after issue if applicable.

The Bank completed its publication in accordance with Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises, 575/2013/EU directive (CRR). OTP Mortgage Bank completed its publication with Separate Financial Statements prepared in accordance with IFRS as adopted by European Union jointly with OTP Bank Plc on the homepage of OTP Bank Plc (http://www.otpbank.hu/), on the homepage of the Bank (http://www.otpjzb.hu). Separate Financial Statements in accordance with IFRS as adopted by the EU is published on the homepage of the Bank, on the homepage Budapest Stock Exchange (http://www.bet.hu), furthermore on the website of the National Bank of Hungary (www.kozzetetelek.hu).

The Bank's registered office address is Váci út. 135-139. D Building, Budapest 1138.

Internet homepage: https://www.otpbank.hu/OTP_JZB/online/index.jsp

Signatory of the separate financial statements is the Executive Officer, András Becsei and Financial Officer, Péter Radics.

The Mortgage Bank's Financial Statements were prepared by OTP Bank Plc. based on the Services Agreement between The Mortgage Bank and OTP Bank Plc. Responsible person for the control and management of accounting services: Zoltán Tuboly (Budapest), Managing Director of Accounting and Financial Department, Registration Number: 177289, IFRS qualified chartered accountant.

Due to Hungarian legislation audit services are statutory for OTP Mortgage Bank. Disclosure information about the auditor: Ernst &Young Auditing Ltd. (001165), 1132 Budapest Váci Street 20. Registered under 01-09-267553 by Budapest-Capital Regional Court, as registry court. Statutory registered auditor: Zsolt Kónya, registration number: 007383.

Audit service fee agreed by the Articles of Association for the year ended 2023 is an amount of HUF 39,12 million + VAT. Fees for non-audit services provided in 2023 an amount of HUF 9,5 million + VAT, other services providing assurance in an amount of HUF 106,7 million + VAT.

The shared capital of the Bank consists of 820,000 ordinary shares with a nominal value of HUF 100,000, embodying the same ownership rights.

The Bank is a specialized financial institution with its main business being governed by Act XXX of 1997 on Mortgage Lending Institutions and Mortgage Bonds.

The main activity of the Bank is financing of purchase, renovation and development of residential properties. The purchased portfolio contains mainly subsidised housing loans, in addition housing and free purpose mortgage loans denominated in foreign currency that were converted back to foreign exchange. Over the past few years, the granted subsidized HUF housing loans and the granted HUF housing and free purpose mortgage loan are the dominant part of the entire mortgage bank portfolio. The Bank provides presently HUF denominated subsidised and not subsidised housing and free purpose mortgage loans, and HUF denominated real estate development loans. From 2017 the Bank expanded their services with independent liens purchase and sale by instalment, provides also by refinancing loans to commercial banks.

The Bank employs limited number of staff at its head office and use 345 branches of OTP Bank engaged in the housing loan business. Under syndication agreement between OTP Bank and OTP Mortgage Bank, OTP Bank provides services for OTP Mortgage Bank concerning the administration of the mortgage loans, for which fees are paid by OTP Mortgage Bank. Credit scoring and lending are performed at the branches of OTP Bank in accordance with the regulations of OTP Mortgage Bank. Loans are approved by OTP Mortgage Bank and OTP Bank acts for and on behalf of OTP Mortgage Bank during the conclusion of a loan agreement. The mortgage right, along with the restraint of transfer and encumbrance on property pledged to secure loans is entered in the property register for the benefit of OTP Mortgage Bank. Pledge of the mortgage bonds is the actual loans registered as normal collateral – collateralised by property inspector – and additional collateral values – prescribed by law – registered in the Bank's collateral register.

As the sole shareholder, OTP Bank provides financial and administrative support to the Bank. Details of related party balances and transactions are summarised in Note 35 to these financial statements.

A significant proportion of mortgage loans are extended for periods for more than ten or fifteen years whereas mortgage bonds generally have a shorter maturity (1-10 years).

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS [continued]

The remaining average maturity of the loan portfolio of the Bank is 16,16 years. The Bank is lengthening the average maturity of its outstanding mortgage bonds to reduce the liquidity gaps.

As at 31 December 2023 and 2022 the number and the average number of the employees at the Bank were 38 and 40 respectively.

1.2. Basis of Accounting

These Separate Financial Statement were prepared based on the assumption of the Management that the Bank will remain in business for the foreseeable future. The Bank won't be forced to halt operations and liquidate its assets in the near term at what may be very low fire-sale prices.

The Bank maintains its accounting records and prepares its statutory accounts in accordance with the commercial, banking and fiscal regulations prevailing in Hungary.

OTP Mortgage Bank's presentation and functional currency is the Hungarian Forint ("HUF").

The separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

1.2.1. The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2023

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- **Amendments to IAS 1 "Presentation of Financial Statements" and IFRS Practice Statement 2**- Disclosure of Accounting policies – adopted by the EU on 2 March 2022 (effective for annual periods beginning on or after 1 January 2023 with earlier application permitted)
    - The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures.
- **Amendments to IAS 8 "Accounting policies, Changes in Accounting Estimates and Errors"** – Definition of Accounting Estimates – adopted in the EU on 2 March 2022 (effective for annual periods beginning on or after 1 January 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period)
    - The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty, if they do not result from a correction of prior period error. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors.
- **IFRS 17 "Insurance Contracts" –** adopted by the EU on 19 November 2021 (effective for annual periods beginning on or after 1 January 2023). IFRS 17 is not applicable in case of these Consolidated Financial Statements. This is a comprehensive new accounting standard for insurance contracts, covering recognition and measurement, presentation and disclosure. IFRS 17 applies to all types of insurance contracts issued, as well as to certain guarantees and financial instruments with discretional participation contracts.
- **Amendments to IFRS 17 "Insurance Contracts" – Initial application of IFRS 17 and IFRS 9 – Comparative Information** – In December 2021, the IASB issued amendments to IFRS 17 to add a transition option for a "classification overlay" to address possible accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented on initial application of IFRS 17. IFRS 17 is not applicable in case of these Separated Financial Statements.
- **Amendments to IAS 12 "Income Taxes" –** Deferred Tax related to Assets and Liabilities arising from a Single Transaction – adopted by the EU on 11 August 2022 (effective for annual periods beginning on or after 1 January 2023; earlier application permitted)
    - The amendments narrow the scope of and provide further clarity on the initial recognition exception under IAS 12 and specify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement, having considered the applicable tax law, whether such deductions are attributable for tax purposes to the liability or to the related asset component. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS [continued]

1.2. Basis of Accounting [continued]

1.2.1. The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2023 [continued]

- **Amendments to IAS 12 "Income taxes" –** International Tax Reform - Pillar Two Model Rules – The amendments are effective immediately upon issuance, but certain disclosure requirements are effective later. The Organisation for Economic Co-operation and Development's (OECD) published the Pillar Two model rules in December 2021 to ensure that large multinational companies would be subject to a minimum 15% tax rate. On 23 May 2023, the IASB issued International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12.
    - The amendments introduce a mandatory temporary exception to the accounting for deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules and disclosure requirements for affected entities on the potential exposure to Pillar Two income taxes. The Amendments require, for periods in which Pillar Two legislation is (substantively) enacted but not yet effective, disclosure of known or reasonably estimable information that helps users of financial statements understand the entity's exposure arising from Pillar Two income taxes. To comply with these requirements, an entity is required to disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. The disclosure of the current tax expense related to Pillar Two income taxes and the disclosures in relation to periods before the legislation is effective are required for annual reporting periods beginning on or after 1 January 2023.

The adoption of these amendments to the existing standards has not led to any material changes in these Separate Financial Statements.

1.2.2. New and revised Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

- **Amendments to IAS 1 "Presentation of Financial Statements" –** Classification of Liabilities as Current or Non-current. **–** The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted, and will need to be applied retrospectively in accordance with IAS 8.
    - The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current. The amendments clarify the meaning of a right to defer settlement, the requirement for this right to exist at the end of the reporting period, that management intent does not affect current or non-current classification, that options by the counterparty that could result in settlement by the transfer of the entity's own equity instruments do not affect current or non-current classification. Also, the amendments specify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period.
- **Amendments to IFRS 16 "Leases" –** Lease Liability in a Sale and Leaseback – The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted.
    - The amendments are intended to improve the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction in IFRS 16, while it does not change the accounting for leases unrelated to sale and leaseback transactions. In particular, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease. A seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, being the beginning of the annual reporting period in which an entity first applied IFRS 16.

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS [continued]

1.2. Basis of Accounting [continued]

1.2.3. Standards and Interpretations issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at date of publication of these financial statements:

- **Amendments to IAS 7 "Statement of Cash Flows" and IFRS 7 "Financial Instruments Disclosure - Supplier Finance Arrangements"** – The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted.
  - The amendments supplement requirements already in IFRS and require an entity to disclose the terms and conditions of supplier finance arrangements. Additionally, entities are required to disclose at the beginning and end of reporting period the carrying amounts of supplier finance arrangement financial liabilities and the line items in which those liabilities are presented as well as the carrying amounts of financial liabilities and line items, for which the finance providers have already settled the corresponding trade payables. Entities should also disclose the type and effect of non-cash changes in the carrying amounts of supplier finance arrangement financial liabilities, which prevent the carrying amounts of the financial liabilities from being comparable. Furthermore, the amendments require an entity to disclose at the beginning and end of the reporting period the range of payment due dates for financial liabilities owed to the finance providers and for comparable trade payables that are not part of those arrangements.
- **Amendments to IAS 21 "The Effects of Changes in Foreign Exchange Rates" –** Lack of Exchangeability – The amendments are effective for annual reporting periods beginning on or after January 1, 2025, with earlier application permitted.
  - The amendments specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. A currency is considered to be exchangeable into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations. If a currency is not exchangeable into another currency, an entity is required to estimate the spot exchange rate at the measurement date. An entity's objective in estimating the spot exchange rate is to reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions. The amendments note that an entity can use an observable exchange rate without adjustment or another estimation technique.
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded).
  - The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.

The Bank anticipates that the adoption of these new standards, amendments to the existing Standards and new interpretations will have no significant impact on the Separate Financial Statements of the Bank in the period of initial application.

NOTE 2: SUMMARY OF MATERIAL ACCOUNTING POLICIES

Material accounting policies applied in the preparation of the accompanying financial statements are summarized below:

2.1. Basis of presentation

These separate financial statements have been prepared under the historical cost convention with the exception of certain financial instruments, which are recorded at fair value. Revenues and expenses are recorded in the period in which they are earned or incurred. The Bank does not offset assets and liabilities or income and expenses unless it is required or permitted by an IFRS standard.

During the preparation of separate financial statements assets and liabilities, income and expenses are presented separately, except in certain cases, when one of the IFRS standards prescribes net presenting related to certain items.

The presentation of separate financial statements in conformity with IFRS requires the Management of the Bank to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Future changes in economic conditions, business strategies, regulatory requirements, accounting rules and other factors could result in a change in estimates that could have a material impact on future separate financial statements.

2.2. Foreign currency translation

Initial recognise of foreign currency transactions is based on exchange rate prevailing on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into HUF at exchange rates quoted by the National Bank of Hungary ("NBH") as at the reporting date. Income and expenses arising in foreign currencies are converted at the average of Bid and Ask exchange rate of OTP Bank Plc. prevailing on the transaction date. Resulting foreign exchange gains or losses on monetary items are recorded to the Consolidate Statement of Comprehensive Income. The parent entity and all the components are using HUF as both functional and presentational currency.

2.3. Consolidated financial statements

These financial statements present the separate financial position and results of operations of the Bank. Consolidated financial statements are prepared by the Bank and consolidated net loss for the year and shareholders' equity differ significantly from that presented in these separate financial statements. See Note 2.4 for the description of the method of accounting for investments in subsidiaries in these separate financial statements. The consolidated financial statements and the separate financial statements are published on the same date. As the parent company, the Mortgage Bank is preparing consolidated financial statements of the Group of the Bank. The OTP Mortgage Bank Ltd. is also part of a larger consolidation, which is made by OTP Bank, as an ultimate parent company managing the group.

2.4. Investments in subsidiaries

Investments in subsidiaries comprise those investments where the Bank, through direct and indirect ownership interest, controls the investee. Control is achieved when the Bank has power over the investee, is exposed or has rights, to variable returns from its involvement with the investee and has the ability to use its power to affect its returns.
Investments in subsidiaries are recorded at the cost of acquisition, less impairment for permanent diminution in value, when appropriate. After initial measurement investments in subsidiaries are measured at cost.
Impairment is determined based on the future economic benefits of the subsidiary and macroeconomic factors.

2.5. Financial assets

2.5.1. Business model and SPPI test

A business model refers to how the Group manages its financial instruments in order to generate cash flows. It is determined at a level that reflects how groups of financial instruments are managed rather than at an instrument level.

The financial assets held by the Group are classified into three categories depending on the business model within the financial assets are managed.

- Business model whose objective is to hold financial assets in order to collect contractual cash flows. Some sales can be consistent with hold to collect business model and the Group assesses the nature, frequency and significance of any sales occurring. The Group does not consider the sale frequent when at least six months have elapsed between sales. The significant sales are those when the sales exceed 2% of the total hold to collect portfolio. Within this business model the Group manages mainly loans and advances and long-term securities and other financial assets.
- Business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Within this business model the Group only manages securities.
- Business model whose objective is to achieve gains in a short-term period. Within this business model the Group manages securities and derivative financial instrument.

If cash flows are realised in a way that is different from the expectations at the date that the Bank/Group assessed the business model, that does not give rise to a prior error in the Group's financial statements nor does it change the classification of the remaining financial assets held in that business model.
When, and only when the Group changes its business model for managing financial assets it reclassifies all affected assets. Such changes are determined by the Group's senior management as a result of external or internal changes and must be material to the Group's operations and demonstrable to external parties. The Group shall not reclassify any financial liability.

Classification of a financial asset is based on the characteristics of its contractual cash flows if the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. The Group should determine whether the asset's contractual cash flows are solely payments of principal and interest on the principal amount outstanding (SPPI test). Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending arrangement.

Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The Group assesses whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding for the currency in which the financial asset is denominated.

The time value of money is the element of interest that provides consideration for only the passage of time. However, in some cases, the time value of money element may be modified. In such cases, the Group assesses the modification to determine whether the contractual cash flows represent solely payments of principal and interest on the principal amount outstanding.

When assessing a modified time value of money element, the objective is to determine how different the undiscounted contractual cash flows could be from undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). The benchmark instrument can be an actual or a hypothetical financial asset. If the undiscounted contractual cash flows significantly – above 2% – differ from the undiscounted benchmark cash flows, the financial asset should be subsequently measured at fair value through profit or loss.

NOTE 2: SUMMARY OF MATERIAL ACCOUNTING POLICIES [continued]

2.5. Financial assets [continued]

2.5.2. Contractual cash-flow characteristics of financial assets

Classification of a financial asset is based on the characteristics of its contractual cash flows if the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

The Bank should determine whether the asset's contractual cash flows are solely payments of principal and interest on the principal amount outstanding (SPPI test). Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending arrangement.

Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The Bank assesses whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding for the currency in which the financial asset is denominated.

Time value of money is the element of interest that provides consideration for only the passage of time. However, in some cases, the time value of money element may be modified. In such cases, the Bank assesses the modification to determine whether the contractual cash flows represent solely payments of principal and interest on the principal amount outstanding.

When assessing a modified time value of money element, the objective is to determine how different the undiscounted contractual cash flows could be from undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). The benchmark instrument can be an actual or a hypothetical financial asset. If the undiscounted contractual cash flows significantly – above 2% – differ from the undiscounted benchmark cash flows, the financial asset should be subsequently measured at fair value through profit or loss.

2.5.3. Securities at amortised cost

The Bank measures at amortized cost those securities which are held for contractual cash collecting purposes, and contractual terms of these securities give rise to cash flows that are solely payment of principal and interest on the principal amount outstanding. The Bank initially recognizes these securities at fair value. Securities at amortized cost are subsequently measured using the effective interest ("EIR") method and are subject to impairment. The amortisation of any discount or premium on the acquisition of a security at amortized cost is part of the amortized cost and is recognized as interest income so that the revenue recognized in each period represents a constant yield on the investment. Securities at amortized cost are accounted for on a trade date basis.

Such securities comprise mainly securities issued by the Hungarian and foreign Governments, corporate bonds, mortgage bonds and discounted treasury bills.

NOTE 2: SUMMARY OF MATERIAL ACCOUNTING POLICIES [continued]

2.5. Financial assets [continued]

2.5.4. Securities at fair value through other comprehensive income ("FVOCI securities")

FVOCI securities are held within a business model whose objective is achieved by both collecting of contractual cash flows and selling securities. Furthermore, contractual terms of FVOCI securities give rise on specified dates to cash flows that are solely payment of principal and interest on the principal amount outstanding.

Debt instruments

Investments in debt securities are accounted for on a trade date basis and are initially measured at fair value. Securities at fair value through other comprehensive income are measured at subsequent reporting dates at fair value. Unrealised gains and losses on FVOCI financial instruments are recognized in other comprehensive income, except for interest and foreign exchange gains/losses on monetary items, unless such FVOCI security is part of an effective hedge. Such gains and losses will be reported when realised in profit or loss for the applicable period. The Bank applies FIFO[1] inventory valuation method for FVOCI securities.

For debt securities at fair value through other comprehensive income the loss allowance is calculated based on expected credit loss model. The expected credit loss is accounted for against Other Comprehensive Income.

FVOCI securities are remeasured at fair value based on quoted prices or values derived from cash flow models. In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of the future cash flows.

2.5.5. Financial assets at fair value through profit or loss

2.5.5.1. Derivative financial instruments

In the normal course of business, the Bank is a party to contracts for derivative financial instruments, which represent a low initial investment compared to the notional value of the contract and their value depends on value of underlying asset and are settled in the future. The derivative financial instruments used include interest rate forward or swap agreements and currency forward or swap agreements and options. These financial instruments are used by the Bank both for hedge interest rate risk and currency exposures associated with its transactions in the financial markets.

Derivative financial instruments are accounted for on a trade date basis and are initially measured at fair value and at subsequent reporting dates also at fair value. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. The Bank adopts multi curve valuation approach for calculating the net present value of future cash flows – based on different curves used for determining forward rates and used for discounting purposes. It shows the best estimation of such derivative deals that are collateralised as the Bank has almost all of its open derivative transactions collateralised.

Certain derivative transactions, while providing effective economic hedges under risk management positions of the Bank, do not qualify for hedge accounting under the specific rules of IFRS 9 and are therefore treated as derivatives held for trading with fair value gains and losses charged directly to the separate statement of profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss and are included in the Separate Statement of Profit or Loss for the period. Each derivative deal is determined as asset when fair value is positive and as liability when fair value is negative.

Foreign currency contracts

Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot date (settlement occurs two days after the trade date) or at a forward date (settlement occurs more than two days after the trade date). The notional amount of these contracts does not represent the actual market or credit risk associated with these contracts.

Foreign currency contracts can be used by the Bank for risk management purposes. The Bank's risk management foreign currency contracts were used to hedge against exchange rate fluctuations on loans and advances to credit institutions denominated in foreign currency.

[1] First In First Out

NOTE 2: SUMMARY OF MATERIAL ACCOUNTING POLICIES [continued]

2.5. Financial assets [continued]

2.5.5.1. Derivative financial instruments [continued]

Interest rate swaps

The Bank enters into interest rate swap (“IRS”) transactions. The swap transaction is a complex agreement concerning the swap of certain financial instruments, which usually consists of a spot and one or more forward contracts.

Interest rate swaps obligate two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount (the base of the interest calculation). Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps. Such notional principal amounts are often used to express the volume of these transactions but are not actually exchanged between the counterparties. The Bank’s interest rate swaps were used for management of interest rate exposures and have been accounted for at mark-to-market fair value.

Cross-currency interest rate swaps

The Bank enters into cross-currency interest rate swap (“CCIRS”) transactions which have special attributes, i.e. the parties exchange the notional amount at the beginning and also at the maturity of the transaction. A special type of these deals is the mark-to-market CCIRS agreements. At this kind of deals the parties – in accordance with the foreign exchange prices – revalue the notional amount during lifetime of the transaction.

2.5.6. Hedge accounting

Derivative financial instruments designated as fair value hedge

Changes in the fair value of derivatives that are designated and qualify as hedging instruments fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the separate statement of profit or loss along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. Changes in the fair value of the hedging instrument in fair value hedges are charged directly to the separate statement of profit or loss.

The conditions of hedge accounting applied by the Bank are the following: formally designated as hedging relationship, proper hedge documentation is prepared, effectiveness test is performed and based on it the hedge is qualified as effective. In the case of a financial instrument measured at amortised cost the Bank recognises the hedging gain or loss on the hedged item as the modification of its carrying amount and it is recognised in profit or loss. These adjustments of the carrying amount are amortised to the profit or loss using the effective interest rate method. The Bank starts the amortisation when the hedged item is no longer adjusted by the hedging gains or losses. If the hedged item is derecognised, the Bank recognises the unamortised fair value in profit or loss immediately. For fair value hedges inefficiencies and the net revaluation of hedged and hedging item are recognized in the Gains /(Losses) on financial instruments at fair value through profit or loss and net result on hedge relationship.

The foreign currency basis spread (in case of Cross-currency swap deals) and the forward element (in case of FX swap deals) is separated and excluded from the designation of the financial instruments as the hedging instruments. The change of fair value attributable to the (aligned) foreign currency basis spread (in case of Cross-currency swap deals) is recognized in other comprehensive income.

The Bank implemented hedge accounting rules prescribed by IFRS 9 in 2018. For further details please see Note 38.

Derivative financial instruments designated as cash flow hedge

Changes in the fair value of derivatives that are designated and qualify as hedging instrument in cash-flow hedges and that prove to be highly effective in relation to the hedged risk are recognized in their effective portion as reserve in Other Comprehensive Income. The ineffective element of the changes in fair value of hedging instrument is charged directly to the Separate Statement of Profit or Loss in the Gains /(Losses) on financial instruments at fair value through profit or loss and net result on hedge relationship.

NOTE 2: SUMMARY OF MATERIAL ACCOUNTING POLICIES [continued]

2.5. Financial assets [continued]

2.5.6. Hedge accounting [continued]

Derivative financial instruments designated as cash flow hedge [continued]

The Bank terminates the hedge relationship if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting. In the case of cash-flow hedges – in line with the standard - hedge accounting is still applied by the Bank as long as the underlying asset is derecognized or terminated. When the Bank discontinues hedge accounting to a cash-flow hedge the amount in the cash flow hedge reserve is reclassified to the profit or loss if the hedged future cash flows are no longer expected to occur. If the hedged future cash flows are still expected to occur, the amount remains in the cashflow hedge reserve and reclassified to the profit and loss only when the future cash flows occur.
Interest income and interest expense (accrued and paid) are presented in the Separate Statement of Proft or Loss in line item of "Income similar to interest income" or "Interest Expense". Effective element of the hedge is presented in the "Separate Statement of Comprehensive Income" (Cash flow hedge reserve). Ineffective element of the hedge is charged directly to the Separate Statement of Proft or Loss to "Gains / (Losses) on financial instruments at fair value through profit or loss and net result on hedge relationship.

2.5.7. Loans, placements with other banks and allowance for loan and placement losses

The Bank measures at amortized cost those Loans and placements with other banks and repo receivables, which are held to collect contractual cash flows, and contractual terms of these assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These loans are recognized as Loans at amortized cost in the Separate Statement of Financial Position. The Bank recognizes those financial assets which are not held for trading and do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding as loans mandatory measured at fair value through profit or loss. These loans are recognized as Loans mandatorily at fair value through profit or loss in the Separate Statement of Financial Position.

Loans, placements with other banks are accounted at amortised cost, stated at the principal amounts outstanding including accrued interest, net of allowance for loan or placement losses, respectively.

In case of the above mentioned financial assets measured at amortised cost transaction fees and charges adjust the carrying amount at initial recognition and are included in effective interest calculation. In case of loans at fair value through profit or loss fees and charges are recognised when incurred in the Separate Statement of Profit or Loss.

Loans and placements with other banks and repo receivables are derecognized when the contractual rights to the cash-flows expire or they are transferred. When a financial asset is derecognized the difference of the carrying amount and the consideration received is recognized in the profit or loss in case of financial assets at amortised cost the gains or losses from derecognition are presented in "Gains/losses from derecognition of financial assets at amortised cost" line while in case of loans at fair value through profit or loss the gains or losses from derecognition are presented in "Net operating income".

Change in the fair value of loans at fair value through profit or loss is broken down into two components and presented in the Separate Statement of Profit or Loss as follows:

- Portion of the change in fair value arising from changes in credit risk are presented within "Risk cost" as "Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit of loss".
- The remaining component of the change is presented in fair value within "Net operating income" as "Fair value adjustment on financial instruments measured at fair value through profit or loss".

Initially, financial assets shall be recognised at fair value which is usually equal to the transaction value in case of loans and placements. However, when the amounts are not equal, the initial fair value difference should be recognized.

If the fair value of financial assets is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the initial fair value difference in the Separate Statement of Profit or Loss.

When the fair value of financial assets is based on models for which inputs are not observable, the difference between the transaction price and the fair value is deferred and only recognised in profit or loss when the instrument is derecognised or the inputs became observable.

Initial fair value of loans lent at interest below market conditions is lower than their transaction price, the subsequent measurement of these loans is under IFRS 9.

2.5.7. Loans, placements with other banks and allowance for loan and placement losses [continued]

The Bank recognises a loss allowance for expected credit losses on a financial asset at each reporting date. The loss allowance for a financial asset equals to 12-month expected credit loss or equals to the lifetime expected credit losses. The maximum period over which expected credit losses shall be measured is the maximum contractual period over which the Bank is exposed to credit risk.

If the credit risk on a financial asset has not increased significantly since initial recognition then 12-month expected credit losses, otherwise (in case of significant credit risk increase) lifetime expected credit losses should be calculated. The expected credit loss is the present value of the difference between the contractual cash flows that are due to the Bank under the contract and the cash flows that the Bank expects to receive.

When the contractual cash flows of a financial asset are modified and the modification does not result in the derecognition of the financial asset the Bank recalculate the gross carrying amount of the financial asset by discounting the expected future cash flows with the original effective interest rate of the asset. The difference between the carrying amount and the present value of the expected cash flows is recognised as a “Modification gain or loss” in the statement of profit or loss. Interest income and amortised cost are accounted for using the effective interest rate method.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote. The loan is written off against the related account “Gain / (Loss) from derecognition of financial assets at amortized cost” in the Separate Statement of Profit or Loss.

OTP Mortgage Bank applies partial or full write-off for loans based on the definitions and prescriptions of financial instruments in accordance with IFRS 9. If the Bank has no reasonable expectations regarding a financial asset (loan) to be recovered, it will be written off partially or fully at the time of emergence.

The gross amount and loss allowance of the loans shall be written off in the same amount to the estimated maximum recovery amount while the net carrying value remains unchanged. Subsequent recoveries for loans previously written-off partially or fully, which may have been derecognized from the books with no reasonable expectations for the recovery will be booked in the Separate Statement of Profit or Loss on “Income from recoveries of written-off, but legally existing loan” line in Risk cost.

2.5.8. Modified financial assets

If the net present value of the contracted cash flows changes due to the modification of the contractual terms and it is not qualified as derecognition, modification gain or loss should be calculated and accounted for in the separate statement of profit or loss. Modification gain or loss is accounted in cases like restructuring – as defined in internal policies of the Bank – prolongation, renewal with unchanged terms, renewal with shorter terms and prescribing capital repayment rate, if it doesn’t exist or has not been earlier.

The changes of net present value should be calculated on portfolio level in case of retail exposures. Each retail contract is restructured based on restructuring frameworks. The Bank has to evaluate these frameworks (and not individual contracts). The changes of net present value should be calculated individually on contract level in case of corporate portfolio.

Among the possible contract amendments, the Bank considers as a derecognition and a new recognition the followings:

- merging several debts into a single debt,
- change of currency,
- change in counterparty,
- failing SPPI test after modification,
- interest rate change (fixed to floating or floating to fixed),

when the discounted present value – discounted at the original effective interest rate – of the cash flows under the new terms is at least 10 per cent different from the discounted present value of the remaining cash flows.

In case of derecognition and new recognition of a financial asset, the unamortized fees of the derecognized asset should be presented as Income similar to interest income. The newly recognized financial asset is initially measured at fair value and is placed in stage 1 if the derecognized financial asset was in stage 1 or stage 2 portfolio. The newly recognized financial asset will be purchased or originated credit impaired financial asset (“POCI”) if the derecognized financial asset was in stage 3 portfolio or it was POCI.

The modification gain or loss shall be calculated at each contract amendments unless they are handled as a derecognition and new recognition. In case of modification the Bank recalculates the gross carrying amount of the financial asset. To do this, the new contractual cash flows should be discounted using the financial asset’s original effective interest rate (or credit-adjusted effective interest rate for POCI financial asset). Any costs or fees incurred adjust the carrying amount of the modified financial asset are amortized over the remaining term of the modified financial asset.

NOTE 2: SUMMARY OF MATERIAL ACCOUNTING POLICIES [continued]

2.6. Loss allowance

A loss allowance for loans and placements with other banks is recognized by the Bank based on the expected credit loss model in accordance with IFRS 9. Based on the three-stage model the recognized loss allowance equals to 12-month expected credit loss from the initial recognition. On financial assets with significantly increased credit risk or credit impaired financial assets (based on objective evidence) the recognized loss allowance is the lifetime expected credit loss.

In the case of purchased or originated credit impaired financial assets, a loss allowance is recognized in the amount of the lifetime expected credit loss since initial recognition. The impairment gain in the Separate Statement of Profit or Loss is recognized if lifetime expected credit loss for purchased or originated credit impaired financial assets at measurement date is less than the estimated credit loss at initial recognition.

A loss allowance for loans and placements with other banks represents Management's assessment for potential losses in relation to these activities.

The default occurs when either or both of the following events have taken place:

- objective criterion meaning that the credit obligation of the client is overdue exceeding the materiality threshold for more than 90 consecutive days (90+ default DPD), or the obligor has breached the limit of the overdraft with an amount exceeding the materiality threshold for more than 90 consecutive days (90+ default DPD), or
- probability criterion meaning the probability that the obligor will be unable to pay its credit obligations in full (UTP= Unlikely to Pay). The following conditions indicate the occurrence of the probability criterion: specific credit risk adjustment, sell of credit obligation with significant loss, distressed restructuring, termination of the contract on the initiative of the Bank, Bankruptcy, liquidation, personal bankruptcy, forced deleted status.

Previously described conditions should result in default status mandatorily. Moreover, during the individual expert-based assessment the client's default status shall be established if in the specific case the default can be justified on subjective basis. The default status should be terminated if in the last 3 months no other default criterion exists and the condition (either probability criterion or objective criterion) that resulted in the default status ceased at least 3 months ago.

The expected loss calculation should be forward looking. Available forward-looking information has to be included in the parameter estimation by using different scenarios, including forecasts of future economic conditions. The determination of probability-weighted forward-looking scenarios are based on the OTP Bank' macro model. In general, there are two crisis scenarios (4-5), and three non-crisis scenarios (1-3) but the calculation of impairment should be based on at least two scenarios in the OTP Bank. The macro conditioning is performed by Vasicek-model, which captures the relationship between point-in-time (PiT) and through-the-cycle (TTC) PD.

The Vasicek PD transformation can also be used to estimate the PIT PDs of the buckets. The required parameters (such as correlation coefficient and macro condition parameter) can be derived from the OTP's macro model.
In the collective provisioning methodology credit risk and the change of credit risk can be correctly captured by understanding the risk characteristics of the portfolio. At portfolio segmentation, setting the segments is a key element of the provisioning calculation and requires the extensive knowledge of the portfolio. The segmentation is expected to stay stable from month to month. The segmentation must be performed separately for each parameter, since in each case different factors may have relevance.

For Consumer loans and car finance: recovery based LGD methodology estimated from historical recoveries. The LGD calculation should not be automatically identified with historic actual data. The direction and degree of the shift in the factors impacting the LGD, also considering the macroeconomic effects, in addition to the anticipated developments in those, must always be analysed. The LGD – just like the PD – is not independent of the business cycles either; typically, it increases in parallel with the economic downturn.

Two different methods are applied in OTP Bank for LGD parameter calculation: Retail mortgage loans and non-retail portfolios (MSE and Wholesale) that are significantly secured by mortgage: modified LGD methodology based on the Asset Quality Review (AQR) – the primary source of the recovery the collateral itself but cash recovery is also taken into account. The calculation is performed for each exposure individually based on the estimated parameters (main parameters: FSR – foreclosure success rate, SR – sales ratio, TTS – time to sale, C – cost, REC – cash recovery) and the actual value of collaterals (e.g. property, guarantee, surety, bail).

2.6. Loss allowance [continued]

For Consumer loans and car finance: recovery based LGD methodology estimated from historical recoveries. The LGD calculation should not be automatically identified with historic actual data. The direction and degree of the shift in the factors impacting the LGD, also considering the macroeconomic effects, in addition to the anticipated developments in those, must always be analysed. The LGD – just like the PD – is not independent of the business cycles either; typically it increases in parallel with the economic downturn.

Loss allowance for loan and placements are determined at a level that provides coverage for individually identified credit losses. For loans for which it is not possible to determine the amount of the individually identified credit loss in the absence of objective evidence, a collective impairment loss is recognized. With this, the Bank reduces the carrying amount of financial asset portfolios with similar credit risk characteristics to the amount expected to be recovered based on historical loss experience.

At subsequent measurement the Bank recognizes an impairment gain or loss through "Impairment gain on POCI loans" in the Separate Statement of Profit or Loss as part of "Risk cost" line as an amount of expected credit losses or reversal which is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized in accordance with IFRS 9. If the reason for the impairment no longer exist the impairment is released in the Separate Statement of Profit or Loss for the current period.

If a financial asset, for which previously there were no indicators of significant increase in credit risk (i.e. classified in Stage 1) is subsequently classified in Stage 2 or Stage 3 then loss allowance is adjusted to lifetime expected credit loss. If a financial asset, which was previously classified in Stage 2 or Stage 3 is subsequently classified in Stage 1 then the loss allowance is adjusted to the level of 12 month expected credit loss.

Classification into risk classes

According to the requirements of the IFRS9 the Bank classifies the financial assets measured at amortized cost, at fair value through other comprehensive income and loan commitments and financial guarantees into the following stages:

- Stage 1 – performing financial instruments without significant increase in credit risk since initial recognition
- Stage 2 – performing financial instruments with significant increase in credit risk since initial recognition but not credit-impaired
- Stage 3 – non-performing, credit-impaired financial instruments
- POCI – purchased or originated credit impaired

In the case of trade receivables the Bank applies the simplified approach and calculates only lifetime expected credit loss. The simplified approach is the following:

- for the past 3 years the average annual balance of receivables under simplified approach is calculated,
- the written-off receivables under simplified approach are determined in the past 3 years,
- historical losses are adjusted to reflect information about current conditions and reasonable forecasts of future economic conditions,
- the loss allowance ratio is the sum of the written-off amounts divided by the sum of the average balances,
- the loss allowance is multiplied by the end-of-year balance, it is the actual loss allowance on these receivables,
- loss allowance should be recalculated annually.

The Bank assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the reporting date. This might occur if the financial asset has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Bank considers sovereign exposures as having low credit risk.

Stage 1: financial instruments for which the events and conditions specified in respect of Stage 2 and Stage 3 do not exist on the reporting date.

A client or loan must be qualified as default if one or both the following two conditions occur:

- The client delays more than 90 days. This is considered a hard trigger.
- There is reasonable probability that the client will not pay all of its obligation. This condition is examined on the basis of probability criteria of default.

NOTE 2: SUMMARY OF MATERIAL ACCOUNTING POLICIES [continued]

The subject of default qualification is that exposure (on-balance and off-balance) which originates credit risk (so originated from loan commitments, risk-taking contracts).

A financial instrument shows significant increase in credit risk, and is allocated to Stage 2, if in respect of which any of the following triggers exist on the reporting date, without fulfilling any of the conditions for the allocation to the non-performing stage (stage 3):

- the payment delay exceeds 30 days,
- it is classified as performing forborne,
- based on individual decision, its currency suffered a significant "shock" since the disbursement of the loan,
- the transaction/client rating exceeds a predefined value or falls into a determined range, or compared to the historic value it deteriorates to a predefined degree,
- in the case retail mortgage loans, the loan-to-value ratio exceeds a predefined rate,
- default on another loan of the retail client, if no cross-default exists,
- monitoring classification of corporate and municipal clients above different thresholds defined on Bank
    - financial difficulties at the debtor (capital adequacy, liquidity, deterioration of the instrument quality),
    - significant decrease of the liquidity or the activity on the active market of the financial instrument can be observed,
    - the rating of the client reflects high risk, but it is better than the default one,
    - significantly decrease in the value of the recovery from which the debtor would disburse the loan,
    - clients under liquidation.

A financial instrument is non-performing and it is allocated to Stage 3 when any of the following events or conditions exists on the reporting date:

- default (based on the Bank level default definition),
- classified as non-performing forborne (based on the Bank level forborne definition),
- the monitoring classification of corporate and municipal clients above different thresholds defined on Bank level (including but not limited to):
    - breaching of contracts,
    - significant financial difficulties of the debtor (like capital adequacy, liquidity, deterioration of the instrument quality),
    - bankruptcy, liquidation, debt settlement processes against debtor,
    - forced strike-off started against debtor,
    - termination of loan contract by the Bank,
    - occurrence of fraud event,
    - termination of the active market of the financial instrument.

If the exposure is no longer considered as credit impaired, the Bank allocates this exposure to Stage 2.

When loss allowance is calculated at exposures categorized into stages the following process is needed by stages:

- Stage 1 (performing): loss allowance at an amount equal to 12-month expected credit loss should be recognized,
- Stage 2 (significant increase in credit risk): loss allowance at an amount equal to lifetime expected credit loss should be recognized,
- Stage 3 (non-performing): loss allowance at an amount equal to lifetime expected credit loss should be recognized.

For lifetime expected credit losses, an entity shall estimate the risk of a default occurring on the financial instrument during its expected life. 12-month expected credit losses are a portion of the lifetime expected credit losses and represent the lifetime cash shortfalls that will result if a default occurs in the 12 months after the reporting date (or a shorter period if the expected life of a financial instrument is less than 12 months), weighted by the probability of that default occurring.

An entity shall measure expected credit losses of a financial instrument 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.

NOTE 2: SUMMARY OF MATERIAL ACCOUNTING POLICIES [continued]

2.7. Sale and repurchase agreements, security lending

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on the Separate Statement of Financial Position and the consideration received is recorded in Other liabilities or Amounts due to banks, the National Governments, deposits from the National Banks and other banks. Conversely, debt or equity securities purchased under a commitment to resell are not recognized in the Separate Statement of Financial Position and the consideration paid is recorded either in Placements with other banks or Deposits from customers. Interest is accrued based on the effective interest method evenly over the life of the repurchase agreement.

In the case of security lending transactions, the Bank as a transferor does not derecognize the securities because it believes that it retains substantially all the risks and rewards of the ownership of the securities. Only a financial liability is recognized against the consideration received. If the Bank is the transferee in security lending transactions, the Bank does not recognize the securities because it believes that the transferor retains substantially all the risks and rewards of the ownership of the securities. Only a financial receivable is recognized against the consideration paid.

2.8. Liabilities from issued securities

Issued mortgage bonds are measured at amortized cost. The costs related to their issuance is included in the amortized cost of the issued securities and amortized over the term of the securities using effective interest method. Collateral of mortgage bonds are secured by the actual amount of loan receivables – involved by collateral in the Bank’s collateral register. In 2023 the issued mortgage bonds were covered only by ordinary collateral (loan receivables).

2.9. Property, equipment and intangible assets

Property, equipment and intangible assets are stated at cost, less accumulated depreciation and amortization and impairment, if any. The depreciable amount (book value less residual value) of the non-current assets must be allocated over their useful lives. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets based on the following annual percentages:

Intangible assets	
Software	20% - 33.3%
Property rights	16.7% - 33.3%
Property	1% - 2.0%
Office equipment and vehicles	11.1% - 33.3%

Depreciation and amortization on properties, equipment and intangible assets starts on the day when such assets are placed into service. At each balance sheet date, the Bank reviews the carrying value of its tangible and intangible assets to determine if there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated to determine the extent (if any) of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where the carrying value of property, equipment, other tangible fixed assets and intangible assets is greater than the estimated recoverable amount, it is written down immediately to the estimated recoverable amount.

The Bank has no intangible assets with indefinite useful life.

2.10. Financial liabilities

The financial liabilities are presented within these lines in the Separate Financial Statements:

- Amount due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks
- Repo liabilities
- Liabilities from issued securities
- Derivative financial liabilities designated as hedge accounting
- Other financial liabilities

At initial recognition, the Bank measures financial liabilities at fair value plus or minus – in the case of a financial liability not at fair value through profit or loss – transaction costs that are directly attributable to the acquisition or issue of the financial liability.

NOTE 2: SUMMARY OF MATERIAL ACCOUNTING POLICIES [continued]

2.10. Financial liabilities [continued]

Usually, the initial fair value of financial liabilities equals to transaction value. However, when the amounts are not equal, the initial fair value difference should be recognized.
If the fair value of financial liabilities is based on a valuation technique using only inputs observable in market transactions, the Bank recognizes the initial fair value difference in the Separate Statement of Profit or Loss. When the fair value of financial liabilities is based on models for which inputs are not observable, the difference between the transaction price and the fair value is deferred and recognized in profit or loss on a systematic manner.

In the case of financial liabilities measured at amortized cost fees and commissions related to the origination of the financial liability are recognized through profit or loss during the maturity of the instrument using effective interest method. In certain cases, the Bank repurchases a part of financial liabilities (mainly issued securities or subordinated bonds) and the difference between the carrying amount of the financial liability and the amount paid for it is recognized in the net profit or loss for the period and included in other operating income.

2.11. Leases

An agreement is a lease or contains a lease if it transfers the rights to control the use of an identified asset for a given period in exchange for compensation.

Expenses related to the use of lease assets, the majority of which were previously recognised in external services costs, will be currently classified as depreciation/amortisation and interest costs. Usufruct rights are depreciated using a straight line method, while lease liabilities are settled using an effective discount rate.

Recognition of lease liabilities

The Bank will recognise lease liabilities related to leases which were previously classified as "operating leases" in accordance with IFRS 16 Leases. These liabilities will be measured at the present value of lease payments receivable as at the date of commencement of the application of IFRS 16. Lease payments shall be discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate. Interest rate applied by the Bank: weighted average lessee’s incremental borrowing rate: ~4.8%

At their date of initial recognition, lease payments contained in the measurement of lease liabilities comprise the following types of payments for the right to use the underlying asset for the life of the lease:

- fixed lease payments less any lease incentives,
- variable lease payments which are dependent on market indices,
- amounts expected to be payable by the lessee under residual value guarantees,
- the strike price of a purchase option, if it is reasonably certain that the option will be exercised, and
- payment of contractual penalties for terminating the lease, if the lease period reflects that the lessee used the option of terminating the lease.

The Bank makes use of expedients with respect to short-term leases (less than 12 months) as well as in the case of leases in respect of which the underlying asset has a low value (less than HUF 1.5 million) and for which agreements it will not recognise financial liabilities nor any respective right-of-use assets. These types of lease payments will be recognised as costs using the straight-line method during the life of the lease.

Recognition of right-of-use assets

Right-of-use assets are initially measured at cost.

The cost of a right-of-use asset comprises:

- the amount of the initial measurement of lease liabilities,
- any lease payments made at or before the commencement date, less any lease incentives received,
- any initial direct costs incurred by the lessee,
- estimates of costs to be incurred by the lessee as a result of an obligation to disassemble and remove an underlying asset or to carry out renovation/restoration.

Right-of-use assets are presented separately in the financial statements.

NOTE 2: SUMMARY OF MATERIAL ACCOUNTING POLICIES [continued]

2.12. Share capital

Share capital is the capital determined in the Articles of Association and registered by the Budapest-Capital Regional Court. Share capital is the capital the Bank raised by issuing common stocks at the date the shares were issued. The amount of share capital has not changed over the current period.

2.13. Interest income and income similar to interest income and interest expense

Interest income and expenses are recognised in profit or loss in the period to which they relate, using the effective interest rate method.

For exposures categorized into stage 1 and stage 2 the interest income is recognized on a gross basis. For exposures categorized into stage 3 (using effective interest rate) and for POCI (using credit-adjusted effective interest rate) the interest income is recognized on a net basis.

The time-proportional income similar to interest income of derivative financial instruments calculated without using the effective interest method and the positive fair value adjustment of interest rate swaps are also included in income similar to interest income. Interest income of FVTPL loans is calculated based on interest fixed in the contract and presented in “Income similar to interest income” line.

Interest from loans and deposits are accrued on a daily basis. Interest income and expense include certain transaction cost and the amortisation of any discount and premium between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

All interest income and expense recognised are arising from loans, placements with other banks, repo receivables, securities at fair value through other comprehensive income, securities at amortised cost, and amounts due to banks, repo liabilities, deposits from customers, liabilities from issued securities, subordinated bonds and loans are presented under these lines of financial statements.

2.14. Fees and Commissions

Fees and commissions that are not involved in the amortised cost model are recognised in the Separate Statement of Profit or Loss on an accrual basis according to IFRS 15. These fees are related to deposits, cash withdrawal, security trading, bank card, etc.

The Bank recognise income if performance obligations related to the certain goods or service are satisfied, performed, and control over the asset is transferred to the customer, and it is probable that consideration payable will probably flow to the entity. In case of those service, where the Bank transfer control over the asset continuously, income is recognised on accrual basis.

The Bank provides foreign exchange trading services to its customers, the profit margin achieved on these transactions is presented as Net profit from fees and commissions in the Separate Statement of Profit or Loss.

The other fees mainly consist of the cost of services in connection with lending activity and mortgage bond issues, which are not directly attributable to separate issuance, and includes fees related to FVTPL loans, which are settled when incurred.

The Bank’s fee and commission income from services where performance obligations are satisfied over time are followings:

Net insurance fee income

Due to the fact that the Bank does not provide insurance services to its clients, only acts as an agent, the fee income charged to the customers and fees payable to the insurance company are presented net in the fee income. Fees for ongoing services are charged on a monthly basis during the period when they are provided.

Other

Fees that are not material in the Banks total income are included in Other fees category. Such fees are, special procedure fee, account rent fee, fee of a copy of document, etc.
Other fees may include charges for continuous services or for ad hoc administration services. Continuous fees are charged monthly at the beginning of the period, typically at a fixed rate. Fees for ad hoc services are charged immediately after the service obligation had been met, typically also in a fixed amount.
Fees for ongoing services are charged on a monthly basis during the period when they are provided.
Fees for ad hoc services are charged when the transaction takes places.

NOTE 2: SUMMARY OF MATERIAL ACCOUNTING POLICIES [continued]

2.15. Income tax

The Bank considers corporate income tax as current tax according to IAS 12. The Bank also considers local business tax and the innovation contribution as income tax in Hungary. Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences between the tax bases of assets and liabilities and their carrying value for financial reporting purposes, measured at the tax rates that are expected to apply when the asset is realised or the liability is settled. Current tax asset or current tax liability is presented related to income tax and innovation contribution separately in the Separate Statement of Financial Position.

Pillar Two – Global Anti-base Erosion Model Rules ("GloBE), global minimum tax – introduces a minimum effective tax rate of at least 15%, calculated based on a specific rule set. Pillar Two legislation has been enacted or substantively enacted in certain jurisdictions the Group operates. The legislation will be effective for the Group's financial year beginning 1 January 2024. The Group considers this top-up tax as an income tax according to IAS 12.

Deferred tax assets are recognized by the Bank for the amounts of income tax that are recoverable in future periods in respect of deductible temporary differences as well as the carry forward of unused tax losses and the carryforward of unused tax credits.

The Bank recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint arrangements, to the extent that, and only to the extent that, it is probable that:

- the temporary difference will reverse in the foreseeable future; and
- taxable profit will be available against which the temporary difference can be utilised.

The Bank considers the availability of qualifying taxable temporary differences and the probability of other future taxable profits to determine whether future taxable profits will be available.

The Bank recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, except to the extent that both of the following conditions are satisfied:

- the Bank is able to control the timing of the reversal of the temporary difference, and
- it is probable that the temporary difference will not reverse in the foreseeable future.

The Bank only offsets its deferred tax liabilities against deferred tax assets when:

- there is a legally enforceable right to set-off current tax liabilities against current tax assets, and
- the taxes are levied by the same taxation authorities on either
    - the same taxable entity or
    - different taxable entities which intend to settle current tax liabilities and assets on a net basis.

Pursuant to the Corporate Tax Act, OTP Mortgage Bank. Is a member of the corporate tax group represented by OTP Bank.

2.16. Banking tax

The Bank and some of its subsidiaries are obliged to pay banking tax based on Act LIX of 2006. As the calculation is not based on the taxable profit but on the adjusted total assets as reported in the Separate Financial Statements of the Bank and its entities for the second period preceding the current tax year, therefore, the banking tax is considered as another administrative expense, not as income tax. Pursuant to Government Decree No. 197/2022 published on 4 June 2022, the Hungarian Government decided to impose a windfall tax on credit institutions and financial enterprises temporarily, that is for 2022 and 2023.

NOTE 2: SUMMARY OF MATERIAL ACCOUNTING POLICIES [continued]

2.17. Off-balance sheet commitments and contingent liabilities

In the ordinary course of its business, the Bank has entered into off-balance sheet commitments such as guarantees, commitments to extend credit, letters of credit and transactions with financial instruments. The provision on off-balance sheet commitments and contingent liabilities is maintained at a level adequate to absorb probable future losses which are probable and relate to present obligations.

Those commitments and contingent liabilities Management determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

The Bank recognizes a provision for off-balance sheet commitment and contingent liabilities in accordance with IAS 37 when it has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the obligation.

Other provision for off-balance sheet items includes provision for litigation, provision for retirement and expected liabilities and provision for Confirmed letter of credit.

A provision is recognized by the Bank when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Expected credit loss model is applied for given financial guarantees and loan commitments which are under IFRS 9 the, when the provision is calculated. After initial recognition the Group subsequently measures those contracts at a higher of the amount of the loss allowance or of the amount initially recognised less the cumulative amount of income recognized in accordance with IFRS 15.

2.18. Share-based payment and employee benefit

The Bank has applied the requirements of IFRS 2 Share-based Payment.

The Bank issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the year, based on the Bank’s estimate of shares that will eventually vest.

Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on Management’s best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The Bank has applied the requirement of IAS 19 Employee Benefits. The Bank’s short-term employee benefits are wages, salaries and bonuses, premium, paid annual leave and paid sick leave and other free services (health care, reward holiday). Short-term employee benefits are expected to pay by the Bank within 12 month. These benefits are recognised as an expense and liability undiscounted in the separate financial statements.

Long-term employee benefits are mostly the jubilee reward. Long-term employee benefits are recognised as an expense and liability in the separate financial statements. Liabilities are regularly remeasured. Gains or losses due to the remeasurement are recognised in the separate statement of profit or loss. (Personnel expenses)

2.19. Government subsidies to client

The main activity of the Bank was supported by the Hungarian State government designed to compensate for the difference between the amount of interest charged to the customer, such interest being capped by legislation, and the interest charge on the issued mortgage bonds. Such subsidies are calculated on a monthly basis, are applicable over the life of the loan and are recognized among interest income in the Separate Statement of Profit or Loss in the period to which they relate.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.20. Statement of Cash Flows

Cash flows arising from the operating, investing or financing activities are reported in the Statement of Cash-Flows of the Bank primarily on a gross basis. Net basis reporting are applied by the Bank in the following cases:

- when the cash flows reflect the activities of the customer rather than those of the Bank, and
- for items in which the turnover is quick, the amounts are large, and the maturities are short.

For the purposes of reporting cash flows "Cash, due from banks and balances with the NBH" line item excluding compulsory reserve are considered as cash and cash equivalents by the Bank. This line item shows balances of HUF and foreign currency cash amounts, and sight depos from NBH and from other banks, furthermore balances of current accounts.

Cash flows from hedging activities are classified in the same category as the item being hedged. The unrealised gains and losses from the translation of monetary items to the closing foreign exchange rates and the unrealised gains and losses from derivative financial instruments are presented separately net in the statement of cash flows for the monetary items which have been revaluated. Hedging gains and losses are presented on the same line item, refer to note 2.4.3.

2.21. Comparative figures

These separate financial statements are prepared in accordance with the same accounting policies in all respects as the Financial Statements prepared in accordance with IFRS as adopted by the EU for the year ended 31 December 2023.

NOTE 13: OTHER ASSETS

- Receivables related to Hungarian Government subsidies were reclassified to other non financial assets, to align with the presentation of the Ultimate parent and FINREP requirements.

NOTE 20: RETAINED EARNINGS AND RESERVES

- The untied retained earnings table: the table underlying the maximum possible dividend pay out to be presented according to local regulations has been updated.

NOTE 31: FINANCIAL RISK MANAGEMENT

- Receivables related to Hungarian Government subsidies were reclassified to other non financial assets, to align with the presentation of the Ultimate parent and FINREP requirements.

NOTE 37: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK

- Receivables related to Hungarian Government subsidies were reclassified to other non financial assets, to align with the presentation of the Ultimate parent and FINREP requirements.

NOTE 38: FAIR VALUE OF FINANCIAL INSTRUMENTS

- Receivables related to Hungarian Government subsidies were reclassified to other non financial assets, to align with the presentation of the Ultimate parent and FINREP requirements.

2.22. Segment report

Operating segments are components of a business that can generate income or expenses, the operating results of which are regularly reviewed by the Chief Operating Decision Maker (CODM), and about which discrete financial information is available. The CODM is the person or group of people who allocates resources and evaluates the unit's performance. The duties of the CODM are performed by the Bank's Executive Board. OTP Mortgage Bank is a subsidiary of OTP Bank engaged in mortgage lending, its activity is regulated by Act XXX of 1997 on Mortgage Loan Companies and on Mortgage Bonds.
As a specialized credit institution, the main activity of OTP Mortgage Bank is retail mortgage lending covered by Hungarian real estate. As a supplementary commercial activity, the company is engaged in real estate
Based on the evaluation of the Bank's internal reporting structure, the management has identified only one operational segment, which segment is not broken down geographically either, because its activities are carried out exclusively in Hungary. As the Bank's operation is simple with a less complex product portfolio the Bank's management manages and controls the activity of the Bank as a single product and geographical segment.

NOTE 3: SIGNIFICANT ACCOUNTING ESTIMATES AND DECISIONS IN THE APPLICATION OF ACCOUNTING POLICIES

The presentation of financial statements in conformity with IFRS as adopted by the European Union requires the management of the Bank to make judgements about estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period. Actual results could differ from those estimates. Significant areas of subjective judgements include:

3.1. Impairment on loans and placements

The Bank regularly assesses its loan portfolio for impairment. Management determines the adequacy of the allowances based upon reviews of individual loans and placements, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. The use of a new, three stage model was implemented for IFRS 9 purposes. The new impairment methodology is used to classify financial instruments in order to determine whether credit risk has significantly increased since initial recognition and able to identify credit-impaired assets. For instruments with credit-impairment or significant increase of credit risk lifetime expected losses will be recognized.

3.2. Valuation of instruments without direct quotations

Financial instruments without direct quotations in an active market are valued using the valuation model technique. The models are regularly reviewed and each model is calibrated for the most recent available market data. While the models are built only on available data, their use is subject to certain assumptions and estimates (e.g. for correlations, volatilities, etc.). Changes in the model assumptions may affect the reported fair value of the relevant financial instruments.

IFRS 13 *Fair Value Measurement* seeks to increase consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. The hierarchy categorises the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The Bank evaluates the levelling at each reporting period on an instrument-by-instrument basis and reclassifies instruments when necessary, based on the facts at the beginning of the reporting period. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

3.3. Provisions

Provision is recognized and measured for commitments to extend credit and for warranties arising from banking activities based on IFRS 9 Financial Instruments. Provision for these instruments is recognised based on the credit conversion factor, which shows the proportion of the undrawn facility that will be probably funded.

Other provision for off-balance sheet items includes provision for litigation, provision for retirement and expected liabilities and provision for Confirmed letter of credit.

A provision is recognized by the Bank when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

NOTE 4: IMPACT OF ECONOMIC SITUATION ON THE OTP MORTGAGE BANK (in HUF mn)

Risks relating to the Russian-Ukrainian Armed Conflict

On 24 February 2022 Russia launched a military operation against Ukraine which is still ongoing at the date of this Report. Until now many countries, as well as the European Union imposed sanctions due to the armed conflict on Russia and Russian businesses and citizens. Russia responded to these sanctions with similar measures.
The armed conflict and the international sanctions influence the business and economic activities significantly all around the world. There are a number of factors associated with the Russian-Ukrainian armed conflict and the international sanctions as well as their impact on global economies that could have a material adverse effect on (among other things) the profitability, capital and liquidity of financial institutions such as the OTP Group.
The armed conflict and the international sanctions cause significant economic damage to the affected parties and in addition they cause disruptions in the global economic processes, of which the precise consequences (inter alia the effects on energy and grain markets, the global transport routes and international trade as well as tourism) are difficult to be estimated at the moment.
It remains unclear how this will evolve going forward and the OTP Group continues to monitor the situation closely. However, the OTP Group's ability to conduct business may be adversely affected by disruptions to its infrastructure, business processes and technology services. This may cause significant customer detriment, costs to reimburse losses incurred by the OTP Group’s customers, and reputational damage.
Furthermore, the OTP Group relies on models to support a broad range of business and risk management activities, including informing business decisions and strategies, measuring and limiting risk, valuing exposures, conducting stress testing and assessing capital adequacy. Models are, by their nature, imperfect and incomplete representations of reality because they rely on assumptions and inputs, and as such assumptions may later potentially prove to be incorrect, this can affect the accuracy of their outputs. This may be exacerbated when dealing with unprecedented scenarios, such as the Russian-Ukrainian armed conflict and the international sanctions, due to the lack of reliable historical reference points and data.
Any and all such events mentioned above could have a material adverse effect on the OTP Group’s business, financial condition, results of operations, prospects, liquidity, capital position and credit ratings, as well as on the OTP Group’s customers, employees and suppliers.

- **Windfall tax:**
  - On 24 April 2023 Government Decree No. 144/2023 was published amending the previously laid down methodology of windfall tax calculation for the second half of 2023.
  - According to the new rules, the gross amount of the windfall tax for the year 2023 changed to HUF 41 billion in the case of OTP Group. of which HUF 1 billion is related to Mortgage Bank.
  - Government decree No. 206/2023 (V.31.) published on 31 May 2023 outlined the details of the extra profit tax payable by credit institutions in 2024. The basis of the tax is the 2022 profit before tax (adjusted for several items). The tax rate is 13% for the part of the tax base that does not exceed HUF 20 billion, and 30% for the amount above HUF 20 billion. According to the decree, if the average amount of Hungarian government bonds owned by the financial institution increases over a certain period, the windfall tax payable by the credit institution will be reduced. The reduction cannot be more than 10% of the increase in government bond holdings and cannot exceed 50% of the windfall tax payment obligation calculated without the reduction.
  - The gross amount of the windfall tax for the year 2024 will be HUF 13 billion in the case of the Hungarian Group members, which can be reduced to HUF 6.5 billion subject to the increase in government bond holdings. In the case of the Mortgage Bank, there is no extra profit tax liability for 2024 due to the negative tax base.

- **Interest rate cap**:
  - Government decree No. 175/2023. (V. 12.) published on 12 May 2023 further extended the interest rate cap scheme by 6 months, until the end of 2023, in the case of the affected floating and fixed rate residential mortgages, as well as floating rate micro and small enterprises loan and leasing contracts.
  - Pursuant to Government Decree No. 522/2023. (XI. 30.):
    - The interest rate cap for the outstanding volume of certain residential mortgage loans was extended by six months, until 30 June 2024.
    - The rate cap for the existing volume of certain MSE loans was extended until 1 April 2024.
    - Furthermore, Government Decree No. 471/2022 (XI. 21.) was amended, thus the provision that the interest rate on HUF-denominated demand deposits and time deposits with a maximum term of one year shall not exceed the average auction yield of the most recently issued three-month discount Treasury Bill was extended by three months, until 1 April 2024. In another amendment, starting from 1 December 2023, the scope of this cap was extended for entities who qualify as business customers in Hungary’s Civil Code.
    These provisions shall be applied to deposit contracts concluded after 1 December 2023, as well as to demand deposit contracts existing on 1 December 2023.

NOTE 4: IMPACT OF ECONOMIC SITUATION ON THE OTP MORTGAGE BANK (in HUF mn) [continued]

- **Voluntary interest rate cap on newly granted loans:**
  - At the beginning of October 2023, the Ministry of Economic Development proposed that banks impose voluntary interest rate caps on newly granted HUF-denominated working capital loans for businesses, and on residential housing loans. OTP Mortgage Bank has joined the initiative.
  - Effective from October 2023, the Government set the voluntary interest rate cap on new housing loans at 8.5% and that on working capital loans to businesses at 12%. From 2 November the latter was reduced to 11.5%. From January 2024, the Government reduced the voluntary interest rate cap on housing loans to 7.3% and that on corporate loans to 9.9%. In addition, the Government and the Hungarian Banking Association agreed that the voluntary interest rate cap scheme will be abolished simultaneously with the withdrawal of the interest rate cap for certain outstanding MSE volumes from 1 April 2024, i.e. in the future, interest rates will be determined by market competition.

- **Family support schemes:**
  - Housing Subsidy for Families (CSOK), village CSOK: from 1 January 2024 the village CSOK non-refundable amounts will increase, but in towns and settlements with more than 5,000 inhabitants the CSOK subsidy will no longer be available.

- **Mandatory minimum reserve requirements**:
  - pursuant to NBH decree No. 6/2023. (III. 8.) and NBH decree No. 11/2023. (III. 31.), from April the minimum reserve requirement was increased to 10%, and the effective rate paid on the reserves was reduced to 9.75% from the previous 13%, since the national bank doesn't pay any interest for the first 2.5% reserve requirement, and for the remaining amount the national bank pays the base rate.
  - NBH decree No. 25/2023. (VI. 14.) amended the reserve requirement rules: among others, from 1 July 2023 up to 15% of the minimum reserve requirement can be met by central bank deposits with at least 14 days original maturity. Also, from July until further notice (by the end of the year according to plans) the reserve requirement will be based on the volumes in the statistical balance sheet as at 31 March 2023.

Financial assets modified during the year ended 31 December 2023 related to interest rate cap

Modification due to prolongation of existing interest rate cap till 31 December 2023

Gross carrying amount before modification	220,026
Modification due to interest rate cap	(11,009)
Gross carrying amount after modification	**209,017**
Loss allowance before modification	(4,705)
Net amortised cost after modification	**204,312**

Modification due to prolongation of existing interest rate cap till 30 June 2024

Gross carrying amount before modification	204,915
Modification due to interest rate cap	(6,509)
Gross carrying amount after modification	**198,406**
Loss allowance before modification	(3,790)
Net amortised cost after modification	**194,616**

NOTE 4: IMPACT OF ECONOMIC SITUATION ON THE OTP MORTGAGE BANK (in HUF mn) [continued]

Financial assets modified during the year ended 31 December 2022 related to government measures

Modification due to prolongation of deadline of covid moratoria till 31 July 2022

With its Government Decree No. 216/2022 published on 17 June, the Government further extended the expiry of the moratorium of retail client loans, until the end on 2022. Eligible clients had to notify their bank about their intention to participate in the payment holiday until the end of July, the extended period was effective from 1 August until 31 December.

As a further mesure, Government Decree No. 292/2022 published on 8 August included certain agricultural entrepreneurs in the moratorium from 1 September to 31 December 2023.

Loss HUF 172 million from the modification of amortized cost and further HUF 0.2 million fair value decrease was recognized at the end of July, 2022 due to one month of extension for all clients.

Changes of book value of related loans measured at amortized cost on 31 July, 2022:

Gross carrying amount before modification	78,862
Modification loss due to covid moratoria	(172)
Gross carrying amount after modification	**78,690**
Loss allowance before modification	(7,574)
Net amortised cost after modification	**71,116**

Modification due to prolongation of interest rate cap (30 June 2022)

Pursuant to Government Decree No, 215/2022 (issued on 17 June) the Government extended the interest rate cap for variable-rate retail mortgage loans by an additional 6 months, i,e, until 31 December 2022. The expected one-off effect of the extension of the interest rate cap amounted to -HUF 8.7 billion (after tax) and was booked in 2Q 2022. Loss effect on FVTPL loans was less than HUF 0,1 billion.

Changes of book value of related loans measured at amortized cost on 30 June 2022:

Gross carrying amount before modification	223,497
Modification due to interest rate cap	(8,739)
Gross carrying amount after modification	**214,758**
Loss allowance before modification	(6,191)
Net amortised cost after modification	**208,567**

Modification due to moratoria related to agriculture and prolongation of the existing moratoria (30 September 2022)

On 30 September 2022 further HUF 560 million modification loss and HUF 0.7 million fair value decrease was recognized due to clients eligible for the extension of the moratorium between 1 September and 31 December 2022, thereof HUF 27 million modification loss, HUF 413 million gross loan amount and HUF 60 million was related to agricultural entrepreneurs.

NOTE 4: IMPACT OF ECONOMIC SITUATION ON THE OTP MORTGAGE BANK (in HUF mn) [continued]

Changes of book value of related loans measured at amortized cost on 30 September 2022:

Gross carrying amount before modification	56,491
Modification loss due to covid moratoria	(560)
Gross carrying amount after modification	**55,931**
Loss allowance before modification	(5,506)
Net amortised cost after modification	**50,425**

Modification due to prolongation of interest rate cap (30 November 2022)

With its Government Decree No, 415/2022 published on 26 October, the Government extended interest rate cap measures to variable, reference rate based and non-subsidized loans of micro, small and medium entrepreneurs. Reference rates of 28 June shall be applied for the outstanding volume as at 27 June 2022. Eligible clients had to notify their bank about their intention to participate in the payment holiday until 15 September, the extended period was effective from 15 November. Only HUF 5 million loss resulted from this measure, because of the small rate of corporate loans in Mortgage Banks portfolio.

Changes of book value of loans of agricultural entrepreneurs measured at amortized cost on 30 November 2022:

Gross carrying amount before modification	3,103
Modification due to interest rate cap	(5)
Gross carrying amount after modification	**3,098**
Loss allowance before modification	(90)
Net amortised cost after modification	**3,008**

Modification due to scope extension (mortgage loans with 5 year fixing without subsidy) and prolongation of the existing interest rate cap (31 December 2022)

With its Government Decree No, 3902022 published on 17 June 2022 Government extended its measures on interest rates. Firstly, the interest rate cap was further extended by 6 months, until the end of June 2023. Secondly, from 1 November 2022 the provisions of the interest rate cap must applied to the market-based mortgages with up to 5 years interest rate repricing period too.
The expected negative after tax effect of the measures taken in October 2022 amounted to HUF 12.8 billion modification loss and HUF 2.0 billion fair value decrease.

Changes of book value of related loans measured at amortized cost on 30 June 2022:

Gross carrying amount before modification	216,310
Modification due to interest rate cap	(12,802)
Gross carrying amount after modification	**203,508**
Loss allowance before modification	(5,689)
Net amortised cost after modification	**197,819**

In 2022 overall ECL significantly decreased due to the migration of clients exiting the moratoria in 2021 from Stage2 to stage1. Uncertainties related to the macro environment are considered via different macro scenarios in the ECL calculation. The bank’s direct exposure towards Ukrainian and Russian citizens is non material, the effect is reflected in lower GDP expectations related to ECL.

NOTE 5: CASH, AMOUNTS DUE FROM BANKS AND BALANCES WITH THE NATIONAL BANK OF HUNGARY (in HUF million)

	2023	2022
Amounts due from banks and balances with banks/National Bank of Hungary		
Within one year:		
In HUF	29,823	16,120
In foreign currency	2	3
Subtotal	**29,825**	**16,123**
Loss allowance	(46)	(142)
Total	**29,779**	**15,981**
Compulsory reserve	195	154
Closing balance of cash	**29,974**	**16,135**
From this: amounts due from OTP Bank	**29,790**	**15,975**

An analysis of the change in the provision for impairment	**2023**	**2022**
Balance as at 1 January	**142**	**33**
Provision for the period	1,052	710
Release of provision	(1,148)	(601)
Closing balance	46	142

Rate of the compulsory reserve	10% (until 31 March 2023)*	10%
	15% (after 1 April 2023)**	10%

*From 1. October 2022 the rate of the compulsory reserve is changed.

** From 1 April 2023 the rate of the compulsory reserve is chosen by the financial institution from a range of 10-15%.

From 1 July 2023 the basis of the compulsory rate is changed: the range of items taken into account increased and the calculation is based on the balance sheet as at 31 March 2023.

The Bank shall deposit compulsory reserve in a determined percent of its liabilities at NBH. Liabilities considered in compulsory reserve calculation are as follows:

a) deposits and loans,
b) debt instruments,
c) after 1 July 2023 repos,

The amount of the compulsory reserve is the multiplication of the daily average of the liabilities considered in the compulsory reserve calculation and compulsory reserve rate, which are (from 1 October 2022, with multiple modifications, the minimum and maximum rate that can be chosen) determined by the NBH in a specific decree. The Bank is required to complete compulsory reserve requirements in the second month after the reserve calculation period, requirements shall be completed on a monthly average until 30 September 2022 after date daily. After 1 July 2023, the basis used for the calculation of the compulsory reserve is the balance sheet as at 31 March 2023. The Bank complies with the compulsory reserve requirements by the deposit of the adequate amount of cash as the calculated compulsory reserve on the bank account at NBH.

NOTE 6: PLACEMENTS WITH OTHER BANKS (in HUF million)

	2023	2022
Within one year		
In HUF	13,929	59,721
Over one year		
In HUF	357,992	159,095
Subtotal	**371,921**	**218,816**
Loss allowance on placements with other banks	(470)	(1,263)
Total	**371,451**	**217,553**
From this: amounts due from OTP Bank	206,557	58,703

An analysis of the change in the loss allowance	**2023**	**2022**
Balance as at 1 January	**1,263**	**342**
Provision for the period	2,410	1,256
Release of provision	(3,203)	(335)
Closing balance	**470**	**1,263**

Interest conditions of placements with other banks	**2023**	**2022**
Within one year		
in HUF	11.40%	15.45%-16.87%
Over one year		
in HUF	6.49%-11.68%	17.52%-17.79%
Average interest of placements with other banks		
Placements with other banks in HUF	11.25%	8.71%

NOTE 7: SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (in HUF million)

	2023	2022
Hungarian Government bonds	15,257	13,544
Total	**15,257**	**13,544**

The whole portfolio was denominated in HUF as at 31 December 2023.

Interest conditions and the remaining maturity of securities at fair value through other comprehensive income can be analysed as follows:

	2023	2022
Over one year:		
fixed interest	14,822	13,108
Total	**14,822**	**13,108**
Interest rate:	5.5%	5.5%

The valuation of the securities at fair value through other comprehensive income was as follows as at 31 December 2023:

	2023	
	Amortized cost	**Net fair value**
Hungarian Government bonds	15,650	14,822
Total	**15,650**	**14,822**

The valuation of the securities at fair value through other comprehensive income was as follows as at 31 December 2022:

	2022	
	Amortized cost	**Net fair value**
Hungarian Government bonds	16,079	13,108
Total	**16,079**	**13,108**

NOTE 8: LOANS (in HUF million)

Loans mandatorily measured at fair value through profit or loss

	2023	2022
Within one year	31,754	31,189
Over one year	432,172	422,984
Loans mandatorily measured at fair value through profit or loss total	**463,926**	**454,173**

Loans mandatorily measured at fair value through profit or loss are mandatorily measured at fair value through profit or loss.

Loans at amortised cost

	2023	2022
Within one year	86,821	89,012
Over one year	1,127,661	1,094,333
Loans gross total	**1,214,482**	**1,183,345**
Loss allowance on loans	(12,051)	(16,601)
Total	**1,202,431**	**1,166,744**

An analysis of the loan portfolio by currency (%):

	2023	2022
In HUF	99.99%	99.99%
In foreign currency	0.01%	0.01%
Total	**100%**	**100%**

Interest rates of the loan portfolio mandatorily measured at fair value through profit or loss are as follows (%):

	2023	2022
Loans denominated in HUF	1.31% - 25.36%	1.12% - 17.17%
Average interest on loans denominated in HUF	8.89%	4.22%

Interest rates of the loan portfolio measured at amortised cost are as follows (%):

	2023	2022
Loans denominated in HUF, with a maturity within one year	0.01% - 22.75%	1% - 19,05%
Loans denominated in HUF, with a maturity over one year	0.62% - 19.05%	0.62% - 15.37%
Loans denominated in foreign currency	1.74% - 5.8%	1.74% - 6.87%
Average interest on loans denominated in HUF	8.03%	6.62%
Average interest on loans denominated in foreign currency	4.33%	4.66%

NOTE 8: LOANS (in HUF million) [continued]

An analysis of the change in the loss allowance on loans at amortised cost is as follows:

	2023	2022
Balance as at 1 January	**16,601**	**19,451**
Loss allowance for the period	21,557	17,819
from this: effect of change in parameters used for loss allowance calculation	*160*	*710*
Release of loss allowance	(25,069)	(19,428)
Other movement	(338)	(180)
Partial write-off	(700)	(1,061)
Closing balance	**12,051**	**16,601**

A significant part of the loans above are mortgage loans for purchasing real estate or home equity loans. The loans have collateral notified in the public property register in favour of OTP Mortgage Bank. Such loans and their collateral are included in the Bank's register and mortgage bonds can be issued up to this registered amount. The remaining parts of the loans are real estate development loans given to individual farmers that work in the agro-industry. Real estate and arable land can be accepted as collateral of these loans.

Loss allowance on loans at amortised cost and placements with other banks is summarized as below:

	2023	2022
Loss allowance on placements with other banks	(889)	1,030
Loss allowance on loans at amortised cost	(4,997)	(3,326)
Total	**(5,886)**	**(2,296)**

OTP Mortgage Bank only provides long term loans.

The Bank sells non-performing non subsidised loans without recourse at estimated fair value to an OTP Group member, OTP Faktoring Ltd. In addition, the Bank sells non-performing subsidised loans without recourse at estimated fair value to OTP Bank Plc.

NOTE 9: INVESTMENTS IN SUBSIDIARIES (in HUF million)

	2023	2022
Investments in subsidiaries:		
OTP Ingatlanpont Llc.	2,117	1,867
OTP Financial Point Ltd.	1,646	1,346
Total	**3,763**	**3,213**

The OTP Mortgage Bank acquired a 100% shareholding in OTP Ingatlanpont Llc. (headquarters: 1138 Budapest, Váci út 135-139. A. ép.) in December 2016, the Mortgage Bank also made a capital increase in Ingatlanpont Llc. The acquisition was registered by the Court of Registration in January 2017. (Share capital of OTP Ingatlanpont Llc: 8 mn HUF). In December 2023 the Mortgage Bank made a capital increase (250 HUF million) in OTP Ingatlanpont Llc.

The OTP Mortgage Bank acquired a 100% shareholding in OTP Pénzügyi Pont Ltd. (headquarters:1138 Budapest, Váci út 135-139. A. ép.) in July 2019. The Mortgage Bank also made a capital increase in Pénzügyi Pont Ltd. The acquisition was registered by the Court of Registration in October 2019. In June 2023 the Mortgage Bank made a capital increase (300 HUF million) in Pénzügyi Pont Ltd. (Share capital of OTP Pénzügyi Pont Ltd: 52.5 mn HUF)

NOTE 10: SECURITIES AT AMORTISED COST (in HUF million)

	2023	2022
Government bonds	303,671	298,944
Subtotal	**303,671**	**298,944**
Loss allowance on securities at amortised cost	(1,895)	(2,325)
Total	**301,776**	**296,619**

An analysis of change in the loss allowance on securities at amortised cost:

	2023	2022
Balance as at 1 January	**2,325**	**329**
Loss allowance	103	2,170
Release of loss allowance	(533)	(174)
Closing balance at 31 December	**1,895**	**2,325**

The distribution of the securities at amortised cost by currency (%):

	2023	2022
Interest rates on securities at amortised cost	1% - 6.75%	1% - 6.75%
Average interest on securities at amortised cost denominated in HUF	5.71%	3.71%

Interest conditions and the remaining maturities of securities at amortised cost can be analysed as follows:

	2023	2022
Within one year:		
fixed interest	31,942	-
Over one year:		
fixed interest	268,081	295,286
Total	**300,023**	**295,286**

NOTE 11: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS AND RIGHT OF USE ASSETS (in HUF million)

There are different kinds of tangible and intangible assets held by the Bank. In the followings there are presented reasons of the changes from opening values to closing ones in the gross values, the accumulated depreciation and amortization and in the impairment of the tangible and intangible assets in the Bank. Here can be found information about the fair values of the tangible assets and gross amounts of those assets which were fully depreciated but which are still in use.

For the year ended 31 December 2023

	Intangible assets	Office equipment and vehicles	Construction in progress	Right of use assets	Total
Cost					
Balance as at 1 January 2023	**2,019**	**70**	**10**	**200**	**2,299**
Additions	333	18	8	39	398
Disposals	(168)	(27)	(18)	-	(213)
Balance as at 31 December 2023	**2,184**	**61**	**-**	**239**	**2,484**
Accumulated Depreciation and Amortization					
Balance as at 1 January 2023	**1,819**	**60**	**-**	**2**	**1,881**
Charge for the year	126	10	-	48	184
Disposals	-	(27)	-	-	(27)
Balance as at 31 December 2023	**1,945**	**43**	**-**	**50**	**2,038**
Net book value					
Balance as at 1 January 2023	**200**	**10**	**10**	**198**	**418**
Additions	207	8	8	(9)	214
Disposals	(168)	-	(18)	-	(186)
Balance as at 31 December 2023	**239**	**18**	**-**	**189**	**446**
Fair Value	-	18	-	-	18
Gross amount of any fully depreciated tangible and intangible asset that is still in use	1,791	27	-	-	1,818

NOTE 11: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS AND RIGHT OF USE ASSETS (in HUF million) [continued]

For the year ended 31 December 2022

	Intangible assets	Office equipment and vehicles	Construction in progress	Right of use assets	Total
Cost					
Balance as at January 1, 2022	**1,889**	**88**	**-**	**323**	**2,300**
Additions	237	7	17	200	461
Disposals	(107)	(25)	(7)	(323)	(462)
Balance as at December 31, 2022	**2,019**	**70**	**10**	**200**	**2,299**
Accumulated Depreciation and Amortization					
Balance as at January 1, 2022	**1,698**	**76**	**-**	**148**	**1,922**
Charge for the year	121	10	-	52	183
Disposals	-	(26)	-	(198)	(224)
Balance as at December 31, 2022	**1,819**	**60**	**-**	**2**	**1,881**
Net book value					
Balance as at January 1, 2022	**191**	**12**	**0**	**175**	**378**
Additions	116	(3)	17	148	278
Disposals	(107)	1	(7)	(125)	(238)
Balance as at December 31, 2022	**200**	**10**	**10**	**198**	**418**
Fair Value	-	9	-	-	-
Gross amount of any fully depreciated tangible and intangible asset that is still in use	1,628	20	-	-	1,648

There was no carrying amount of the temporarily idle properties as at 31 December 2023 and 31 December 2022, respectively.
There were no restrictions on title and properties, plants or equipment pledged as security for liabilities as at 31 December 2023 and 31 December 2022.
The Bank had no contractual commitments for the acquisition of tangible and intangible assets as at 31 December 2023 and 31 December 2022.

NOTE 12: DERIVATIVE FINANCIAL ASSETS DESIGNATED AS HEDGING ACCOUNTING (in HUF million)

	2023	2022
Interest rate swaps designated as fair value hedge	1,952	-
CCIRS designated as fair value hedge	898	-
Interest rate swaps designated as cash flow hedge	4,972	11,786
Total	**7,822**	**11,786**

NOTE 13: OTHER ASSETS (in HUF million)

	2023	2022
Other financial assets		
Receivables from OTP Employee Stock Ownership Program (OTP ESOP)	1,462	1,189
Prepayments and accrued income	86	156
Trade receivables	149	162
Receivables from suppliers	9	9
Other	108	74
Loss allowance on other financial assets	(55)	(49)
Other financial assets total[2]	**1,759**	**1,541**
Other non-financial assets		
Current income tax receivable	808	1,221
Receivable related to Hungarian Government subsidies	1,030	1,031
Other	28	8
Loss allowance on other non-financial assets	(11)	(17)
Other non-financial assets total[3]	**1,866**	**2,255**
Total	**3,625**	**3,796**

An analysis of the movement in the loss allowance on other financial assets is as follows:

	2023	2022
Balance as at 1 January	**49**	**41**
Charge for the period	35	30
Release of loss allowance	(29)	(22)
Balance as at 31 December	**55**	**49**

An analysis of the movement in the loss allowance on other non-financial assets is as follows:

	2023	2022
Balance as at 1 January	**17**	**6**
Charge for the period	6	13
Release of loss allowance	(12)	(2)
Balance as at 31 December	**11**	**17**

[2] Comparative figures adjusted. Refer to Note 2.21
[3] Comparative figures adjusted. Refer to Note 2.21

NOTE 13: **OTHER ASSETS (in HUF million) (continued)**

Other financial assets under simplified approach:

2023	Without delay	< 30 days	31 - 60 days	61 - 90 days	> 91 days	Closing balance
Expected credit loss rate						
Gross value	1,307	-	-	-	55	1,362
Loss allowance	-	-	-	-	55	55
Net carrying amount	**1,307**	**-**	**-**	**-**	**-**	**1,307**

2022	Without delay	< 30 days	31 - 60 days	61 - 90 days	> 91 days	Closing balance
Expected credit loss rate						
Gross value	976	-	-	-	49	1,025
Loss allowance	-	-	-	-	49	49
Net carrying amount	**976**	**-**	**-**	**-**	**-**	**976**

NOTE 14: **AMOUNTS DUE TO BANKS AND HUNGARIAN GOVERNMENT, DEPOSITS FROM THE NATIONAL BANK OF HUNGARY AND OTHER BANKS (in HUF million)**

	2023	2022
Within one year:		
in HUF	100,120	110,099
EUR	8	8
JPY	147	171
CHF	6	6
in foreign currency	161	185
Subtotal	**100,281**	**110,284**
Over one year:		
in HUF	1,017,107	949,433
Subtotal	**1,017,107**	**949,433**
Total	**1,117,388**	**1,059,717**
From this: amounts due to OTP Bank	930,142	875,761

Interest conditions on amounts due to OTP Bank and other banks

	2023	2022
Within one year:		
in HUF	3.45%	0.9% - 15.97%
in foreign currency	0.41% - 4.23%	0.1% - 2.83%
Over one year:		
in HUF	0%-13.45%	0%-15.97%

NOTE 15: REPO LIABILITIES (in HUF million)

	2023	2022
Within one year:		
In HUF	13,211	13,947
	-	-
Total	**13,211**	**13,947**

Interest rates on repo liabilities are as follows:

	2023	2022
Within one year:		
In HUF	4.75%	4.75%
		-
Average interest on repo liabilities in HUF	4.75%	4.75%

NOTE 16: LIABILITIES FROM ISSUED SECURITIES (in HUF million)

	2023	2022
Within one year		
In HUF	280,038	55,173
In EUR	264	-
Subtotal	**280,302**	**55,173**
Over one year		
In HUF	648,655	916,293
In EUR	193,742	-
Subtotal	**842,397**	**916,293**
Total	**1,122,699**	**971,466**
Issued mortgage bonds during the period (nominal value)	216,390	200,000
Mortgage bonds became due or repurchased during the period (nominal value)	70,000	-
Interest conditions on issued securities		
Interest conditions in HUR	1.25%-11.32%	1.25%-17.36%
Interest conditions in EUR	3.60%	-

A reconciliation of the face value and the amortized cost is as follows:

	2023	2022
Nominal value of the issued securities	1,117,510	971,120
Unamortized premiums	(5,632)	(5,853)
Fair value hedge adjustment	1,200	(3,799)
Accrued interest	9,621	9,998
Amortized cost	**1,122,699**	**971,466**

Face value and interest of mortgage bonds issued by OTP Mortgage Bank shall not exceed registered normal and additional collaterals (face value and interest). The Mortgage Bank keeps record of loans, normal and additional collateral values which are shown separately. Independent property inspector monitors the availability of mortgage bond's collateral values in accordance with regulations, the registration of loans, and its pledges as collaterals as the normal collateral of the mortgage bonds, the property register data and the normal and additional collateral in the coverage register.

NOTE 16: LIABILITIES FROM ISSUED SECURITIES (in HUF million) [continued]

Issuance Programs of OTP Mortgage Bank

OTP Mortgage Bank has a Mortgage Bond and Bond Program in the value of HUF 1,000 billion with the intention of issuing dematerialized bonds in Hungary, approved by the NBH on 28 September 2023 and a Mortgage Note Program in the value of EUR 5 billion with the intention of issuing dematerialized mortgage notes in Luxembourg, approved by the CSSF on 12 December 2023. Both prospectuses are valid for 12 months following their approval.

There were maturing mortgage bonds in amount of 70,000 billion in 2023. Mortgage bonds were issued in amount of HUF 25,000 billion and in EUR 500 billion in 2023, the fees paid during the issue are HUF 81 million.

Issued securities denominated in HUF and foreign currency as at 31 December 2023 (in HUF million)

Name	Date of issue	Maturity	Nominal value in foreign currency million	Nominal value in HUF million	Amortised cost in HUF million	Interest condition in % p.a.		Hedged
OJB2024/A	9/17/2018	5/20/2024	70,000	70,000	70,306	11.32%	variable	not hedged
OJB2024/C	2/24/2020	10/24/2024	100,000	100,000	100,207	10.90%	variable	not hedged
OJB2024_II	10/10/2018	10/24/2024	101,000	101,000	101,177	2.50%	fix	not hedged
OJB2025/II	2/3/2020	11/26/2025	90,000	90,000	88,510	1.50%	fix	partially hedged
OJB2025_I	7/31/2009	7/31/2025	150,000	150,000	158,785	11.00%	fix	not hedged
OJB2027/I	7/23/2020	10/27/2027	120,100	120,100	119,263	1.25%	fix	not hedged
OJB2029/A	7/25/2022	5/24/2029	175,000	175,000	175,346	10.85%	variable	not hedged
OJB2031/I	8/18/2021	10/22/2031	95,020	95,020	90,074	2.50%	fix	not hedged
OJB2032/A	9/20/2023	11/24/2032	25,000	25,000	25,026	10.85%	variable	not hedged
OMB 2029/I (EUR)	12/20/2023	3/7/2029	500	191,390	194,005	3.60%	fix	hedged
Total issued securities				**1,117,510**	**1,122,699**			

Issued securities denominated in HUF as at 31 December 2022 (in HUF million)

Name	Date of issue	Maturity	Nominal value in HUF million	Amortised cost in HUF million	Interest condition in % p.a.		Hedged
OJB2023/I	4/5/2018	11/24/2023	45,000	45,261	1.75%	fix	not hedged
OJB2024/A	9/17/2018	5/20/2024	70,000	70,466	17.36%	variable	not hedged
OJB2024/C	2/24/2020	10/24/2024	100,000	100,322	17.18%	variable	not hedged
OJB2024/II	10/10/2018	10/24/2024	101,000	100,801	2.50%	fix	not hedged
OJB2025/I	7/31/2009	7/31/2025	150,000	159,793	11.00%	fix	not hedged
OJB2025/II	2/3/2020	11/26/2025	90,000	85,727	1.50%	fix	hedged
OJB2027/I	7/23/2020	10/27/2027	120,100	118,983	1.25%	fix	not hedged
OJB2031/I	8/18/2021	10/22/2031	95,020	89,479	2.50%	fix	not hedged
OJB2029/A	7/25/2022	5/24/2029	200,000	200,634	17.13%	variable	not hedged
Total issued securities			**971,120**	**971,466**			

NOTE 17: DERIVATIVE FINANCIAL LIABLITIES DESIGNATED AS HEDGE ACCOUNTING (in HUF million)

	2023	2022
Interest rate swap designated as fair value hedge	3,728	3,889
Interest rate swap designated as cash flow hedge	-	-
Total	**3,728**	**3,889**

NOTE 18: OTHER LIABILITIES AND PROVISIONS (in HUF million)

	2023	2022
Other financial liabilities		
Accounts payable	2,086	2,774
Accrued expenses	589	518
Other	1,923	1,600
Other financial liabilities total	**4,598**	**4,892**
Other non-financial liabilities		
Current income tax payable	420	409
Social contribution	44	56
Settlement accounts	64	17
Other	52	48
Other non-financial liabilities total	**580**	**530**
Other liabilities total	**5,178**	**5,422**

The provision on other liabilities, off-balance sheet commitments and contingent liabilities are detailed as follows:

	2023	2022
Provision for losses on other off-balance sheet commitments and contingent liabilities	413	1,395
Provisions in accordance with IFRS 9	**413**	**1,395**
Provision for litigation	23	37
Provisions in accordance with IAS 37	**23**	**37**
Total	**436**	**1,432**

Movements in the provision for losses on commitments and contingent liabilities in accordance with IFRS 9 can be summarized as follows:

	2023	2022
Opening balance	**1,395**	**779**
Provision for the period	1,904	5,261
Release of provision	(2,886)	(4,645)
Closing balance	**413**	**1,395**

Movements in the provision for losses on commitments and contingent liabilities in accordance with IAS 37 can be summarized as follows:

	2023	2022
Opening balance	**37**	**25**
Provision for the period	17,841	17,265
Release of provision	(17,855)	(17,253)
Closing balance	**23**	**37**

NOTE 19: SHARE CAPITAL (in HUF million)

All 820,000 shares are ordinary shares with a nominal value of HUF 100.000 and are authorised and fully paid.

	2023	2022
Authorized, issued and fully paid:		
Share capital (in HUF million)	**82,000**	**82,000**

All of the shares are ordinary shares representing the same rights to the shareholders. Furthermore, there are no restrictions on the distribution of dividends and the repayment of capital.
In 2022, OTP Bank Plc. carried out a capital increase in OTP Mortgage Bank Ltd. in two phases:

Period opening date	Period closing date	Quantity of change	Quantity of total
31/12/2021	29/06/2022	370,000	370,000
29/06/2022	15/12/2022	200,000	570,000
15/12/2022	31/12/2022	250,000	820,000
Total			**820,000**

In 2023, OTP Bank Plc. did not carry out a capital increase in OTP Mortgage Bank Ltd.

NOTE 20: RETAINED EARNINGS AND RESERVES (in HUF million)

The Bank is not expected to pay dividends on its 2023 results. In 2022 dividend of HUF 18 billion was proposed by the Management after the result of 2021, which was fully paid.

Based on paragraph 114/B of Act on Accounting Equity Correlation Table is prepared and disclosed as a part of the explanatory notes for the reporting date by the Bank.

Equity correlation table shall contain the opening and closing balances of the shareholder's equity in accordance with IFRS, furthermore deducted from this the opening and closing balances of the specified equity elements. Equity correlation table shall contain also untied retained earnings available for the payment of dividends, covering retained earnings from the last financial year for which accounts have been adopted comprising net profit for the period of that financial year minus cumulative unrealized gains claimed in connection with any increase in the fair value of investment properties, as provided in IAS 40 - Investment Property, reduced by the cumulative income tax accounted for under IAS 12 - Income Taxes.

Share capital

Share capital is the portion of a the Bank's equity that has been obtained by the issue of shares in the corporation to a shareholder, usually for cash.

Retained earnings

Profit of previous years generated by the Bank that are not distributed to shareholders as dividends.

Other comprehensive income

Other comprehensive income comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other IFRSs. This line contains changes in fair value of financial assets at fair value through other comprehensive income and cash flow hedge reserve.

General reserve

The Bank shall place ten per cent of the after-tax profit of the year into general reserve prescribed by the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises. The Bank is allowed to use general reserves only to cover operating losses arising from their activities.

The equity correlation table of the Bank based on paragraph 114/B of Act on Accounting as at 1 January 2023:

Balance as at 1 January, 2023	Share capital	Capital reserve	Retained earnings and other reserves	Evaluation reserve	Tied-up reserve	Net profit/(loss) for the period	Total
Capital items according to IFRS	**82,000**	**-**	**47,226**	**-**	**-**	**-**	**129,226**
Other comprehensive income	-	-	(7,307)	7,307	-	-	-
Net profit for the year	-	-	9,726	-	-	(9,726)	-
Share based payment	-	126	(126)	-	-	-	-
General reserve	-	-	(20,464)	-	20,464	-	-
Capital items according to 114/B.§ of Accounting Act	**82,000**	**126**	**29,055**	**7,307**	**20,464**	**(9,726)**	**129,226**

NOTE 20: RETAINED EARNINGS AND RESERVES (in HUF million) [continued]

The equity correlation table of the Bank based on paragraph 114/B of Act on Accounting as at 31 December 2023:

Balance as at 31 December, 2023	Share capital	Capital reserve	Retained earnings and other reserves	Evaluation reserve	Tied-up reserve	Net profit/(loss) for the period	Total
Capital items according to IFRS	**82,000**	**-**	**55,786**	**-**	**-**	**-**	**137,786**
Other comprehensive income	-	-	(4,084)	4,084	-	-	-
Net profit for the year	-	-	(11,746)	-	-	11,746	-
Share based payment		163	(163)	-	-	-	-
General reserve	-	-	(21,639)	-	21,639	-	-
Capital items according to 114/B.§ of Accounting Act	**82,000**	**163**	**18,154**	**4,084**	**21,639**	**11,746**	**137,786**

Under the Hungarian Act on Accounting, the untied retained earnings presented below indicate the maximum possible dividend pay-out, calculated based on equity correlation as per paragraph 114/B of the Act on Accounting. Untied retained earnings are not compatible with any equity component under IFRS.

	2023	**2022**
Retained earnings	18,154	29,055
Net profit for the year	11,746	(9,726)
Untied retained earnings	**29,900**	**19,329**

	2023	**2022**
Retained earnings	18,154	29,055
Other reserves	21,639	20,464
Fair value of financial instruments measured at fair value through other comprehensive income	562	(2,598)
Share-based payment reserve	163	126
Fair value of derivative financial instruments designated as cash-flow hedge	3,522	9,905
Net (loss) /profit for the period	11,746	(9,726)
Retained earnings and other reserves	**55,786**	**47,226**

Change in fair value of securities at fair value through other comprehensive income:

	2023	**2022**
Balance as at 1 January	**(2,704)**	**(818)**
Change of fair value	3,363	(2,073)
Deferred tax related to change of fair value	(193)	187
Closing balance	**466**	**(2,704)**

Expected credit loss on securities at fair value through other comprehensive income:

	2023	**2022**
Balance as at 1 January	**105**	**30**
Increase of loss allowance	15	75
Release of loss allowance	(25)	-
Closing balance	**95**	**105**

NOTE 20: RETAINED EARNINGS AND RESERVES (in HUF million) [continued]

An analysis of the change in fair value of securities at fair value through other comprehensive income

	2023	2022
Balance as at 1 January	**(2,598)**	**(787)**
Increase	2,159	(2,073)
Deferred tax related to change of fair value correction	(193)	187
Gains / (Losses) on separated currency spread of financial instruments designated as hedging instrument	1,219	-
Release	(25)	75
Closing balance	**562**	**(2,598)**

An analysis of the change in fair value of derivative financial instruments designated as cash-flow hedge

	2023	2022
Balance as at 1 January	**9,905**	**3,853**
Release	(47,235)	(71,999)
Increase	40,852	78,051
Closing balance	**3,522**	**9,905**

An analysis of the change on separated currency spread of financial instruments designated as hedging instrument

	2023	2022
Balance as at 1 January	-	-
Increase	287,124	-
Release	(285,905)	-
Closing balance	**1,219**	**-**

NOTE 21: INTEREST SUBSIDIES RELATED TO HOUSING LOANS

During 2023 6 types of interest-subsidised loans were among OTP Mortgage Bank's portfolio:

(i) loans granted before 16 June 2003
(ii) loans granted between 16 June 2003 and 21 December 2003
(iii) loans granted between 22 December 2003 and 30 June 2009
(iv) loans granted after 1 October 2009
(v) Family Housing loans granted after 2012 including interest subsidy of families with three or more children, and including interest subsidy of housing loans at preferred townships
(vi) loans granted under the Green Home Program of the MNB-funded Growth Loan Program from 2021.

Relevant elements of the currently available interest subsidised loans.
Dedicated beneficiaries can benefit from the Government Decree, the purpose of the loan:

- the applicants can be dedicated people in the Government Regulation
- purpose of the loan:
    - purchasing or building of new property
    - purchasing or modernisation or enlargement of used property
- in case of building or purchasing of property the building costs or the purchase price without the building plot price shall not exceed the amount of HUF 30 million, in case of purchase of used properties the amount of HUF 20 million, in case of modernization, enlargement and building/purchasing at a preferred township the cost shall not exceed the amount of HUF 15 million. Interest subsidy loan amount shall not exceed in case of new properties the amount of HUF 15 million, and in case of used properties the amount of HUF 10 million. The interest subsidy is determined in the per cent of government bonds' yields depending on the purpose of the loan, and it can be granted as a maximum for 5 years.
- Support for a loan applied for by families with several children lasts until the end of the term, but up to a maximum of 25 years, except for the renovation loan, which is supported for 10 years. The State will provide support for the payment of interest on a loan taken out for the investment of real estate in a preferred small town during the first twenty-five years of the term.

The MNB NHP ZOP loan provided for the implementation of environmentally friendly properties can only be used for the construction or purchase of an energy-efficient new home, for which the MNB provides a favorable interest rate until the end of the loan, but for a maximum of 25 years. In the case of families with several children, the state provides additional interest subsidies, so that the loan becomes interest-free for them during the subsidy period.

Demand for subsidized loans decreased significantly – in parallel with general demand - during the year. Of these, OTP Mortgage Bank disbursed a total of HUF 62,6 billion in 2023, which is 48% less than in the previous year. At the end of the year, the supported loan portfolio of the Mortgage Bank was HUF 495,3 billion, almost unchanged compared to a year earlier (nominal gross data, include the MNB NHP ZOP loan)

NOTE 22: INTEREST INCOME AND EXPENSES (in HUF million)

	2023	2022
Interest income accounted for using the effective interest rate method from / on		
Loans at amortised cost	93,376	72,135
FVOCI securities	395	405
Placements with other banks	33,133	16,099
Amounts due from banks and balances with National Bank of Hungary	3,058	1,685
Securities at amortised cost	17,074	8,754
Interest subsidy on housing loans financed by mortgage bonds	1,747	4,092
Subtotal	**148,783**	**103,170**
Income similar to interest income		
Loans mandatorily measured at fair value through profit or loss	40,797	18,162
Swap and forward deals related to Placements with other banks	(197)	(462)
Subtotal	**40,600**	**17,700**
Interest income total	**189,383**	**120,870**
Interest expense due to / from / on		
Amounts due to banks and deposits from the National Bank of Hungary and other banks	64,030	52,554
Leasing liabilities	10	5
Liabilities from issued securities	86,836	55,081
Financial assets	1,009	769
Repo liabilities	2,964	7
Subtotal	**154,849**	**108,416**

NOTE 23: RISK COST (in HUF million)

	2023	2022
Loss allowance of loans at amortised cost		
Loss allowance	(20,857)	(16,758)
Release of loss allowance	25,854	20,084
Total	**4,997**	**3,326**
Loss allowance of placements with other banks		
Loss allowance	(3,462)	(1,966)
Release of loss allowance	4,351	936
Total	**889**	**(1,030)**
Loss allowance on FVOCI securities		
Loss allowance	(15)	(82)
Release of loss allowance	25	7
Total	**10**	**(75)**
Loss allowance of securities at amortised cost		
Loss allowance	(103)	(2,170)
Release of loss allowance	533	174
Total	**430**	**(1,996)**
Provision on loan commitments and financial guarantees		
Loss allowance	(1,904)	(5,261)
Release of loss allowance	2,886	4,645
Total	**982**	**(616)**
Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit of loss	-	-
Loss allowance	(3)	355
Total	**(3)**	**355**
Net loss allowance / (release of loss allowance) total	**7,305**	**(36)**

NOTE 24: NET PROFIT FROM FEES AND COMMISSIONS (in HUF million)

Fee and commission income

	2023	2022
Fees and commissions relating to lending	1,676	2,731
Other	240	444
Total	**1,916**	**3,175**

Contract balances

	2023	2022
Receivables, which are included in 'other assets'	86	156

Expense from fees and commissions

	2023	2022
Fees and commissions relating to issued securities	665	358
Fees and commissions relating to lending	2,697	3,718
Others	2,440	2,134
Total	**5,802**	**6,210**
Net loss from fees and commissions	**(3,886)**	**(3,035)**

The other fees mainly consist of the cost of services in connection with lending activity and mortgage bond issues, which are not directly attributable to separate issuance, and includes fees related to FVTPL loans, which are settled when incurred.

NOTE 25: GAINS AND LOSSES (in HUF mn)

	2023	2022
Losses arising from derecognition of financial assets measured at amortised cost		
Loss from loans	(39)	(34)
	(39)	**(34)**

	2023	2022
Foreign exchange losses		
Gains from foreign exchange	(33)	3
Margin gains	-	1
Margin losses	(2)	(2)
Total	**(35)**	**2**
Gains on derivative instruments, net	**(648)**	**-**
Gains / (Losses) on financial instruments at fair value through profit or loss		
Gains on loans mandatorily measured at fair value through profit or loss	14,596	29,413
Losses on loans mandatorily measured at fair value through profit or loss	(14,278)	(15,620)
Total	**318**	**13,793**
Net gains and losses from financial instruments	**(365)**	**13,795**

For the year ended 31 December 2023 gains and losses attributable to the hedged risk on the hedged item and on the hedging instruments and also ineffectiveness in case of fair value hedge on amortised cost line items as follows

	Hedged items	Hedging instrument	Hedge ineffectiveness
Fair value hedge	(2,268)	1,868	(400)

For the year ended 31 December 2022 gains and losses attributable to the hedged risk on the hedged item and on the hedging instruments and also ineffectiveness in case of fair value hedge on amortised cost line items as follows

	Hedged items	Hedging instrument	Hedge ineffectiveness
Fair value hedge	2,045	(2,047)	(2)

NOTE 26: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF million)

	2023	2022
Other operating income		
Income from closed lawsuits	12	17
Green home program, part of the funding for growth scheme	(36)	112
Other	20	(25)
Total	**(4)**	**104**
Other operating expenses		
Provisions for future liabilities	(11)	34
Non-repayable assets contributed	1,542	1
Other	22	38
Total	**1,553**	**73**
Other administrative expenses:		
Personnel expenses:		
Wages	(690)	(564)
Taxes related to personnel expenses	(91)	(77)
Other personnel expenses	(81)	(67)
Total	**(862)**	**(708)**
Depreciation and amortization	**(183)**	**(185)**
Other administrative expenses:		
Taxes, other than income		
Bank tax	(1,928)	(2,891)
Credit institution's extra profit tax	(1,034)	(4,782)
Other taxes	(1)	1
Total taxes, other than income	*(2,963)*	*(7,672)*
Services	(319)	(280)
Professional fees	(1,055)	(1,169)
Rental fees	(14)	(9)
Material type expenses	(7)	(4)
Advertising	(1)	(1)
Total	**(4,359)**	**(9,135)**

The table below contains the detailing of the fees for audit services, which is presented in professional fees line item.

	2023	2022
Annual audit without VAT	39.12	36.58
Other non-audit service without VAT	9.50	-
Other services providing assurance without VAT	106.70	-
Total	**155.32**	**36.58**

NOTE 27: COMPENSATION OF KEY MANAGEMENT PERSONNEL (in HUF million)

	2023	2022
Key executives	85	73
Total	**85**	**73**

The remunerations of key management personnel include only short-term benefits.

NOTE 28: INCOME TAX (in HUF million)

The Bank is presently liable for income tax at a rate of 9% of taxable income, local business tax at a rate of 2% of taxable revenue, innovation contribute at a rate of 0.3% of taxable revenue.

A reconciliation of the total income tax charge for the years ended 31 December 2023 and 2022 is as follows:

	2023	**2022**
Current tax charge	1,326	594
Deferred tax (benefit)	(2)	1
Total income tax charge	**1,324**	**595**

A reconciliation of the deferred tax asset as at 31 December 2023 and 2022 is as follows:

	2023	**2022**
Balance as at January 1	**264**	**78**
Recognized in other comprehensive income tax as tax benefit	(192)	186
Balance as at December 31	**72**	**264**

A reconciliation of deferred tax assets and liabilities as at 31 December 2023 and 2022 is as follows:

	2023	**2022**
Fair value adjustment for at fair value through other comprehensive income final assets	75	267
Provision for untaken leave	1	1
Difference in depreciation and amortization	(4)	(4)
Net deferred tax assets	**72**	**264**

A reconciliation of the effective tax rate as at 31 December 2023 and 2022 is as follows:

	2023	**2022**
Profit / (loss) before income tax	13,070	(9,131)
Income tax at statutory tax rate (9%)	1,176	-
Income tax adjustments due to permanent differences are as follows:		
Use of tax	(820)	-
Difference in depreciation and amortization	1	1
Business tax and innovation contribution	1,059	594
Other	(92)	(1)
Income tax	**1,324**	**594**
Effective tax-rate	10.13%	(6.52)%

Global minimum tax

The global minimum tax legislation has been enacted, or substantively enacted, in certain jurisdictions the OTP Group operates, generally in the EU Member States. OTP Group is in scope of the enacted global minimum tax legislation. The legislation will be effective for the OTP Group's financial year beginning 1 January 2024 and introduces a minimum rate of effective taxation of 15%. The global minimum tax legislation has been adopted in Hungary in Act No. LXXXIV of 2023 on the top-up taxes ensuring a global minimum level of taxation and the amendment of related acts.

NOTE 28: INCOME TAX (in HUF million) [continued]

Global minimum tax (continued)

From an accounting perspective, it is unclear if the global minimum rules create additional temporary differences, whether to remeasure deferred taxes for the global minimum tax rules and which tax rate to use to measure deferred taxes. In response to this uncertainty, IAS 12 'Income taxes' has been amended to introduce a mandatory temporary exception to the requirements of IAS 12. Under the mandatory temporary exception, a company does not recognise or disclose information about deferred tax assets and liabilities related to the global minimum tax rules. The Group applied the temporary exception for the year ended 31 December 2023.

The Hungarian global minimum tax legislation provides for various options as to who is obliged to pay the Hungarian top-up tax (i.e., the Hungarian Group entities based on certain allocation ratios or OTP Bank Plc.). OTP group plans to choose the option where OTP Bank Plc pays the Hungarian top-up tax (if any). Therefore, even if top-up tax obligation arose with respect to Hungary, it would have to be paid by OTP Bank Plc. and not the OTP Mortgage Bank.

NOTE 29: LEASE (in HUF million)

The Bank as a lessee:

Average weighted amount of the implicit interest rate/incremental borrowing rate applied to recognise the lease liabilities: ~5.9 %.

Amounts recognised in profit and loss	**2023**	**2022**
Interest expense on lease liabilities	10	5
Expense relating to short-term leases	4	9

Leasing liabilities by maturities:

	2023	**2022**
Leasing liabilities by maturities:		
Within one year	41	35
Over one year	137	162
Total	**178**	**197**

An analysis of movement in the carrying amount of right-of-use assets by category is as follows:

	2023	**2022**
Balance as at 1 January	**200**	**323**
Additions due to new contracts	39	200
Derecognition due to matured contracts	-	(323)
Closing balance	**239**	**200**
Depreciation		
Balance as at 1 January	**2**	**148**
Depreciation charge	48	52
Derecognition due to matured contracts	-	(198)
Closing balance	**50**	**2**
Net carrying amount	**189**	**198**

NOTE 30: EARNINGS PER SHARE

Earnings per share attributable to ordinary shares are determined by dividing Net profit for the year by the weighted average number of ordinary shares outstanding during the period. The Bank has no preference shares and no options or other rights related to shares. There are no dilutions.

	2023	2022
Net income after taxes (in million HUF)	11,746	(9,726)
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (piece)	820,000	482,329
Earnings per share (in HUF)	**14,324**	**(20,165)**

NOTE 31: FINANCIAL RISK MANAGEMENT (in HUF million)

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial instruments may result in certain risks to the Bank. The most significant risks the Bank faces include

31.1. Credit risk

The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or banks of borrowers, and to geographical areas and loan types. Such risks are monitored on a periodical basis and subject to an annual or more frequent review. The exposure to any borrower including banks and brokers is further restricted by sublimit covering on- and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is partly managed obtaining collateral, corporate and personal guarantees.

31.1.1. Analysis by loan types

Defining the expected credit loss on individual and collective basis

On individual basis:

Individually assessed are the non-retail or micro- and small enterprise exposure of significant amount on a stand-alone basis:

- exposure in stage 3,
- exposure in workout management
- purchased or originated credit-impaired instruments which are in accordance with the conditions mentioned above

The calculation of impairment must be prepared and approved by the risk management functional areas. The calculation, all relevant factors (amortised cost, original and current EIR, contracted and expected cash flows (from business and/or collateral) for the individual periods of the entire lifecycle, other essential information enforced during the valuation) and the criteria thereof (including the factors underlying the classification as stage 3) must be documented individually.

The expected credit loss of the exposure equals the difference of the receivable's AC (gross book value) on the valuation date and the present value of the receivable's expected cash flows discounted to the valuation date by the exposure's original effective interest rate (EIR) (calculated at the initial recognition, or in the case of variable rate, recalculated due to the last interest rate change). The estimation of the expected future cash flows should be forward looking, it must also contain the effects of the possible change of macroeconomic outlook.
At least two scenarios must be used for the estimation of the expected cash flow. At least one scenarios should anticipate that realised cash flows will be significantly different from the contractual cash flows. Probability weights must be allocated to the individual scenarios. The estimation must reflect the probability of the occurrence and non-occurrence of the credit loss, even if the most probable result is the non-occurrence of the loss.

NOTE 31: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

31.1. Credit risk [continued]

31.1.1. Analysis by loan types [continued]

On collective basis:

The following exposures are subject to collective assessment:

- retail exposure irrespective of the amount,
- micro and small enterprise exposures irrespective of the amount,
- all other exposure which are insignificant on a stand-alone basis and not part of the workout management,
- exposure which are not in stage 3, significant on a stand-alone basis,
- purchased or originated credit-impaired instruments which are in accordance with the conditions mentioned above.

In the collective impairment methodology credit risk and the change of credit risk can be correctly captured by understanding the risk characteristics of the portfolio. In order to achieve these the main risk drivers shall be identified and used to form homogeneous segments having similar risk characteristics. The segmentation is expected to stay stable from month to month however a regular (at least yearly) revision of the segmentation process should be set up to capture the change of risk characteristics. The segmentation must be performed separately for each parameter, since in each case different factors may have relevance.

The Bank's Headquarters Group Reserve Committee stipulates the guidelines related to the collective impairment methodology at group level. In addition, it has right of agreement in respect of the risk parameters (PD -probability of default, LGD - loss given default, EAD – exposure at default) and segmentation criteria proposed by the group members.

The review of the parameters must be performed at least annually and the results should be approved by the Group Reserve Committee. Local Risk Managements is responsible for parameter estimations and updates, macroeconomic scenarios are calculated by OTP Bank Headquarters for each subsidiary and each parameter. Based on the consensus proposal of Local Risk Management and OTP Bank Headquarters, the Group Reserve Committee decides on the modification of parameters (all parameters for impairment calculation).

The impairment parameters should be backtested at least annually.

The expected loss calculation should be forward looking, including forecasts of future economic conditions. This may be achieved by applying 3-5 different macroeconomic scenarios, which may be integrated in the PD, LGD and EAD parameters.

During 2023 there were ECL SICR methodological changes in Hungary. The previously used methodology – which was based on rating category changes – was replaced by the advanced, lifetime-based methodology to identify the significant increase in credit risk. The changes resulted HUF 200 million more impairment in 2023. The impact of the SICR methodology changes and parameter updates are presented under Note 8 as part of effect of change in parameters used for loss allowance calculation line item.

NOTE 31: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

31.1. Credit risk [continued]

31.1.1. Analysis by loan types [continued]

Gross carrying amount and accumulated impairment of financial assets at amortized cost by IFRS 9 stages as at 31 December 2023:

		Gross carrying amount					Loss allowance				
	Carrying amount	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Cash amount due from banks and balances with the National Bank of Hungary	29,974	30,020	-	-	-	30,020	46	-	-	-	46
Placements with other banks, net of allowance for placement losses	371,451	371,921	-	-	-	371,921	470	-	-	-	470
Mortgage loans	1,200,740	1,071,727	123,246	17,103	590	1,212,666	2,840	5,054	4,005	27	11,926
Corporate loans	1,692	1,147	436	233	-	1,817	9	39	77	-	125
Loans at amortized cost	1,202,431	1,072,874	123,682	17,336	590	1,214,482	2,849	5,093	4,082	27	12,051
FVOCI securities	15,257	15,257	-	-	-	15,257	95	-	-	-	95
Securities at amortised cost	301,776	303,671	-	-	-	303,671	1,895	-	-	-	1,895
Other financial assets	1,759	1,745	59	10	-	1,814	1	50	4	-	55
Financial assets total	**1,922,648**	**1,795,488**	**123,741**	**17,346**	**590**	**1,937,165**	**5,356**	**5,143**	**4,086**	**27**	**14,612**
Off balance sheet items	62,657	59,044	3,918	108	-	63,070	224	167	22	-	413

NOTE 31: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

31.1. Credit risk [continued]

31.1.1. Analysis by loan types [continued]

Gross carrying amount and accumulated impairment of financial assets at amortized cost by IFRS 9 stages as at 31 December 2022:

		Gross carrying amount					Loss allowance				
	Carrying amount	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Cash amount due from banks and balances with the National Bank of Hungary	16,135	16,277	-	-	-	16,277	142	-	-	-	142
Placements with other banks	217,553	218,816	-	-	-	218,816	1,263	-	-	-	1,263
Mortgage loans	1,164,709	1,028,631	105,940	45,966	599	1,181,136	2,905	4,865	8,615	42	16,427
Corporate loans	2,035	884	1,116	209	-	2,209	5	97	72	-	174
Loans at amortised cost	1,166,744	1,029,515	107,056	46,175	599	1,183,345	2,910	4,962	8,687	42	16,601
FVOCI securities	13,439	13,544	-	-	-	13,544	105	-	-	-	105
Securities at amortised cost	296,619	298,944	-	-	-	298,944	2,325	-	-	-	2,325
Other financial assets[1]	1,541	1,525	53	12	-	1,590	-	46	3	-	49
Financial assets total	**1,712,031**	**1,578,621**	**107,109**	**46,187**	**599**	**1,732,516**	**6,745**	**5,008**	**8,690**	**42**	**20,485**
Off balance sheet items	99,690	77,930	23,079	76	-	101,085	200	1,184	11	-	1,395

[1] Comparative figures adjusted. Refer to Note 2.21

NOTE 31: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

31.1. Credit risk [continued]

31.1.1. Analysis by loan types [continued]

Changes in the Gross carrying amount of financial assets at amortised by IFRS 9 stages

Loans at amortised cost **31 December 2023**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Gross carrying amount as at 1 January 2023 IFRS 9	**1,029,515**	**107,056**	**46,175**	**599**	**1,183,345**
Transfer to Stage 1	74,536	(52,071)	(22,465)	-	-
Transfer to Stage 2	(72,071)	79,856	(7,785)	-	-
Transfer to Stage 3	(2,047)	(3,122)	5,169	-	-
New financial assets originated or purchased	152,620	5,275	368	36	158,299
Increase in opening balance	104,072	12,755	(386)	129	116,570
Financial assets derecognised (other than write-offs)	(199,634)	(23,441)	(2,966)	(174)	(226,215)
Changes due to modifications without derecognition (net)	(14,117)	(2,626)	(774)	-	(17,517)
Gross carrying amount as at 31 December 2023	**1,072,874**	**123,682**	**17,336**	**590**	**1,214,482**

Loans at amortised cost **31 December 2022**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Gross carrying amount as at 1 January 2022 IFRS 9	**862,891**	**254,321**	**38,032**	**497**	**1,155,741**
Transfer to Stage 1	138,177	(135,748)	(2,429)	-	-
Transfer to Stage 2	(22,487)	29,892	(7,405)	-	-
Transfer to Stage 3	(1,316)	(20,459)	21,775	-	-
New financial assets originated or purchased	175,404	5,985	279	238	181,704
Increase in opening balance	53,577	19,023	(507)	38	72,334
Financial assets derecognised (other than write-offs)	(160,363)	(42,403)	(1,214)	(174)	(204,156)
Changes due to modifications without derecognition (net)	(16,368)	(3,555)	(2,356)	-	(22,278)
Gross carrying amount as at 31 December 2022	**1,029,515**	**107,056**	**46,175**	**599**	**1,183,345**

Placements with other banks, net of allowance for placement losses[5] **31 December 2023**	**Stage 1**	**Total**
Gross carrying amount as at 1 January 2023 IFRS 9	**218,816**	**218,816**
New financial assets originated or purchased	303,128	303,128
Financial assets derecognised (other than write-offs)	(150,023)	(150,023)
Gross carrying amount as at 31 December 2023	**371,921**	**371,921**

Placements with other banks, net of allowance for placement losses **31 December 20232**	**Stage 1**	**Total**
Gross carrying amount as at 1 January 2022 IFRS 9	**152,317**	**152,317**
New financial assets originated or purchased	150,166	150,166
Financial assets derecognised (other than write-offs)	(83,667)	(83,667)
Gross carrying amount as at 31 December 2022	**218,816**	**218,816**

[5] No instruments are in stage 2, 3 or in the POCI category.

NOTE 31: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

31.1.1. Analysis by loan types [continued]

Changes in the Gross carrying amount of financial assets at fair value through other comprehensive income by IFRS 9 stages

FVOCI Securities **31 December 2023**	**Stage 1**	**Total**
Gross carrying amount as at 1 January 2023 IFRS 9	**13,544**	**13,544**
New financial assets originated or purchased	1,714	1,714
Financial assets derecognised (other than write-offs)	(1)	(1)
Gross carrying amount as at 31 December 2023	**15,257**	**15,257**

FVOCI Securities[6] **31 December 2022**	**Stage 1**	**Total**
Gross carrying amount as at 1 January 2022 IFRS 9	**16,037**	**16,037**
Financial assets derecognised (other than write-offs)	(2,493)	(2,493)
Gross carrying amount as at 31 December 2022	**13,544**	**13,544**

Changes in the Gross carrying amount of financial assets at amortised by IFRS 9 stages

Securities at amortised cost **31 December 2023**	**Stage 1**	**Total**
Gross carrying amount as at 1 January 2023 IFRS 9	**298,944**	**298,944**
New financial assets originated or purchased	4,737	4,737
Financial assets derecognised (other than write-offs)	(10)	(10)
Gross carrying amount as at 31 December 2023	**303,671**	**303,671**

Securities at amortised cost[7] **31 December 2022**	**Stage 1**	**Total**
Gross carrying amount as at 1 January 2022 IFRS 9	**175,454**	**175,454**
New financial assets originated or purchased	150,664	150,664
Financial assets derecognised (other than write-offs)	(27,174)	(27,174)
Gross carrying amount as at 31 December 2022	**298,944**	**298,944**

Changes in the carrying amount of contingent assets by IFRS 9 stages

Off Balance sheet items **31 December 2023**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2023 IFRS 9	**77,930**	**23,079**	**76**	**101,085**
Transfer to Stage 1	20,133	(20,113)	(20)	-
Transfer to Stage 2	(5,818)	5,853	(35)	-
Transfer to Stage 3	(158)	(26)	184	-
New financial assets originated or purchased	29,458	375	-	29,833
Financial assets derecognised (other than write-offs)	(62,501)	(5,250)	(97)	(67,848)
Gross carrying amount as at 31 December 2023	**59,044**	**3,918**	**108**	**63,070**

Off Balance sheet items **31 December 2022**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2022 IFRS 9	**56,939**	**5,637**	**117**	**62,693**
Transfer to Stage 1	5,004	(4,974)	(30)	-
Transfer to Stage 2	(3,436)	3,441	(5)	-
Transfer to Stage 3	(102)	(23)	125	-
New financial assets originated or purchased	68,770	21,489	43	90,302
Financial assets derecognised (other than write-offs)	(49,245)	(2,491)	(174)	(51,910)
Gross carrying amount as at 31 December 2022	**77,930**	**23,079**	**76**	**101,085**

[6] Data are only included for the stage 1 category, such assets are not covered by Stage 2, 3 or POCI.
[7] The same applies.

NOTE 31: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

31.1. Credit risk [continued]

31.1.1. Analysis by loan types [continued]

Changes in the Loss allowance amount of financial assets at amortised cost by IFRS 9 stages

Loans at amortised cost 31 December 2023	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loss allowance as at 1 January 2023	**2,910**	**4,962**	**8,687**	**42**	**16,601**
Transfer to Stage 1	5,394	(1,908)	(3,486)	-	-
Transfer to Stage 2	(348)	1,702	(1,354)	-	-
Transfer to Stage 3	(16)	(348)	364	-	-
Net remeasurement of loss allowance	(5,273)	849	597	(15)	(3,842)
New financial assets originated or purchased	330	120	30	-	480
Financial assets derecognised (other than write-offs)	(148)	(284)	(756)	-	(1,188)
Loss allowance as at 31 December 2023	**2,849**	**5,093**	**4,082**	**27**	**12,051**

Loans at amortised cost 31 December 2022	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loss allowance as at 1 January 2022 IFRS 9	**2,284**	**7,659**	**9,462**	**46**	**19,451**
Transfer to Stage 1	4,477	(4,002)	(475)	-	-
Transfer to Stage 2	(86)	1,794	(1,708)	-	-
Transfer to Stage 3	(7)	(669)	676	-	-
Net remeasurement of loss allowance	(4,354)	377	1,459	1	(2,517)
New financial assets originated or purchased	749	464	62	-	1,275
Financial assets derecognised (other than write-offs)	(153)	(661)	(7899	(5)	(1,608)
Loss allowance as at 31 December 2022	**2,910**	**4,962**	**8,687**	**42**	**16,601**

NOTE 31: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

31.1. Credit risk [continued]

31.1.1. Analysis by loan types [continued]

Changes in the Loss allowance of financial assets at amortised cost by IFRS 9 stages

Placements with other banks, net of allowance for placement losses[8]

31 December 2023	**Stage 1**	**Total**
Loss allowance as at 1 January 2023	**1,263**	**1,263**
Net remeasurement of loss allowance	(234)	(234)
New financial assets originated or purchased	370	370
Financial assets derecognised (other than write-offs)	(929)	(929)
Loss allowance as at 31 December 2023	**470**	**470**

Placements with other banks, net of allowance for placement losses

31 December 2022	**Stage 1**	**Total**
Loss allowance as at 1 January 2022	**342**	**342**
Net remeasurement of loss allowance	128	128
New financial assets originated or purchased	930	930
Financial assets derecognised (other than write-offs)	(137)	(137)
Loss allowance as at 31 December 2022	**1,263**	**1,263**

Changes in the Loss allowance of financial assets at fair value through other comprehensive income by IFRS 9 stages

FVOCI Securities[5]

31 December 2023	**Stage 1**	**Total**
Loss allowance as at 1 January 2023	**105**	**105**
Net remeasurement of loss allowance	(10)	(10)
Loss allowance as at 31 December 2023	**95**	**95**

FVOCI Securities

31 December 2022	**Stage 1**	**Total**
Loss allowance as at 1 January 2022	**30**	**30**
Net remeasurement of loss allowance	75	75
Loss allowance as at 31 December 2022	**105**	**105**

Changes in the Loss allowance of financial assets at amortised cost by IFRS 9 stages

Securities at amortised cost[5]

31 December 2023	**Stage 1**	**Total**
Loss allowance as at 1 January 2023	**2,325**	**2,325**
Net remeasurement of loss allowance	(430)	(430)
Loss allowance as at 31 December 2023	**1,895**	**1,895**

Securities at amortised cost

31 December 2022	**Stage 1**	**Total**
Loss allowance as at 1 January 2022	**329**	**329**
Net remeasurement of loss allowance	1,423	1,423
New financial assets originated or purchased	624	624
Financial assets derecognised (other than write-offs)	(51)	(51)
Loss allowance as at 31 December 2022	**2,325**	**2,325**

[8] No instruments are in stage 2, 3 or in the POCI category.

NOTE 31: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

31.1. Credit risk [continued]

31.1.1. Analysis by loan types [continued]

Changes in expected credit loss of loan commitments and financial guaranties by IFRS 9 stages

Off Balance sheet items				
31 December 2023	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loss allowance as at 1 January 2023	**200**	**1,184**	**11**	**1,395**
Transfer from Stage 1 to Stage 2	1,022	(1,020)	(2)	-
Transfer from Stage 1 to Stage 3	(14)	20	(6)	-
Transfer from Stage 2 to Stage 1	-	(3)	3	-
Net remeasurement of loss allowance	(986)	(22)	16	(992)
New financial assets originated or purchased	3	9	-	12
Financial assets derecognised (other than write-offs)	(1)	(1)	-	(2)
Loss allowance as at 31 December 2023	**224**	**167**	**22**	**413**

Off Balance sheet items				
31 December 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Expected credit loss as at 1 January 2022	**417**	**335**	**27**	**779**
Transfer from Stage 1 to Stage 2	307	(300)	(7)	-
Transfer from Stage 1 to Stage 3	(27)	28	(1)	-
Transfer from Stage 2 to Stage 1	(1)	(1)	2	-
Net remeasurement of loss allowance	(647)	29	(6)	(624)
New financial assets originated or purchased	170	1,100	7	1,277
Financial assets derecognised (other than write-offs)	(19)	(7)	(11)	(37)
Expected credit loss as at 31 December 2022	**200**	**1,184**	**11**	**1,395**

In the current year, all loans were originated in stage 1, however, in the table above, the loans that were disbursed in the current year, but by the end of the year are already in stage 2 or 3, are shown as impairment losses originated in stage 2 and 3.

NOTE 31: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

31.1. Credit risk [continued]

31.1.1. Analysis by loan types [continued]

Changes in the Loss allowance of financial assets at amortised cost and fair value through other comprehensive by IFRS 9 stages

Loan portfolio by internal ratings

31 December 2023			**Gross carrying amount**		
Internal rating grade	**Stage1**	**Stage2**	**Stage3**	**POCI**	**Total**
Low grade (1-4)	996,287	17,037	-	237	1,013,561
Medium grade (5-7)	71,614	86,759	-	120	158,493
High grade (8-9)	4,973	19,886	-	52	24,911
Non performing	-	-	17,336	181	17,517
Total loans at amortized cost	**1,072,874**	**123,682**	**17,336**	**590**	**1,214,482**

31 December 2023			**Accumulated loss allowance**		
Internal rating grade	**Stage1**	**Stage2**	**Stage3**	**POCI**	**Total**
Low grade (1-4)	2,272	683	-	5	2,960
Medium grade (5-7)	490	3,194	-	2	3,686
High grade (8-9)	87	1,216	-	2	1,305
Non performing	-	-	4,082	18	4,100
Total loans at amortized cost	**2,849**	**5,093**	**4,082**	**27**	**12,051**

31 December 2022			**Gross carrying amount**		
Internal rating grade	**Stage1**	**Stage2**	**Stage3**	**POCI**	**Total**
Low grade (1-4)	865,792	36,964	-	151	902,907
Medium grade (5-7)	154,712	56,013	-	125	210,850
High grade (8-9)	9,011	14,079	-	65	23,155
Non performing	-	-	46,175	258	46,433
Total loans at amortized cost	**1,029,515**	**107,056**	**46,175**	**599**	**1,183,345**

31 December 2022			**Accumulated loss allowance**		
Internal rating grade	**Stage1**	**Stage2**	**Stage3**	**POCI**	**Total**
Low grade (1-4)	2,041	1,211	-	6	3,258
Medium grade (5-7)	659	2,598	-	4	3,261
High grade (8-9)	210	1,153	-	2	1,365
Non performing	-	-	8,687	30	8,717
Total loans at amortized cost	**2,910**	**4,962**	**8,687**	**42**	**16,601**

NOTE 31: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

31.1. Credit risk [continued]

Loan portfolio classification by economic activities

Gross loans at amortized by economic activities	**2023**	**2022**
Retail	1,212,503	1,180,982
Agriculture, forestry and fishing	1,957	2,344
Other services	22	19
Total gross loans and finance lease receivable	**1,214,482**	**1,183,345**

Loss allowance on loans at amortized by economic activities	**2023**	**2022**
Retail	(11,898)	(16,400)
Agriculture, forestry and fishing	(148)	(200)
Other services	(5)	(1)
Total loss allowance on loans and finance lease receivable	**(12,051)**	**(16,601)**

Collateral

The collateral value held by the Bank by types is as follows (**total collateral value**). The collateral cover loan as well as off-balance sheet exposures.

Types of collateral	**2023**	**2022**
Government guarantees	15,394	19,957
Deposit, securities	23,572	20,803
Mortgage	5,766,895	5,050,553
Total	**5,805,861**	**5,091,313**

The collateral value held by the Bank by types is as follows (**to the extent of the exposures**). The collateral cover loan as well as off-balance sheet exposures.

Types of collateral	**2023**	**2022**
Government guarantees	10,807	13,639
Deposit, securities	13,187	14,788
Mortgage	1,608,185	1,543,688
Total	**1,632,179**	**1,572,115**

NOTE 31: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

31.1. Credit risk [continued]

Fair value of collaterals held, received (maximum exposure)

		Fair value collateral							
31 December 2023	**Maximum exposure to credit risk**	**Securities**	**Guarantee**	**Property**	**Surplus collateral**	**Total collateral**	**Net exposure**	**% of exposure subject to collateral requirements**	**Assosociated to ECL**
Cash amount due from banks and balances with the National Bank of Hungary	29,974	-	-	-	-	-	29,974	0%	46
Placements with other banks	371,451	*23,572*	-	-	*(8,555)*	15,017	356,434	4%	470
Mortgage loans	*1,200,740*	-	*13,392*	*4,883,213*	*(3,700,678)*	*1,195,927*	4,813	100%	*11,926*
Corporate loans	*1,691*	-	-	*14,730*	*(13,050)*	*1,680*	11	99%	*125*
Loans at amortized cost	1,202,431	-	13,392	4,897,943	(3,713,728)	1,197,607	4,824	100%	12,051
Securities at amortised cost	301,776	-	-	-	-	-	301,776	0%	1,895
Total financial assets at amortised cost	**1,905,632**	**23,572**	**13,392**	**4,897,943**	**(3,722,283)**	**1,212,624**	**693,008**	**64%**	**14,462**
Derivative financial instruments	7,822	-	-	-	-	-	7,822	0%	-
Loans mandatorily measured at fair value through profit or loss	463,926	-	2,001	2,196,501	(1,734,576)	*463,926*	-	100%	-
Total financial instruments at fair value through profit or loss	**471,748**	**-**	**2,001**	**2,196,501**	**(1,734,576)**	**477,551**	**7,822**	**101%**	**-**
FVOCI securities	15,257	-	-	-	-	-	15,257	0%	95
Total debt instruments at fair value through OCI	**15,257**	**-**	**-**	**-**	**-**	**-**	**15,257**	**0%**	**95**
Loan commitments	62,657	-	-	121,831	(78,097)	*43,734*	18,923	70%	413
Total off balance sheet items	**62,657**	**-**	**-**	**121,831**	**(78,097)**	**43,734**	**18,923**	**70%**	**413**

NOTE 31: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

31.1. Credit risk [continued]

Fair value of collaterals held, received (maximum exposure)

		Fair value collateral							
31 December 2022	**Maximum exposure to credit risk**	**Securities**	**Guarantee**	**Property**	**Surplus collateral**	**Total collateral**	**Net exposure**	**% of exposure subject to collateral requirements**	**Assosociated to ECL**
Cash amount due from banks and balances with the National Bank of Hungary	16,135	-	-	-	-	-	16,135	0%	142
Placements with other banks	217,553	*20,803*	-	-	*(5,774)*	15,029	202,524	7%	1,263
Mortgage loans	*1,164,709*	-	*17,559*	*4,663,190*	*(3,520,483)*	*1,160,266*	4,443	100%	*16,427*
Corporate loans	*2,035*	-	-	*14,960*	*(12,925)*	*2,035*	-	100%	*174*
Loans at amortized cost	1,166,744	-	17,559	4,678,150	(3,533,408)	1,162,301	4,443	100%	16,601
Securities at amortised cost	296,619		-	-	-	-	296,619	0%	2,325
Total financial assets at amortised cost	**1,697,051**	**20,803**	**17,559**	**4,678,150**	**(3,539,182)**	**1,177,330**	**519,721**	**69%**	**20,331**
Derivative financial instruments	11,786	-	-	-	-	-	11,786	0%	-
Loans mandatorily measured at fair value through profit or loss	454,173	-	2,398	1,904,054	(1,452,279)	454,173	-	100%	-
Total financial instruments at fair value through profit or loss	**465,959**	**-**	**2,398**	**1,904,054**	**(1,452,279)**	**454,173**	**11,786**	**98%**	**-**
FVOCI securities	13,544	-	-	-	-	-	13,544	0%	105
Total debt instruments at fair value through OCI	**13,544**	**-**	**-**	**-**	**-**	**-**	**13,544**	**0%**	**105**
Loan commitments	99,690	-	-	184,568	(113,089)	*71,479*	28,211	72%	1,395
Total off balance sheet items	**99,690**	**-**	**-**	**184,568**	**(113,089)**	**71,479**	**28,211**	**72%**	**1,395**

The Bank had no income from the enforcement of collateral in 2023 and 2022.

NOTE 31: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

31.1. Credit risk [continued]

The collateral value (**total collateral value**) held by the Bank related to non-performing loan portfolio:

The collateral value of non-performing loans at amortized cost

2023	**Gross carrying amount**	**Loss allowance**	**Carrying amount**	**Collateral value**
Mortgage loans	17,693	(4,032)	13,661	64,751
Corporate loans	233	(77)	156	957
Total	**17,926**	**(4,109)**	**13,817**	**65,708**

The collateral value of loans mandatorily measured at fair value through profit or loss

2023	**Gross carrying amount**	**Loss allowance**	**Carrying amount**	**Collateral value**
Mortgage loans	3,953	(1,044)	2,909	11,267
Total	**3,953**	**(1,044)**	**2,909**	**11,267**

The collateral value of non-performing loans at amortized cost

2022	**Gross carrying amount**	**Loss allowance**	**Carrying amount**	**Collateral value**
Mortgage loans	46,565	(8,657)	37,908	140,499
Corporate loans	209	(72)	137	938
Total	**46,774**	**(8,729)**	**38,045**	**141,437**

The collateral value of loans mandatorily measured at fair value through profit or loss

2022	**Gross carrying amount**	**Loss allowance**	**Carrying amount**	**Collateral value**
Mortgage loans	9,497	(1,449)	8,048	26,675
Total	**9,497**	**(1,449)**	**8,048**	**26,675**

Offsetting

Derivatives:
The Bank does not have any derivative for trading purposes. All derivative transactions are designated in hedge relationship. Derivative transactions are concluded with the Ultimate parent of the Bank and this is why based on the Bank risk management policies master netting agreements and margin deposits are not applied.

Repo transactions:
The Bank has one repo deal with the Ultimate parent of the Bank open as at 31 December 2023. This repo deal is backed by one Hungarian Government Bond (2032/A) with a nominal amount HUF 15 billion. For the details of the repo transaction refer to Note 15.

Other balance sheet positions potentially subject to netting arrangements:
The Bank does not have netting arrangements in addition to the aforementioned repo transactions.

Collaterals:
The Bank's activity is to disburse mortgage loans to its customers. In accordance with the respective act governing the operation of the Bank and in accordance with the respective internal risk management policies such mortgage loan exposures are collateralized.

The Bank finances its activity by way of issuing mortgage-backed securities (in accordance with the respective act). Such issued bonds are backed by the performing mortgage portfolio.

NOTE 31: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

31.1. Credit risk [continued]

Restructured loans

	2023		2022	
	Gross portfolio	**Allowance**	**Gross portfolio**	**Allowance**
Retail loans	4,560	(407)	46,307	(1,706)
Corporate loans	151	(6)	480	(16)
SME loans	201	(29)	718	(83)
Total	**4,912**	**(442)**	**47,505**	**(1,805)**

The forborne definition used by the Bank is based on EU 2015/227 regulation.
Restructuring (forbearance) is a modification of the contract – initiated by either the client or the bank – that provides a concession or allowance towards the client in respect to the client's current or future financial difficulties. The table of restructured loans contains exposures classified as performing forborne. An exposure is considered performing forborne if the conditions of the non-performing status are not met at the time of the restructuring, or the exposure fulfilled the requirements of the minimum one-year cure period as non-performing forborne.

The loan volume of Mortgage Bank classified as performing forborne exclusively due to moratoria participation decreased significantly due the expiration of the probation period for retail exposures.

At fair value through other comprehensive income securities as at 31 December 2023

	Baa2		**Not rated**		**Total**
Hungarian government bonds	15,257	100.00%	-	0.00%	15,257
Total	**15,257**	**100.00%**	**-**	**0.00%**	**15,257**

Securities at amortised cost as at 31 December 2023

	Baa2		**Not rated**		**Total**
Hungarian government bonds	301,776	100.00%	-	0.00%	301,776
Total	**301,776**	**100.00%**	**-**	**0.00%**	**301,776**

At fair value through other comprehensive income securities as at 31 December 2022

	Baa2		**Not rated**		**Total**
Hungarian government bonds	13,544	100.00%	-	0.00%	13,544
Total	**13,544**	**100.00%**	**-**	**0.00%**	**13,544**

Securities at amortised cost as at 31 December 2022

	Baa2		**Not rated**		**Total**
Hungarian government bonds	296,619	100.00%	-	0.00%	296,619
Total	**296,619**	**100.00%**	**-**	**0.00%**	**296,619**

NOTE 31: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

31.2. Market risk

Market risks arise from positions taken in securities and other instruments. The Bank takes no significant exposure to market risks. Market risks are generally monitored and controlled by the Asset and Liability Management.

31.2.1. Interest rate sensitivity analysis[9]

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. The analysis is prepared assuming the amount of assets and liabilities outstanding at the balance sheet date was outstanding for the whole year. The main assumptions were as follows:

- Floating-rate assets and liabilities were repriced to the modelled benchmark yields at the repricing dates assuming the unchanged margin compared to the last repricing.
- Fixed-rate assets and liabilities were repriced at the contractual maturity date.
- As for liabilities with discretionary repricing feature by the Bank were assumed to be repriced with two-weeks delay, assuming no change in the margin compared to the last repricing date.
- Deposits with an interest rate lower than 0.3% even at high market rates were assumed to be unchanged for the whole period.
- The sensitivity of interest income to changes in BUBOR is analyzed.

The simulation were prepared by assuming two scenarios:
1. BUBOR increases gradually by 100 bps over the next year (scenario 1)
2. BUBOR decreases gradually by 50 bps over the next year (scenario 2)

The net interest income in a one-year period beginning with January 1, 2024 would be increased by HUF 260 million (probable scenario) and decreased by HUF 51 million (alternative scenario) as a result of these simulation. The effects of the parallel shifts of the yield-curves to the net interest income on a one-year period can be summarized as follows:

Description		Effects to the net interest income in one year period	
		2023	**2022**
HUF	(0.1%) parallel shift	3	42
HUF	0.1% parallel shift	(3)	(41)

[9] Interest rate risk is detaiuled in note 36

NOTE 31: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

31.2.2. Foreign exchange rate sensitivity analysis

The foreign exchange sensitivity analysis has been determined based on the net open position, taking into account both balance sheet exposure and off-balance sheet exposure. The simulation was made on the assumption, that the price changes happen as a one-off event, and neither does it take into consideration possible balance sheet dynamics, nor the potential increase or decrease of risk costs related to foreign exchange denominated assets.

The total net open position of OTP Mortgage Bank was 478 million HUF short on 31st December 2023 (compared to 144 million HUF as of 31/12/2022), which consisted of EUR, JPY and CHF exposure. Since OTP Mortgage Bank has completed the conversion of foreign currency consumer mortgage loans into HUF, from its operation does not arise material FX exposures. The potential loss on current open foreign exchange exposure is marginal compared to the regulatory capital of the Bank.

31.3. Capital management

The primary objective of the capital management of the Bank is to ensure the prudent operation, the entire compliance with the prescriptions of the regulator for a persistent business operation and maximising the shareholder value, accompanied by an optimal financing structure.
The capital management of the Bank includes the management and evaluation of the shareholder's equity available for hedging risks, other types of funds to be recorded in the equity and all material risks to be covered by the capital.
The basis of the capital management of the Bank in the short run is the continuous monitoring of its capital position, in the long run the strategic and the business planning process, which includes the monitoring and forecast of the capital position of the Bank.
The Bank maintains the capital adequacy required by the regulatory bodies and the planned risk taking mainly by means of ensuring and developing its profitability. In case the planned risk level of the Bank exceeded its Core and Supplementary capital, the Bank ensures the prudent operation by occasional measures - by including the owner of the Bank.

Capital adequacy

The Capital Requirements Directive package (CRDIV/CRR) transposes the global standards on banking regulation (commonly known as the Basel III agreement) into the EU legal framework. The rules are applied from 1 January 2014. They set stronger prudential requirements for institutions, requiring them to keep sufficient capital reserves and liquidity. This framework makes institutions in the EU more solid and strengthens their capacity to adequately manage the risks linked to their activities, and absorb any losses they may incur in doing business.

The Bank has entirely complied with the regulatory capital requirements in 2023 as well as in 2022.

The Bank's capital adequacy calculation is in line with IFRS and based on Basel III as at 31 December 2023 and 2022. The Bank uses the standard method for determining the regulatory capital requirements of the credit risk and market risk while in case of the operational risk the Advanced Measurement Approach (AMA).

In HUF million	**2023**	**2022**
Core capital	136,673	126,719
Regulatory capital	**136,673**	**126,719**
Credit risk capital requirement	56,925	59,853
Operational risk capital requirement	4,342	3,368
Total required regulatory capital	**61,267**	**63,221**
Surplus capital	**75,406**	**63,498**
Capital ratio	17.8%	16.0%

The positive components of the Core capital are the following:
Issued capital, Retained earnings of the previous year, Retained earnings, Cumulative Comprehensive Income, Other Reserves

The negative components of the Core capital are the following:
Prudential filter, Intangible assets

NOTE 32: OFF-BALANCE SHEET ITEMS (in HUF million)

In the normal course of business, the Bank becomes a party to various financial transactions that are not reflected on the statement of financial position and are referred to as off-balance sheet financial instruments. The following represents notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

	2023	2022
Current litigations	883	934
Loan facilities	63,070	101,085
Contingent and future liabilities	**63,953**	**102,019**

Legal disputes

At the balance sheet date the Bank was involved in various claims and legal proceedings of a nature considered normal to its business. The level of these claims and legal proceedings corresponds to the level of claims and legal proceedings in previous years.

The Bank believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation.

Provision due to legal disputes was HUF 6 million and HUF 11 million as at 31 December 2023 and 2022, respectively.

Commitments to extend credit

The primary purpose of these instruments is to ensure that funds are available to a customer as required.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans. The Management of the Bank believes the market risk associated with guarantees, irrevocable letters of credit and undrawn loan commitments are minimal.

NOTE 33: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF million)

Act on Credit Institutions and Financial Enterprises Key management personnel affected by the Bank Group Policy receive compensation based on performance assessment generally in the form of cash bonus and equity shares in a ratio of 50-50%. Assignment is based on OTP shares, furthermore performance based payments are deferred in accordance with the rules of Credit Institutions Act.

OTP Bank ensures the share-based payment part for the management personnel of OTP Group members.

The quantity of usable shares for individuals calculated for settlement of share-based payment shall be determined as the ratio of the amount of share-based payment and share price determined by Supervisory Board.

The value of the share-based payment at the performance assessment is determined within 10 days by Supervisory Board based on the average of the three previous trade day's middle rate of OTP Bank's equity shares fixed on the Budapest Stock Exchange.

The parameters for the share-based payment relating to ongoing years 2023 by Supervisory Board for periods of each year as follows

	The year 2020	The year 2021	The year 2022	The year 2023	Total
OTP Mortgage Bank	1.37	3.26	5.46	26.71	36.8

Based on the CRD III directives and the amendment of the Act on Credit Institutions and Financial Enterprises, it was necessary to modify the previous option scheme by introducing the Bank Group Remuneration Policy, which was adopted by a resolution of the Bank's General Meeting.

At the same time, the specific conditions of the share entitlement at a preferential price will be established, with the share entitlement at a preferential price including a maximum discount of HUF 2 000 and the maximum income per share at the time of the share entitlement being HUF 4000.

NOTE 34: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF million)

As at 31 December 2023

	EUR	CHF	JPY	USD	Total
Assets	204,566	6	139	-	204,711
Liabilities	(205,475)	(6)	(146)	(3)	(205,630)
Net position	**(909)**	**-**	**(7)**	**(3)**	**(919)**

As at 31 December 2022

	EUR	CHF	JPY	USD	Total
Assets	12	7	183	-	202
Liabilities	(245)	(6)	(171)	(2)	(424)
Net position	**(233)**	**1**	**12**	**(2)**	**(222)**

Whilst the Bank monitors its foreign exchange position for compliance with the regulatory requirements of the NBH and own limit system established in respect of limits on open positions. The measurement of the Bank's open foreign currency position involves monitoring the VaR limit on the foreign exchange exposure of the Bank.

NOTE 35: RELATED PARTY TRANSACTIONS (in HUF million)

35.1. Outstanding balances/Transactions due from or due to OTP Bank Plc.

35.1.1. Outstanding balances in the Separate Statement of Financial Position related to OTP Bank Plc.

The Bank had the following assets and liabilities due from, or due to the OTP Bank Plc.:

Assets	**2023**	**2022**
Cash, amounts due from OTP Bank	29,835	15,975
Placements with OTP Bank	206,557	58,703
Accrued receivables	52	99

Liabilities	**2023**	**2022**
Amounts du to OTP Bank and other banks	(930,142)	(875,761)
Repo liabilities	(13,211)	(13,947)
Face value of issued mortgage bonds held by OTP Bank	(268,197)	(316,196)
Accrued interest expense due to OTP Bank	(3,531)	(3,977)
Other liabilities due to OTP Bank	(2,014)	(2,158)

35.1.2. Transactions in the Separate Statement of Profit or Loss related to OTP Bank Plc.

	2023	**2022**
Interest income	8,766	544
Interest expense	(66,038)	(49,192)
Account handling fees paid to OTP Bank	(2,911)	(3,000)
Other fees and commissions relating to lending received from OTP Bank	904	2,203
of which: Revenue from the value appraisal activity from OTP Bank	901	985
Other fees and commissions relating to lending paid to OTP Bank	(1,791)	(2,550)

NOTE 35: RELATED PARTY TRANSACTIONS (in HUF million) [continued]

35.2. Outstanding balances related to key management personnel

The management, the members of the Board of Directors and the Supervisory Board and their close relatives have loans of HUF 5,788 million as at 31 December 2023. These loans were covered by HUF 12,654 million mortgages, which can be categorized into 5 different interest periods:

5 years:	1.70% - 11.02%
10 years:	2.35% - 6.75%
20 years:	2.49% - 4.24%
25 years:	0.00% - 9.20%
30 years:	6.94% - 8.49%

The APR[10] rate at the time the loan is disbursed is based on current market rates.

35.3. Outstanding balances/Transactions related to other related party[11]

35.3.1. Transactions related to OTP Building Society Ltd.

	2023	2022
Face value of issued mortgage bonds held by OTP Building Society Ltd.	63,816	64,696
Accrued interest expense	(1,919)	(1,926)

35.3.2. Transactions of the OTP Mortgage Bank's loan portfolio related to OTP Faktoring Ltd.

	2023	2022
Book value of non-performing loans sold to OTP Faktoring Ltd.	181	114
Selling price of the non-performing loans related to OTP Faktoring Ltd.	131	95

35.3.3. Transactions related to Merkantil Bank Ltd.

	2023	2022
Face value of issued mortgage bonds held by Merkantil Bank Ltd.	122,665	122,665
Accrued interest expense	(2,241)	(2,248)

35.3.4. Further Outstanding balances/Transactions related to other related party

	2023	2022
Other liabilities due to other related party	(393)	-
Other operating income from other related party	24	137
Revenue from the value appraisal activity from OTP Faktoring Ltd. And from other related party	868	1,051

Compensation of key management personnel is shown in Note 27.

In the normal course of the business the Bank enters into other transactions with the entities within the OTP Group:

- DSK Bank AD – from issuance of mortgage bonds in amount of EUR 200 mn (notional),
- Nova KBM d.d. – from issuance of mortgage bonds in amount of EUR 200 mn (notional),

[10] Annual Percentage Rate

[11] The Bank has significant transactions with OTP Building Society Ltd., OTP Faktoring Ltd. and Merkantil Bank Ltd. in OTP Group, these transactions are highlighted.

NOTE 36: INTEREST RATE RISK MANAGEMENT

Interest rate risk is the risk that the value of a financial instrument can fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates the extent to which it is exposed to interest rate risk.

The majority of the Bank's interest bearing assets and liabilities are structured to match either short-term assets and short-term liabilities, or long-term assets and liabilities with repricing opportunities within one year, or long-term assets and corresponding liabilities where repricing is performed simultaneously.
In addition, the significant spread existing between the different types of interest bearing assets and liabilities provides a higher level of flexibility for the Bank in handling the interest rate adjustments and the interest rate risk exposure.

The following table presents the interest repricing dates of the Bank. Variable yield assets and liabilities have been reported in accordance with their next repricing date. Fixed income assets and liabilities have been reported in accordance with their maturity.

NOTE 36: INTEREST RATE RISK MANAGEMENT [continued]

As at 31 December 2023	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Subtotal		Total
	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	
Cash, amounts due from banks and balances with the National Bank of Hungary	**29,972**	**2**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**29,972**	**2**	**29,974**
fixed interest	29,972	2	-	-	-	-	-	-	-	-			29,972	2	29,974
Placements with other banks	**178,085**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**193,366**	**-**	**-**	**-**	**371,451**	**-**	**371.451**
fixed interest	13,191	-	-	-	-	-	-	-	193,366	-			206,557	-	206,557
variable interest	164,894	-	-	-	-	-	-	-	-	-			164,894	-	164,894
Securities at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**15,257**	**-**	**-**	**-**	**-**	**-**	**15,257**	**-**	**15,257**
fixed interest	-	-	-	-	-	-	15,257	-	-	-			15,257	-	15,257
Loans at amortised cost	**50,566**	**53**	**112,787**	**96**	**48,964**	**-**	**29,076**	**-**	**960,889**	**-**	**-**	**-**	**1,202,282**	**149**	**1,202,431**
fixed interest	-	-	-	-	-	-	-	-	352,492	-			352,492	-	352,492
variable interest	50,566	53	112,787	96	48,964	-	29,076	-	608,397	-			849,790	149	849,939
Loans mandatorily measured at fair value through profit or loss	**6,478**	**-**	**9,552**	**-**	**82,600**	**-**	**82,767**	**-**	**282,529**	**-**	**-**	**-**	**463,926**	**-**	**463,926**
variable interest	6,478	-	9,552	-	82,600	-	82,767	-	282,529	-			463,926	-	463,926
Securities at amortized cost	**-**	**-**	**-**	**-**	**32,236**	**-**	**103,506**	**-**	**166,033**	**-**	**-**	**-**	**301,776**	**-**	**301,776**
fixed interest	-	-	-	-	32,236	-	103,506	-	166,033	-			301,776	-	301,776
Derivative financial assets designated as hedge accounting relationships	**-**	**-**	**(198,972)**	**204,531**	**2,263**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(196,709)**	**204,531**	**7,822**
fixed interest	-	-	(950)	33,510	(978)	-	-	-	-	-			(1,928)	33,510	31,582
variable interest	-	-	(198,022)	171,021	3,241	-	-	-	-	-			(194,781)	171,021	(23,760)
Other financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,759**	**-**	**1,759**	**-**	**1,759**
non-interest-bearing											1,759		1,759	-	1,759

NOTE 36: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]

As at 31 December 2023	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Subtotal		Total
	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	**-**	**-**	**-**	**-**	**100,120**	**161**	**124,130**	**-**	**892,977**	**-**	**-**	**-**	**1,117,227**	**161**	**1,117,388**
fixed interest	-	-	-	-	71,538	161	124,130	-	892,977	-	-	-	1,088,645	161	1,088,806
variable interest	-	-	-	-	28,582	-	-	-	-	-	-	-	28,582	-	28,582
Repo liabilities	**13,211**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**13,211**	**-**	**13,211**
fixed interest	13,211	-	-	-	-	-	-	-	-	-			13,211	-	13,211
Liabilities from issued securities	**370,884**	**-**	**-**	**-**	**101,177**	**-**	**247,295**	**-**	**209,336**	**194,005**	**-**	**-**	**928,692**	**194,005**	**1,122,697**
fixed interest	-	-	-	-	101,177	-	247,295	-	209,336	194,005	-	-	557,808	194,005	751,813
variable interest	370,884	-	-	-	-	-	-	-	-	-	-	-	370,884	-	370,884
Derivative financial liabilities designated as hedge accounting relationships	**-**	**1,678**	**56,728**	**(54,265)**	**(413)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**56,315**	**(52,587)**	**3,728**
fixed interest	-	-	56,728	-	(413)	-	-	-	-	-			56,315	-	56,315
variable interest	-	1,678	-	(54,265)	-	-	-	-	-	-			-	(52,587)	(52,587)
Leasing liabilities	**1**	**2**	**2**	**4**	**11**	**20**	**14**	**26**	**3**	**95**	**-**	**-**	**31**	**147**	**178**
fixed interest	1	-	2	-	11	-	14	-	3	-	-	-	31	-	31
variable interest	-	2	-	4	-	20	-	26	-	95	-	-	-	147	147
Other financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,498**	**-**	**4,498**	**-**	**4,498**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	4,498	-	4,498	-	4,498
Net position	**(118,995)**	**(1,625)**	**(133,363)**	**258,888**	**(34,832)**	**(181)**	**(141,992)**	**(26)**	**499,301**	**(191,743)**	**(2,739)**	**-**	**69,739**	**62,956**	**132,695**

NOTE 36: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]

As at 31 December 2022	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Subtotal		Total
	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	
Cash, amounts due from banks and balances with the National Banks	**16,132**	**3**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**16,132**	**3**	**16,135**
fixed interest	16,132	3	-	-	-	-	-	-	-	-	-	-	16,132	3	16,135
Placements with other banks	**217,553**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**217,553**	**-**	**217,553**
variable interest	217,553	-	-	-	-	-	-	-	-	-	-	-	217,553	-	217,553
Financial assets at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**13,544**	**-**	**-**	**-**	**13,544**	**-**	**13,544**
fixed interest	-	-	-	-	-	-	-	-	13,544	-	-	-	13,544	-	13,544
Loans at amortised cost	**61,760**	**70**	**129,748**	**124**	**62,822**	**-**	**26,442**	**-**	**885,778**	**-**	**-**	**-**	**1,166,550**	**194**	**1,166,744**
fixed interest	73	-	-	-	-	-	-	-	205,484	-	-	-	205,557	-	205,557
variable interest	61,687	70	129,748	124	62,822	-	26,442	-	680,294	-	-	-	960,993	194	961,187
Loans mandatorily measured at fair value through profit or loss	**8,018**	**-**	**10,882**	**-**	**69,855**	**-**	**49,377**	**-**	**316,041**	**-**	**-**	**-**	**454,173**	**-**	**454,173**
variable interest	8,018	-	10,882	-	69,855	-	49,377	-	316,041	-	-	-	454,173	-	454,173
Securities at amortised cost	**-**	**-**	**-**	**-**	**-**	**-**	**32,686**	**-**	**263,933**	**-**	**-**	**-**	**296,619**	**-**	**296,619**
fixed interest	-	-	-	-	-	-	32,686	-	263,933	-	-	-	296,619	-	296,619
Derivative financial assets designated as hedge accounting relationships	**-**	**-**	**-**	**-**	**11,786**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**11,786**	**-**	**11,786**
fixed interest	-	-	-	-	(2,042)	-	-	-	-	-	-	-	(2,042)	-	(2,042)
variable interest	-	-	-	-	13,828	-	-	-	-	-	-	-	13,828	-	13,828
Other financial assets[12]	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,541**	**-**	**1,541**	**-**	**1,541**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	1,541	-	1,541	-	1,541

[12] Comparative figures adjusted. Refer to Note 2.21

NOTE 36: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]

As at 31 December 2022	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Subtotal		Total
	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	HUF	FX	
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	**-**	**-**	**1,610**	**-**	**99,183**	**185**	**51,309**	**-**	**907,430**	**-**	**-**	**-**	**1,059,532**	**185**	**1,059,717**
fixed interest	-	-	-	-	59,677	185	51,309	-	907,430	-	-	-	1,018,416	185	1,018,601
variable interest	-	-	1,610	-	39,506	-	-	-	-	-	-	-	41,116	-	41,116
Repo liabilities	**13,947**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**13,947**	**-**	**13,947**
fixed interest	13,947	-	-	-	-	-	-	-	-	-	-	-	13,947	-	13,947
Liabilities from issued securities	**371,423**	**-**	**-**	**-**	**45,261**	**-**	**100,800**	**-**	**453,982**	**-**	**-**	**-**	**971,466**	**-**	**971,466**
fixed interest	-	-	-	-	45,261	-	100,800	-	453,982	-	-	-	600,043	-	600,043
variable interest	371,423	-	-	-	-	-	-	-	-	-	-	-	371,423	-	371,423
Derivative financial liabilities designated as hedge accounting relationships	**4,425**	**-**	**-**	**-**	**-**	**(536)**	**-**	**-**	**-**	**-**	**-**	**-**	**4,425**	**(536)**	**3,889**
fixed interest	-	-	-	-	-	(536)	-	-	-	-	-	-	-	(536)	(536)
variable interest	4,425	-	-	-	-	-	-	-	-	-	-	-	4,425	-	4,425
Leasing liabilities	**-**	**3**	**-**	**6**	**-**	**28**	**-**	**37**	**-**	**123**	**-**	**-**	**-**	**197**	**197**
fixed interest	-	3	-	6	-	28	-	37	-	123	-	-	-	197	197
Other financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,792**	**-**	**4,792**	**-**	**4,792**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	4,792	-	4,792	-	4,792
Net position	**(86,332)**	**70**	**139,020**	**118**	**19**	**323**	**(43,604)**	**(37)**	**117,884**	**(123)**	**(3,251)**	**-**	**123,736**	**351**	**124,087**

NOTE 37: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF million)

Liquidity risk is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments. The Bank maintains its liquidity profiles in accordance with regulations laid down by the NBH.

The following tables provide an analysis of liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

The contractual amounts disclosed in the maturity analyses are the contractual undiscounted cash flows like gross finance lease obligations (before deducting finance charges); prices specified in forward agreements to purchase financial assets for cash; net amounts for pay-floating/receive-fixed interest rate swaps for which net cash flows are exchanged; contractual amounts to be exchanged in a derivative financial instrument for which gross cash flows are exchanged; gross loan commitments.

Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in that statement is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the end of the period.

As at 31 December 2023	**Within 3 months**	**Within one year and over 3 month**	**Within 5 years and over one year**	**Over 5 years**	**Total**
Cash, due from banks and balances with the National Bank of Hungary	29,973	-	-	-	29,973
Placements with other banks	13,337	-	110,602	416,003	539,942
Securities at fair value through other comprehensive income	435	-	15,000	-	15,435
Loans measured at amortised cost	46,761	50,474	270,136	918,750	1,286,121
Loans mandatorily measured at fair value through profit or loss	15,489	16,505	93,161	320,192	445,347
Securities at amortised cost	3,648	31,700	174,665	133,000	343,013
Other financial assets	1,759	-	-	-	1,759
TOTAL ASSETS	**111,402**	**98,679**	**663,564**	**1,787,945**	**2,661,590**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	85,114	17,872	491,579	596,353	1,190,918
Repo liabilities	13,537	-	-	-	13,537
Liabilities from issued securities	9,621	271,001	360,100	486,410	1,127,132
Leasing liabilities	10	30	138	-	178
Other financial liabilities	4,499	-	-	-	4,499
TOTAL LIABILITIES	**112,781**	**288,903**	**851,817**	**1,082,763**	**2,336,264**
Receivables from derivative financial instruments designated as fair value hedge	8,893	14,379	101,383	207,409	332,064
Liabilities from derivative financial instruments designated as fair value hedge	9,684	14,358	125,209	212,419	361,670
Net position of financial instruments designated as fair value hedge	(791)	21	(23,826)	(5,010)	(29,606)
Net position of derivative financial instruments total	**(791)**	**21**	**(23,826)**	**(5,010)**	**(29,606)**
Commitments to extend credit	63,070	-	-	-	63,070
Off-balance sheet commitments	**63,070**	**-**	**-**	**-**	**63,070**

NOTE 37: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF million) [continued]

As at 31 December 2022	Within 3 months	Within one year and over 3 month	Within 5 years and over one year	Over 5 years	Total
Cash, due from banks and balances with the National Bank of Hungary	16,277	-	-	-	16,277
Placements with other banks	59,721	-	159,095	-	218,816
Securities at fair value through other comprehensive income	436	-	15,000	-	15,436
Loans measured at amortised cost	50,723	53,995	272,836	866,657	1,244,211
Loans mandatorily measured at fair value through profit or loss	14,172	17,270	98,851	305,781	436,074
Securities at amortised cost	3,658	-	196,365	143,000	343,023
Other financial assets[13]	1,541	-	-	-	1,541
TOTAL ASSETS	**146,528**	**71,265**	**742,147**	**1,315,438**	**2,275,378**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	16,205	85,321	446,625	555,824	1,103,975
Repo liabilities	13,947	-	-	-	13,947
Liabilities from issued securities	9,998	45,000	631,100	295,020	981,118
Leasing liabilities	9	28	160	-	197
Other financial liabilities	4,792	-	-	-	4,792
TOTAL LIABILITIES	**44,951**	**130,349**	**1,077,885**	**850,844**	**2,104,030**
Receivables from derivative financial instruments designated as fair value hedge	1,378	2,025	2,334	434	6,171
Liabilities from derivative financial instruments designated as fair value hedge	(618)	(1,354)	(3,631)	(443)	(6,046)
Net position of financial instruments designated as fair value hedge	760	671	(1,297)	(9)	125
Net position of derivative financial instruments total	**760**	**671**	**(1,297)**	**(9)**	**125**
Commitments to extend credit	101,085	-	-	-	101,085
Off-balance sheet commitments	**101,085**	**-**	**-**	**-**	**101,085**

[13] Comparative figures adjusted. Refer to Note 2.21

NOTE 38: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million)

In determining the fair value of a financial asset or liability the Bank in the case of instruments that are quoted on an active market uses the market price. In most cases, reliable and public market information is not available so the Bank has to make assumptions or use valuation techniques to determine the fair value of a financial instrument, See Note 38,e) for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.
To provide a reliable estimate of the fair value of those financial instrument that are originally measured at amortised cost, the Bank used the discounted cash-flow analysis (loans, placements with other banks, amounts due to banks, deposits from customers). The fair value of issued securities and subordinated bonds is based on quoted prices (e,g, Reuters, Bloomberg). Cash and amounts due from banks and balances with the NBH represent amounts available immediately thus the fair value equals to the carrying amount.
The assumptions used when calculating the fair value of financial assets and liabilities when using valuation technique are the following:

- the discount rates are the risk free rates related to the denomination currency adjusted by the appropriate risk premium as of the end of the reporting period,
- the contractual cash-flows are considered for the performing loans and for the non-performing loans, the amortised cost less impairment is considered as fair value,
- the future cash-flows for floating interest rate instruments are estimated from the yield curves as of the end of the reporting period,
- the fair value of the deposit which can be due in demand cannot be lower than the amount payable on demand.

For classes of assets and liabilities not measured at fair value in the statement of financial position, the income approach was used to convert future cash flows to a single current amount. Fair value of current assets is equal to carrying amount, fair value of liabilities from issued securities and other bond-type classes of assets and liabilities not measured at fair value measured based on Reuters market rates and, fair value of other classes not measured at fair value of the statement of financial position are measured using the discounted cash flow method. Fair value of loans, net of allowance for loan losses measured using discount rate adjustment technique, the discount rate is derived from observed rates of return for comparable assets or liabilities that are traded in the market.

Fair value measurements – in relation to instruments measured not at fair value – are categorized in level 3 of the fair value hierarchy.

Use of modified yield curve

During the year ended 31 December 2022 yield curves derived from hungarian government bonds (“ÁKK curve”) have become distorted due to certain market events, which means that real liquidity has concentrated on certain part of the yield curve. Therefore a modified yield curve - which is not observable on the market - has been used at the concerning fair value calculations. This yield curve is based on the relevant yield curve points of the original ÁKK curve. Based on Management’s discretion fair value calculated with modified yield curves can represent the perspective of market participants reliable at current market conditions.

Modified yield curve was used for calculating fair value in case of subsidised represented in “Loans mandatorily measured at fair value through profit or loss” line.

NOTE 38: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Fair value of financial assets and liabilities

	2023		2022	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash, due from banks and balances with the National Bank of Hungary	29,974	29,974	16,135	16,135
Placements with other banks	371,451	371,451	217,553	217,553
Securities at amortised cost	301,776	317,691	296,619	260,553
Loans at amortised cost	1,202,431	1,251,589	1,166,744	1,020,141
Other financial assets[14]	1,759	1,759	1,541	1,541
Total financial assets measured at fair value	**1,907,391**	**1,972,464**	**1,698,592**	**1,515,923**
Securities at fair value through other comprehensive income	15,257	15,257	13,544	13,544
Loans mandatorily measured at fair value through profit or loss	463,926	463,926	454,173	454,173
Derivative financial assets designated as hedge accounting relationships	7,822	7,822	11,786	11,786
Total financial assets measured not at fair value	**487,005**	**487,005**	**479,503**	**479,503**
FINANCIAL ASSETS TOTAL	**2,394,396**	**2,459,469**	**2,178,095**	**1,995,426**
Derivative financial instruments designated as hedging instruments	3,728	3,728	3,889	3,889
Total financial liabilities measured at fair value	**3,728**	**3,728**	**3,889**	**3,889**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	1,117,388	1,162,871	1,059,717	914,351
Repo liabilities	13,211	13,218	13,947	13,947
Liabilities from issued securities	1,122,699	1,099,535	971,466	849,960
Leasing liabilities	178	178	197	197
Other financial liabilities	4,498	4,498	4,792	4,792
Total financial liabilities measured not at fair value	**2,257,974**	**2,280,300**	**2,050,119**	**1,783,247**
FINANCIAL LIABILITIES TOTAL	**2,261,702**	**2,284,028**	**2,054,008**	**1,787,136**

[14] Comparative figures adjusted. Refer to Note 2.21

NOTE 38: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Fair value hierarchy

Methods and significant assumptions used to determine fair value of the different classes of financial instruments:

- 1st Level: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2nd Level: inputs other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly; Fair value measurements – in relation with instruments measured not at fair value – are categorized in level 2.
- 3rd Level: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table presents an analysis of financial instruments carried at fair value and amortised cost by level of the fair value hierarchy:

As at 31 December 2023	Total	Level 1	Level 2	Level 3
Loans mandatorily measured at fair value through profit or loss	463,926	-	-	463,926
FVOCI securities	15,257	15,257	-	-
Derivative financial assets designated as hedge accounting relationships	7,822	-	7,822	-
Total assets measured at fair value	**487,005**	**15,257**	**7,822**	**463,926**
Placements with other banks	371,451	-	371,451	-
Securities at amortised cost	317,691	317,691	-	-
Loans at amortised cost	1,251,589	-	-	1,251,589
Other financial assets	1,759	-	-	1,759
Total assets measured not at fair value	**1,942,490**	**317,691**	**371,451**	**1,253,348**

As at 31 December 2023	Total	Level 1	Level 2	Level 3
Derivative financial liabilities designated as hedge accounting relationships	3,728	-	3,728	-
Total liabilities measured at fair value	**3,728**	**-**	**3,728**	**-**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	1,162,871	-	1,162,871	-
Repo liabilities	13,218	-	13,218	-
Liabilities from issued securities	1,099,535	1,099,535	-	-
Leasing liabilities	178	-	-	178
Other financial liabilities	4,498	-	-	4,498
Total liabilities measured not at fair value	**2,280,300**	**1,099,535**	**1,176,089**	**4,676**

NOTE 38: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

As at 31 December 2022	Total	Level 1	Level 2	Level 3
Loans mandatorily measured at fair value through profit or loss	454,173	-	-	454,173
Financial assets at fair value through other comprehensive income	13,544	13,544	-	-
Positive fair value of derivative financial instruments designated as fair value hedge	11,786	-	11,786	-
Total assets measured at fair value	**479,503**	**13,544**	**11,786**	**454,173**
Placements with other banks	217,553	-	217,553	-
Securities at amortised cost	260,553	260,553	-	-
Loans at amortised cost	1,020,141	-	-	1,020,141
Other financial assets[15]	1,541	-	-	1,541
Total assets measured not at fair value	**1,499,788**	**260,553**	**217,553**	**1,021,682**

As at 31 December 2022	Total	Level 1	Level 2	Level 3
Negative fair value of derivative financial instruments designated as fair value hedge	3,889	-	3,889	-
Total liabilities measured at fair value	**3,889**	**-**	**3 889**	**-**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	914,351	-	914,351	-
Repo liabilities	13,947	-	13,946	
Liabilities from issued securities	849,960	849,960	-	-
Leasing liabilities	197	-	-	197
Other financial liabilities	4,792	-	-	4,792
Total liabilities measured not at fair value	**1,783,247**	**849,960**	**928,297**	**4,989**

The Bank has determined that for financial assets and financial liabilities that have a short-term maturity (less than three months), are liquid and are floating rate instruments, their carrying amounts (which are net of impairment where applicable) are a reasonable approximation of their fair value. Such instruments include: cash and balances with central banks; due to and due from banks.

Bonds issued by the Bank are listed on stock exchanges, they are traded in liquid and active market with observable and transparent prices, and therefor they are classified as level 1 in the fair value hierarchy.

Valuation techniques on Level 2 instruments

The fair value of Level 2 instruments is calculated by discounting their expected interest and capital cash flows, Discounting is done with the respective swap curve of each currency.

Valuation techniques and sensitivity analysis on Level 3 instruments

Sensitivity analysis is performed on products with significant unobservable inputs (Level 3) to generate a range of reasonably possible alternative valuations. The sensitivity methodologies applied take account of the nature of the valuation techniques used, as well as the availability and reliability of observable proxy and historical date and the impact of using alternative models.
The calculation is based on range or spread data of reliable reference source or a scenario based on relevant market analysis alongside the impact of using alternative models. Sensitivities are calculated without reflecting the impact of any diversification in the portfolio.

[15] Comparative figures adjusted. Refer to Note 2.21

NOTE 38: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Unobservable inputs used in measuring fair value

Type of financial instrument	Fair values at 31 December 2022	Valuation technique	Significant unobservable input	Range of estimates for unobservable input
Loans mandatory measured at fair value through profit and loss	463,926	Discounted cash flow model	Probability of default	+/- 20%
Loans mandatory measured at fair value through profit and loss	463,926	Discounted cash flow model	Operational costs	+/- 20%

The effect of unobservable inputs on fair value measurement

Although the Bank believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3 changing the assumptions used to reasonably possible alternative assumptions would have the following effects.

31 December 2023	Unobservable inputs	Carrying amount	Fair values		Effect on profit and loss	
			Favourable	Unfavourable	Favourable	Unfavourable
Loans mandatory measured at fair value through profit and loss	Probability of default	463,926	464,170	463,682	244	(244)
Loans mandatory measured at fair value through profit and loss	Operational costs	463,926	470,864	457,215	6,938	(6,711)

31 December 2022	Unobservable inputs	Carrying amount	Fair values		Effect on profit and loss	
			Favourable	Unfavourable	Favourable	Unfavourable
Loans mandatory measured at fair value through profit and loss	Probability of default	454,173	454,392	453,945	219	(219)
Loans mandatory measured at fair value through profit and loss	Operational costs	454,173	459,959	448,558	5,786	(5,606)

In the loans mandatory measured at fair value through profit or loss the Bank calculated the favourable and unfavourable effects of using reasonably possible alternative assumptions by modifying the rates of probability of default by +/- 20% as one of the most significant unobservable input.

Reconciliation of the opening and closing balances of Level 3 instruments for the year ended 31 December 2023

	Opening balance	Issuance/ Disbursement	Change in FVA due to credit risk	Change in FVA due to market factors	Settlement	Closing balance
Loans mandatorily measured at fair value through profit or loss	454,173	50,987	(3)	318	(41,549)	463,926

Reconciliation of the opening and closing balances of Level 3 instruments for the year ended 31 December 2022

	Opening balance	Issuance/ Disbursement	Change in FVA due to credit risk	Change in FVA due to market factors	Settlement	Closing balance
Loans mandatorily measured at fair value through profit or loss	405,819	76,401	355	13,792	(42,194)	454,173

NOTE 38: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Derivative financial instruments

OTP Mortgage Bank regularly enters into hedging transactions in order to decrease its financial risks.

The assessment of the hedge effectiveness (both for fair value hedges and cash flow hedges) to determine the economic relationship between the hedged item and the hedging instrument is accomplished with prospective scenario analysis via different rate shift scenarios of the relevant risk factor(s) of the hedged risk component(s). The fair value change of the hedged item and the hedging instrument is compared in the different scenarios. Economic relationship is justified if the change of the fair value of the hedged item and the hedging instrument are in the opposite direction and the absolute changes are similar amounts. The hedge ratio is determined as the ratio of the notional of the hedged item and the notional of the hedging instrument. The sources of hedge ineffectiveness are the not hedged risk components (e.g. change of cross currency basis spreads in case of interest rate risk hedges), slight differences in maturity dates and interest payment dates in case of fair value hedges, and differences between the carrying amount of the hedged item and the carrying amount of the hedging instrument (e.g. caused by interest rate risk components in the fair value of the hedging instrument).

Derivative financial instruments designated as hedge accounting relationships– as at 31 December 2023

	Assets	Liabilities
Derivative financial instruments designated as hedge accounting		
Derivatives designated in fair value hedges		
Interest rate swap	1,952	3,728
Cross-currency interest rate swap	898	-
Derivatives designated in cash flow hedges		
Interest rate swaps	4,972	-
Total derivatives designated in hedge relationship	**7,822**	**3,728**

Derivative financial instruments designated as hedge accounting relationships– as at 31 December 2022

	Assets	Liabilities
Derivative financial instruments designated as hedge accounting		
Derivatives designated in fair value hedges		
Interest rate swap	-	3,889
Derivatives designated in cash flow hedges		
Interest rate swaps	11,786	-
Total derivatives designated in in hedge relationship	**11,786**	**3,889**

NOTE 38: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Hedge accounting

Interest rate risk management is centralized at OTP Mortgage Bank. Interest rate risk is measured by simulating NII and EVE under different stress and plan scenarios, the established risk limits are described in „OTP Bank's Group-Level Regulations on the Management of Liquidity Risk and Interest Rate Risk of Banking Book". The interest rate risk management activity aims to stabilize NII within the approved risk limits.

The risk management objective of these hedge relationships is to mitigate the risk of clean fair value (i.e. excluding accrued interest) change of MIRS loans due to the change of interest rate reference indexes (BUBOR) of the respective currency.

Amount, timing and uncertainty of future cash flows - hedging instruments as at 31 December 2023 in amount in million currency

2023	**Maturity**				
	One to three months	**Three months to one year**	**One year to five years**	**More than five years**	**Total**
Fair value hedge					
Interest rate risk					
Interest rate swap					
HUF					
Notional	-	-	(15,000)	190,555	175,555
Average Interest Rate	-	-	1.50%	6.69%	
EUR					
Notional (million EUR)	-	-	-	(500)	(500)
Average Interest Rate	-	-	-	3.60%	
Fx risk					
Cross currency interest rate swap					
EUR/HUF					
Notional (million EUR)	-	-	-	500	500
Average Fx Rate	-	-	-	381.48	
Cash flow hedge					
Interest rate risk					
Interest rate swap					
Notional	-	-	28,027	-	28,027
Average Interest Rate	-	-	1.58%	-	

Amount, timing and uncertainty of future cash flows - hedging instruments as at 31 December 2022 in amount in million currency

2022			**Maturity**		
Interest rate risk- interest rate swap (HUF)	**One to three months**	**Three months to one year**	**One year to five years**	**More than five years**	**Total**
Fair value hedge					
Notional	-	-	15,000	-	15,000
Average Interest Rate	-	-	1.50%	-	
Cash flow hedge					
Notional	1,547	10,647	-	28,027	40,221
Average Interest Rate	4.60%	1.08%	-	1.58%	

NOTE 38: **FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]**

Hedge accounting – hedging instruments– as at 31 December 2023

	Nominal amount	Carrying amount of the hedging instruments		Line item in the statement of financial position where the hedging instrument is located	Change in fair value of hedged item for calculating ineffectiveness
		Assets	Liabilities		
Fair value hedge	**558,335**	**2,850**	**3,728**		**(1,170)**
Interest rate risk					
Interest rate swaps	366,945	1,952	3,728	Derivative financial assets designated as hedge accounting relationships / Derivative financial liabilities designated as hedge accounting relationships	(464)
Fx risk					
Cross-currency swaps	191,390	898	-	Derivative financial assets designated as hedge accounting relationships	(706)
Cash flow hedge	**28,027**	**4,972**	**-**		**1,067**
Interest rate risk					
Interest rate swaps	28,027	4,972	-	Derivative financial assets designated as hedge accounting relationships	1,067

Hedge accounting – hedging instruments– as at 31 December 2022

Interest rate risk	**Nominal amount**	**Carrying amount of the hedging instruments**		**Line item in the statement of financial position where the hedging instrument is located**	**Change in fair value of hedged item for calculating ineffectiveness**
Interest rate swaps		**Assets**	**Liabilities**		
Fair value hedge	15,000	-	3,889	Derivative financial assets designated as hedge accounting relationships	(64)
Cash flow hedge	40,221	11,786	-	Derivative financial liabilities designated as hedge accounting relationships	1,170

Hedge accounting – hedged items– as at 31 December 2023

	Type of risk	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item		Line item in the statement of financial position in which the hedged item is included
		Assets	Liabilities	Assets	Liabilities	
Fair value hedge						
- Liabilities from issued securities	***Interest rate risk***	-	206,390	-	1,200	Liabilities from issued securities
- Placements	***Interest rate risk***	190,555	-	2,731	-	Placements with other banks
- Liabilities from issued securities	***Fx risk***	-	191,390	-	-	Liabilities from issued securities

NOTE 38: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Hedge accounting – hedged items– as at 31 December 2022

	Type of risk	Carrying amount of the hedged item		Amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item		Line item in the statement of financial position in which the hedged item is included
		Assets	Liabilities	Assets	Liabilities	
Fair value hedge						
- Liabilities from issued securities	Interest rate risk	-	14,976	-	(3,799)	Liabilities from issued securities

For the year ended 31 December 2023 change in basis swap spread recognised in OCI related to fair value hedges as follows:

	Type of risk	Carrying amount of the hedged items		Items recognized in other comprehensive income	Change in the items recognized in other comprehensive income	Line item in the statement of financial position in which the hedged item is included
Fair value hedge		Assets	Liabilities			
- Liabilities from issued securities	Fx risk	-	191,390	1,219	1,219	Liabilities from issued securities

Change in the fair value of the hedged item and cash flow hedge reserve for hedging instrument related to cash flow hedge:

Cash flow hedge	Type of risk	Carrying amount of the hedged item		Cash flow hedge reserve for hedging instrument	Line item in the statement of financial position in which the hedged item is included
		Assets	Liabilities		
As at 31 December 2023					
- Loans	Interest rate risk	-	28,027	(3,522)	Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks
As at 31 December 2022					
- Loans	Interest rate risk	-	41,117	(9,905)	Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks

NOTE 38: **FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]**

Change in the fair value of the hedging instrument related to cash flow hedge:

31 December 2023

Type of instrument	Type of risk	Change in the value of the hedging instrument recognised in cash flow hedge reserve	Hedge ineffectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness
Interest rate swap	Interest rate risk	(6,383)	1,067	Interest expense due to banks and deposits from the National Bank of Hungary and other banks

31 December 2022

Type of instrument	Type of risk	Change in the value of the hedging instrument recognised in cash flow hedge reserve	Hedge ineffectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness
Interest rate swap	Interest rate risk	6,052	1,170	Interest expense due to banks and deposits from the National Bank of Hungary and other banks

NOTE 39: NET GAIN OR LOSS REALISED ON FINANCIAL INSTRUMENTS (in HUF million)

Year ended 31 December 2023	Net interest income and expense	Net non-interest gain and loss	Loss allowance	Other comprehensive income
Cash, amounts due from banks and balances with the National Bank of Hungary	3,058	(5)	-	-
Placements with other banks	32,124	-	889	-
Loans	95,123	(1,099)	4,997	-
Securities at amortised cost	17,074	-	430	-
Financial assets measured at amortised cost total	**147,379**	**(1,104)**	**6,316**	**-**
Securities at fair value through other comprehensive income	395	-	10	2,134
Loans mandatorily measured at fair value through profit or loss	40,797	30	(3)	-
Financial assets measured at fair value total	**41,192**	**30**	**7**	**2,134**
Financial liabilities measured at amortised cost				
Amounts due to banks and deposits from the National Bank of Hungary and other banks	(68,948)	-	-	-
Repo liabilities	(2,964)	-	-	-
Leasing liabilities	(10)	-	-	-
Liabilities from issued securities	(84,186)	(665)	-	-
Financial liabilities measured at amortised cost total	**(156,108)**	**(665)**	**-**	**-**
Derivative financial instruments	**2,071**	**(648)**	**-**	**-**
Total	**34,534**	**(2,387)**	**6,323**	**2,134**

Derivative financial assets and liabilities designated as hedge accounting:

31 December 2023	
Balance as at 1 January	**7,897**
Change in current period	(3,803)
Interest income/Interest expense	2,072
Foreign exchange gains / (losses)	(764)
Gains / (Losses) on financial instruments at fair value through profit or loss	(648)
Realized result on closed /matured deals	(4,464)
Closing balance	**4,094**

NOTE 39: NET GAIN OR LOSS REALISED ON FINANCIAL INSTRUMENTS (in HUF million) [continued]

Year ended 31 December 2022	**Net interest income and expense**	**Net non-interest gain and loss**	**Loss allowance**	**Other comprehensive income**
Cash, amounts due from banks and balances with the National Bank of Hungary	1,685	(3)	-	-
Placements with other banks	15,330	-	(1,030)	-
Loans	76,227	(1,397)	3,326	-
Securities at amortised cost	8,754	-	(1,996)	-
Financial assets measured at amortised cost total	**101,996**	**(1,400)**	**300**	**-**
Securities at fair value through other comprehensive income	405	-	(75)	(1,998)
Loans mandatorily measured at fair value through profit or loss	18,162	368	355	-
Financial assets measured at fair value total	**18,567**	**368**	**280**	**(1,998)**
Financial liabilities measured at amortised cost				
Amounts due to banks and deposits from the National Bank of Hungary and other banks	(54,867)	-	-	-
Repo liabilities	(7)	-	-	-
Leasing liabilities	(5)	-	-	-
Liabilities from issued securities	(53,932)	(358)	-	-
Financial liabilities measured at amortised cost total	**(108,811)**	**(358)**	**-**	**-**
Derivative financial instruments	**702**	**-**	**-**	**-**
Total	**12,454**	**(1,390)**	**580**	**(1,998)**

Derivative financial assets and liabilities designated as hedge accounting:

31 December 2022	
Balance as at 1 January	**3,593**
Change in current period	4,304
Interest income/Interest expense	702
Foreign exchange gains / (losses)	-
Gains / (Losses) on financial instruments at fair value through profit or loss	-
Realized result on closed /matured deals	3,602
Closing balance	**7,897**

NOTE 40: POST BALANCE SHEET EVENTS

Post-balance sheet events cover the period until 20 February 2024.

- On 26 January 2024 Scope Ratings affirmed Hungary's long-term local- and foreign-currency issuer and senior unsecured debt ratings at ‘BBB’ with stable outlook.

- On 30 January 2024 the National Bank of Hungary cut its key policy rate by 75 bps to 10.0%.

Capital regulation:

- On 22 June 2023 the national bank announced that it postpones the activation of the Countercyclical Capital Buffer rate of 0.5% planned from 1 July 2023 by one year to 1 July 2024. In addition, it preventively reactivates the Systemic Risk Buffer aimed at risks related to commercial real estate loans (especially non-performing loans).
- Pillar 2 capital requirement: effective from 1 January 2024, the National Bank of Hungary imposed the below additional capital requirements for OTP Group, on consolidated level:
    - 0.9%-point in case of the Common Equity Tier1 (CET1) capital, accordingly the minimum requirement for the consolidated CET1 ratio is 5.4% (without regulatory capital buffers);
    - 1.2%-points in case of the Tier1 capital, accordingly the minimum requirement for the consolidated Tier1 ratio is 7.2% (without regulatory capital buffers);
    - 1.6%-points in case of the Total SREP Capital Requirement (TSCR), accordingly the minimum requirement for the consolidated capital adequacy ratio is 9.6% (without regulatory capital buffers).

As the Group's current level of capital adequacy exceeds the new levels expected above, it can fully comply with the requirements.