# Disclosure by institutions
# 31 December 2019

**OTP Bank Plc. separate and consolidated,**
**OTP Mortgage Bank Ltd.,**
**OTP Building Society Ltd.,**
**Merkantil Bank Ltd.**

In line with Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises, and Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012

*(English translation of the original report)*

Budapest, 30 April 2019.

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# I. OTP Group

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

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

## I.1. Risk management objectives and policies

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

OTP Bank Group’s Strategy for Risk Assumption deals with partners, with credit- and financial institutional businesses. In addition it also incorporates those partners where counterparty risk or market risk is relevant. The grade of extent of the Strategy for Risk Assumption to participants depends on whether they have a significant exposure or multiple ones in the detailed categories of risk types defined by the Strategy for Risk Assumption.

The Strategy points out an aggregate system of frameworks, instruments, an for the most common types of risk (credit risk, country risk, operational risk, market risk, liquidity risk). The aim of the Group is to handle strategic risk, reputational risk, and real-estate risk exclusively from the Strategy for Risk Assumption.

Furthermore, The Strategy for Risk Assumption is updated continuously, but at least with a frequency of 3 years. The Board of the OTP Banking Group approved the current Strategy for Risk Assumption at 10/December/2019.

The Banking Group’s general risk profile, which can be found in the VI.1. Appendix, harmonises with the Group’s risk appetite framework and it does not violate the Strategy for Risk Assumption.

The frameworks and methods used for a given type of relevant risk are described in the next section.

#### I.1.1.1. Credit risks

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

The independent risk management organizational unit performs the following:

- In order to identify potential risks, it analyses OTP Bank’s activities, identifies the major risk factors to which these activities and the positions generated by them are exposed, and indicates the correlations between these positions.
- In order to measure risks, it collects historical data on the major risk factors, the losses stemming from them and the variables that can predict them.

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

In order to manage risks each organizational unit applies risk mitigation techniques (client/transaction ratings, limits, securities, hedging transactions, control points embedded in processes and risk transfers).

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

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

OTP Bank determines the risk profile of the Group, and strictly regulates the framework, the principles and guidelines of risk management by the Strategy for Risk Assumption, and ensures that it is uniformly applied at group level. The objective of OTP Group is to develop a diversified portfolio, the performance of which does not excessively depend on the changes in the position of any particular sector, geographical region or debtor group.

Determination of credit risk appetite for each subsidiary takes place annually, with the establishment and adoption of the Lending Policy. The Lending Policy contains in detail regarding the retail clientele the main indicators of the lending products, the value of the expected risk indicators for the portfolio and new disbursements, and the changes in the risk management processes associated with the business development plans. The Lending Policy defines industry preferences and the main expectations for each segment and product in case of the entrepreneurial clientele. The Lending Policy's expectations and the Limits are monitored on a regular basis and reported to different management levels.

By defining operational-level credit risk appetite, the Group

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

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

- the limits and target numbers reflecting the willingness to take risks;
- the level, proportion and concentration of the assumed risks comprising the portfolio and the expectations about the quality of the portfolio;
- preferences and business orientation, potential tightening or exclusions regarding the customer base, the sectors, collaterals, products and product types and the maturity structure.

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

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

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

### I.1.1.2. Market risks

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

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

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

The main principles of market risk management regulation:

- OTP Bank is allowed to run market risks within the limits set by the Board of Directors. OTP Bank can open asset and liability management (ALM) positions to hedge strategic risks appearing in the profit plan within the limit approved by the Asset Liability Committee (ALCO), but above that limit the decision of the Board of Directors is required. For the sake of risk management, positions originating from other organizational units (for example home loan payments) are forwarded without delay to the Treasury in compliance with the internal reporting process.
- OTP Bank breaks up the positions exposed to market risk into underlying risk factors (interest rates, foreign exchange rates, stock prices, volatility) and manages them in accordance with the positions calculated in the manner stated above.
- OTP Bank continuously monitors the exposure originating from portfolios exposed to market risk, the value-at-risk of the portfolio and the changes in the values of the portfolio and it sets a limit system for them. To avoid losses incompatible with the risk-taking policy of the Bank, OTP Bank attaches an internal action plan for limit breach.
- Decision-makers of OTP Bank are given information about the Bank's risk exposure and the regarding portfolios' profit-and-loss effects on a regular basis.
- The profit-and-loss effect of ALM deals which intend to hedge the profit-plan-driven market risk exposure and the profit-and-loss effect of the core portfolio in the plan are regularly reported to the management of OTP Bank, in order to make the control of hedging transparent.
- OTP Bank allocates capital to the portfolios exposed to market risk in order to cover the possible losses.

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

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

### I.1.1.3. Counterparty risks

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

The limits are allocated to group members and to sublimits according to a uniform methodology. It is also used for the limit utilization.

The limit utilization of derivative deals is determined by deal weights set by using market risk methodologies, which takes into account the type, maturity, currency or currency pair of the deal and the available collateral agreements.

Deals which mean exposure outside of the Group are collateralized under the CSA related to the ISDA frameagreement signed by OTP Bank and under the Central Counterparties (CCP) according to the conditions determined in CSAs and LCH operation. In these cases OTP Bank seeks to impose symmetric conditions, the collateral is pledged and accepted by the counterparties in cash denominated in EUR.

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

OTP Bank should provide its counterparties a total of EUR 10 million as additional collateral in case of credit rating downgrade.

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

- The amount of the variation margin in the netting stock for each transaction, credited by the contracting party, is the sum of the value calculated by the Article 11 (2) of Regulation 648/2012/EU, its net value, and all of the variation margins which granted previously.
- The Bank calculates the daily value of the collateral, and on that basis transfer any unused collateral to the collateral providing contracting party.
- If the Bank and the contracting party agree on a minimum transfer amount, the calculation method of the amount of collateral is the variable deposit due since the last collateral collection, taking into account the additional collateral.
- If the amount of collateral due exceeds the minimum transfer amount agreed jointly by the contracting parties, the collateral collecting party shall collect the total amount of the collateral due, without deducting the minimum transfer amount. The minimum transfer amount may not exceed EUR 500,000 or the corresponding amount in other currencies.
- The Bank accepts only funds as defined in Article 4 (1) (a) as variable deposit in ISDA/CSA agreements as defined in Section 2 of the 2016/2251 Delegated Regulation. The acceptable currency of the fund can only be denominated in EUR, HUF and USD and the funds that accepted as collateral are taken into account at 100% in the CSA agreements.

### I.1.1.4. Operational risk

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

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

Due to the dynamically changing operational environment, including technological development, in the focus of operational risk management there are increased risks, like ICT (e.g. cyber-attacks, data security problems, unauthorised access, etc.) and reputational risks.

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

- In order for operational risks to be managed, a standardised, easily understood, at time robust framework system must be put in place at group level, covering the definition of operational risks and the methods of identification, measurement, monitoring, management and mitigation thereof;
- The operational risk management system must cover all risks inherent in the activities of the Group, operational risk toolset must be improved and developed according to the changes and both internal and external expectations;
- Strong support of people concerned with operational risk management activities;
- The Bank’s management body and the Operational Risk Committee need to be informed on a regular basis of the prevailing operational risk exposure of the Bank Group and any potential and incurred losses, including tendencies, arising from operational risks;
- The Group must strive for high level risk-awareness and must articulate its operational risk appetite;
- Bank must have guidelines, processes and procedures mitigating operational risks;
- Independent operational risk management activities, which are must be fully integrated into the Group’s risk management activities and its general management information system.

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

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

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

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

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

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

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

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

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

### I.1.2. Credit risk mitigation

Regulations on the valuation and management of securities contain firstly the aspects and factors that OTP Bank uses as a basis for collateral valuation depending on the type of the collateral and secondly the methods that the Bank uses in evaluating the collateral. They lay down the procedures applicable when change occurs in the availability, value and enforceability of the collateral as well as the rules governing the frequency of regular and subsequent collateral valuation.

Collateral valuation covers all the lending, risk management, and legal activities that OTP Bank performs prior to the extension of a loan as well as during the term of the risk assumption in order to obtain information on the availability, value and enforceability of the collateral.

During the term of the contract containing the risk exposure, OTP Bank regularly monitors and documents the fulfilment of the conditions set forth in the contract, including developments in the client’s financial and economic position as well as changes in the availability, fair value and enforceability of the collateral and the securities.

In its lending activity OTP Bank uses the following types of eligible securities the most frequently:

- pledge:security deposit, real estate, movable property, receivables;
- guarantee and suretyship.

In case of the valuation of collaterals accepted by OTP Bank the basis of the evaluation is the market value or the collateral value based on the appraisal. Otherwise, depending on the type of collateral, the basis of the evaluation may be other market value or other initial value.

This basic value is reduced by OTP Bank with a discount rate of 0-80% depending on the type of collateral. The reason for this, in case of given collateral the market value can not be realized in the event of collateral enforcement because of the circumstances and the urgency of the enforcement.

Tracking of the value of the collateral takes place at different frequencies depending on the type of collateral. During this monitoring activity, OTP Bank uses various methods, such as valuation update, on-site inspection, statistical evaluations.

OTP Bank – the group of partners is dteremined by regulatory approval - takes into account the risk reduction potential of the concluded netting agreements, when calculating counterparty credit risk exposures for derivative transactions. OTP has got a regulatory approval for ISDA Master Agreements under English law in case of coutreparties which have headquarters in Hungary, Great Brtittain, France, Germany, Austria, Switzerland, the Netherlands, Italy, Belgium and Danmark, this enables with 40 active counterparties to apply CRR allowed netting rules as a widely admitted application for risk reduction. As a precondition, OTP Bank regularly monitor, whether these netting clause are enforceable or not according to independent legal opinions. Netting reduces exposure from counterparty credit (in case of affected countries) by 55%.

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

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

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

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

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

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

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

The OTP Group regularly participates in EBA stress test. During these stress tests the expected capital position are presented along predefined "baseline" and "adverse" macro scenarios taking into consideration the material risks of the Group in a 3-year time horizon with a forward looking aspect. Additional capital requirement can arise if the Bank performs in a bad way. The Bank has taken part in 2018 in the European stress test, with excellent results.

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

# I.2. Information regarding corporate governance system

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

**Chart 1 : The number of directorships of OTP Bank's chief executives***

| Members of the Board of Directors | Number of directorship (according to CRR Art. 435. paragraph (2)) outside OTP Group | in OTP Group* |
|---|---|---|
| Dr. Sándor CSÁNYI | 2 | - |
| Mihály BAUMSTARK | 2 | - |
| Dr. Tibor BÍRÓ | - | - |
| Tamás ERDEI | 1 | - |
| Dr. István GRESA | - | - |
| Antal György KOVÁCS | - | 5 |
| Dr. Antal PONGRÁCZ | - | 1 |
| Dr. László UTASSY | - | 2 |
| Dr. József VÖRÖS | - | - |
| László WOLF | 1 | 2 |

| Members of the Supervisory Board | Number of directorship (according to CRR Art. 435. paragraph (2)) outside OTP Group | in OTP Group* |
|---|---|---|
| Tibor TOLNAY | - | - |
| Dr. Gábor HORVÁTH | - | - |
| Klára BELLA | - | - |
| András MICHNAI | - | - |
| Dr. Márton Gellért VÁGI | - | - |
| Olivier Péqueux | 1 | - |

*: with the exception of directorships held at OTP Bank, the number of directorships includes the membership of Board of Directors and the Supervisorry Bouard as well

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

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

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

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

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

On the basis of the résumés it can be stated that both the Board and the Supervisory Board members own exceptional professional knowledge, experience and track record in their field of expertise, furthermore, have in-depth proficiency and several years of experience in the management of financial institutions.

## I.2.2. Board members' education data

### Chart 2: Board members' education data

| Board of Directors | |
|---|---|
| **Dr. Sándor CSÁNYI** | |
| College of Finance and Accounting, Hungary | BSc in Finance (1974) |
| University of Economics, Hungary | MSc in Economics (1980) |
| **Mihály BAUMSTARK** | |
| University of Agricultural Sciences, Hungary | MSc in Agricultural Sciences (1973) |
| University of Economics, Hungary | MSc in Economics (1981) |
| **Dr. Tibor BÍRÓ** | |
| College of Finance and Accounting, Hungary | BSc in Finance (1974) |
| University of Economics, Hungary | MSc in Economics (1978) |
| **Tamás ERDEI** | |
| College of Finance and Accounting, Hungary | BSc in Finance (1978) |
| **Dr. István GRESA** | |
| College of Finance and Accounting, Hungary | BSc in Finance (1974) |
| University of Economics, Hungary | MSc in Economics (1980) |
| **Antal György KOVÁCS** | |
| College of Finance and Accounting, Hungary | MSc in Economics (1985) |
| **Dr. Antal PONGRÁCZ** | |
| College of Finance and Accounting, Hungary | MSc in Economics (1969) |
| **Dr. László UTASSY** | |
| Eötvös Lóránd University, Hungary | MA in Law (1978) |
| | Legal advisor (1980) |
| **Dr. József VÖRÖS** | |
| University of Economics, Hungary | MSc in Economics (1974) |
| **László WOLF** | |
| University of Economics, Hungary | MSc in Economics (1983) |

| Supervisory Board | |
|---|---|
| **Tibor TOLNAY** | |
| University of Technology, Hungary | MSc in Civil Engineering (1978) |
| University of Economics, Hungary | economic engineer (1983)<br>economist(1993) |
| **Dr. Gábor HORVÁTH** | |
| Eötvös Lóránd University, Hungary | MA in Law (1980) |
| **Klára BELLA** | |
| College of Finance and Accounting, Hungary | BSc in Finance (1992) |
| University of Economics, Hungary | MSc in Economics (1996) |
| **András MICHNAI** | |
| College of Finance and Accounting, Hungary | BSc in Finance (1981) |
| **Dr. Márton Gellért VÁGI** | |
| University of Economics, Hungary | MSc in Economics (1987) |
| **Olivier Péqueux** | |
| École Polytechnique | graduate enginieer (1998) |
| École nationale de la statistique et de l'administration économique | statistician-economist (2000) |

For the time being, unambiguous expectations regarding diversity policy have not been announced in the European and Hungarian regulatory environment, so the Bank currently has no separate diversity policy, but as soon as such EU or national regulation is in place, OTP Bank Plc. will take the necessary measures immediately.

According to the current practice, when designating members of the management bodies (Board of Directors, Supervisory Board), OTP Bank Plc. considers the existence of professional preparation, the high-level human and leadership competence, the versatile educational background, the widespread business experience and business reputation of the utmost importance, at the same time, it is also highly committed to taking efficient measures in order to ensure diversity with regard to corporate operation, including the gradual improvement in women's participation rate.

### I.2.3. Risk management committees

The Risk Assumption and Risk Management Committee is a permanent committee founded by the Board of Directors with the purpose to support its decision making activity. This Committee is responsible for giving pre-opinion on the group level Strategy for Risk Assumption before the Board approval and keeping under control its realization. In 2019 the Committee held six meetings.

Credit-Limit Committee (CLC) is a permanent committee meeting minimum weekly (88 times in 2019). Its main function is the approval of constitutions, the risk management strategy of OTP Bank and bank group, and the presentation of the credit policy to the Board of Directors of OTP Bank. The CLC decides on approval of risk assumption of specific counterparties and provides its presentation to the Board of Directors.

Work-Out Committee (WOC) is also a permanent committee meeting weekly (45 times in 2019). Within its scope are decision-making powers over OTP Bank's active debts (retail and non-retail) in special treatment, as well as the right to agree with the special treatment of foreign subsidiary banks', OTP Faktoring Ltd's, its subsidiaries' and Merkantil Bank Ltd's active debts that exceed the agreed limit. Furthermore the WOB is entitled to act as a NPL committee which incorporates the right of the pre-approval of the NPL strategy and the connecting implementation plan, the execution its year-based revision and the elaboration of inventiveness granting the effectiveness of the NPL strategy.

Asset-Liability Committee (ALCO) is a permanent committee established by the Board of Directors, which makes decisions on separately non-regulated affairs relating to OTP Bank's highest-level asset-liability management. It met 12 times in 2019 (once each month).

The Group Operational Risk Management Committee (OPRISK Committee) is a permanent committee meeting quarterly. It monitors the changes in the operational risk exposure, the operational risk management activity and the business continuity planning. It also makes sure that both the risk management practises and reporting channels required by the management and prescribed by the law work adequately. In addition to this, the analysis and evaluation of large individual losses place great importance in order to manage operational risk proactively.

The Management Committees get frequent information about risks from the Risk Assumption and Risk Management Committee as well as through proposals made by competent Divisions.

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

### I.3.1. Associates which are accounted for using the equity method (proportionally consolidated) for the year ended 31 December 2019

**Chart 3: Associates which are accounted for using the equity method (proportionally consolidated) for the year ended 31 December 2019**

| Number | Entity | Consolidated in accordance with IFRS | Consolidated in accordance with CRR |
|---|---|---|---|
| 1 | D-ÉG Thermoset Ltd. "i.l." | Yes | No |
| 2 | Szallas.hu Ltd. | Yes | No |

### I.3.2. Not consolidated entities for the year ended 31 December 2019

**Chart 4: Not consolidated entities for the year ended 31 December 2019**

| Not consolidated in accordance with IFRS[1] | |
|---|---|
| 1 | Auctioneer s. r. o. |
| 2 | Club Hotel Füred Szálloda Ltd. |
| 3 | Diákigazolvány Ltd. |
| 4 | Dinghy Sport Club Hungary Ltd. |
| 5 | Govcka Project Company SRL |
| 6 | IMOS AD ŠID |
| 7 | Ingatlanvagyon Projekt 14. Ltd. |
| 8 | Investment Projekt 1. d.o.o. |
| 9 | OFB Projects EOOD |
| 10 | OTP Advisors SRL |
| 11 | OTP Consulting Romania SRL |
| 12 | OTP Immobilien Verwertung GmbH. |
| 13 | OTP Nedvizhimost OOO |
| 14 | OTP Travel Ltd. |
| 15 | OTP Újlakás Credit Intermediary Ltd. |
| 16 | OTP Vendéglátás és Hotelszolgáltatás Szervező Ltd. |
| 17 | PEVEC d.o.o. Beograd |
| 18 | Project 03 s.r.o. |
| 19 | Project Company Complex Banya EOOD |
| 20 | Projekt 13 Apartmany Slovensko s.r.o. |
| 21 | Projekt-Ingatlan 8. Ltd. |
| 22 | Rea Project One Company SRL |
| 23 | RESPV s.r.l. |
| 24 | SC AS Tourism SRL |
| 25 | SC Cefin Real Estate Kappa SRL |
| 26 | ShiwaForce.com Ltd. |
| 27 | Special Purpose Company LLC |
| 28 | Zelena Nektretnine d.o.o. |

| Not consolidated in accordance with CRR[2] | |
|---|---|
| 1 | PortfoLion Venture Capital Fund Management Ltd. |

[1] Subsidiaries in which the Bank holds a significant interest have not been consolidated because the effect of consolidating such companies is not material to the Consolidated Financial Statements as a whole.
[2] Entities excluded from the scope of prudential consolidation based on the Article 19 section 1 of the CRR.

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

There is no impediment like this in the Group.

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

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

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

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

# I.4. Regulatory capital and capital requirements

## I.4.1. Capital adequacy of the OTP Group

The capital requirement calculation of the Group for the year 2019 is based on IFRS data. The prudential filters and deductions have been applied in line with the CRR during the calculation of regulatory capital.

The Group applied standardized capital calculation method regarding credit and market risk, advanced measurement approach (AMA) and basic indicator approach (BIA) regarding the operational risk.

At the end of 2019 the audited capital adequacy ratio of OTP Group under the scope of consolidation according to prudential consolidation (CRR) was 16.69% which contains the profit of financial year 2019. The Group regulatory capital requirement as of 31st December 2019 was HUF 1,115,137 million, the amount of regulatory capital was HUF 2,409,618 million.

**Chart 5: OTP Group's overview of RWAs**

| | RWAs | Minimum capital requirements |
|---|---|---|
| **(in HUF million)** | **31.12.2019** | **31.12.2019** |
| **Credit risk (excluding CCR)** | **12 631 078** | **1 010 486** |
| Of which the standardised approach | 12 631 078 | 1 010 486 |
| **CCR** | **75 821** | **6 066** |
| Of which mark to market | 70 080 | 5 606 |
| Of which CVA | 5 741 | 459 |
| **Market risk** | **198 812** | **15 905** |
| Of which the standardised approach | 198 812 | 15 905 |
| **Operational risk** | **1 533 508** | **122 681** |
| Of which basic indicator approach | 636 876 | 50 950 |
| Of which standardised approach | 0 | 0 |
| Of which advances measurement approach | 896 632 | 71 731 |
| **Total** | **14 439 218** | **1 155 137** |

Note: The credit risk RWA is calculated according to 2017/2395 EU regulation, including the effect of transitional arrangements for mitigating the impact of the introduction of IFRS 9 and the correction in accordance with the Article 1. (7) paragraph b) point.

### Chart 6: Credit risk exposure and CRM effects on 31st December 2019

| (in HUF million) | Exposures before CCF and CRM | | Exposures post CCF and CRM | | RWAs and RWA density | |
|---|---|---|---|---|---|---|
| | On-balance sheet amount | Off-balance sheet amount | On-balance sheet amount | Off-balance sheet amount | RWAs | RWA density |
| Exposures to central governments or central banks | 5 566 336 | 22 999 | 6 032 742 | 13 945 | 1 011 117 | 16.72% |
| Exposures to regional governments or local authorities | 135 571 | 32 037 | 125 301 | 15 085 | 42 237 | 30.09% |
| Exposures to public sector entities | 230 931 | 39 417 | 162 343 | 12 837 | 103 897 | 59.31% |
| Exposures to multilateral development banks | 4 698 | 0 | 10 730 | 93 | 1 225 | 11.32% |
| Exposures to international organisation | 0 | 0 | 0 | 0 | 0 | 0.00% |
| Exposures to institutions | 334 220 | 407 532 | 404 756 | 226 535 | 385 996 | 61.14% |
| Exposures to corporates | 3 735 510 | 2 431 323 | 3 466 773 | 1 059 452 | 4 451 011 | 98.34% |
| Retail exposures | 3 787 054 | 905 480 | 3 491 708 | 207 792 | 2 727 024 | 73.71% |
| Exposures secured by mortgages on immovable property | 4 311 980 | 198 659 | 4 311 980 | 66 622 | 2 675 900 | 61.11% |
| Exposures in default | 299 296 | 6 814 | 294 432 | 2 930 | 329 230 | 110.72% |
| Exposures associated with particularly high risk | 36 102 | 4 044 | 35 569 | 2 025 | 56 391 | 150.00% |
| Exposures in the form of covered bonds | 104 634 | 0 | 104 634 | 0 | 52 317 | 50.00% |
| Exposures to institutions and corporates with a short-term credit assessment | 0 | 0 | 0 | 0 | 0 | 0.00% |
| Exposures in the form of units or shares in collective investment undertakings ('CIUs') | 17 413 | 0 | 17 413 | 0 | 17 413 | 100.00% |
| Equity exposures | 87 938 | 0 | 87 938 | 0 | 156 437 | 177.89% |
| Other items | 1 129 668 | 1 299 | 1 129 668 | 605 | 620 883 | 54.93% |
| **Total** | **19 781 351** | **4 049 604** | **19 675 987** | **1 607 921** | **12 631 078** | **59.35%** |

In calculation of credit risk capital requirement, the Group took into consideration the following guarantees as credit risk mitigation at the end of 2019:

- Guarantees of group-member central government: The guarantors belong to the group 3 and 4 according to the credit quality step.
- Guarantees of institutions: The guarantors belong to the group 1, 2, 3 and 4 according to the credit quality step.
- Guarantees of regional governments and public sector entities: The guarantors do not have credit quality step.
- Guarantees of multilateral development banks.

## I.4.2. Information about disclosure requirements related to the regulatory capital in line with Commission Implementing Regulation (EU) No. 1423/2013

**Chart 7: Presentation of balance sheet discrepancies based on the differences in the scope of consolidation according to accounting (IFRS) and prudential (CRR)**

| **Total assets**<br><br>**(in HUF million)** | **Balance sheet as in published financial statements (1) 31 December 2019** | **Cross reference to raws of own funds disclosure template** | **Under regulatory scope of consolidation 31 December 2019** |
|---|---|---|---|
| Cash, amounts due from banks and balances with the National Banks | 1 784 378 | | 1 842 325 |
| Placements with other banks, net of allowance for placement losses | 410 079 | | 410 209 |
| Financial assets at fair value through profit or loss | *251 990* | *7** | *250 899* |
| Financial assets at fair value through other comprehensive income | 2 426 779 | 7* | 2 423 729 |
| *Of which: direct and indirect not singnificant holdings of the CET1 instruments of financial sector entities* | *30 463* | *18, 72* | *30 463* |
| Loans at amorized cost | *11 846 260* | | *12 210 577* |
| Loans mandatorily at fair value through profit or loss | 32 802 | | 32 802 |
| Associates and other investments | 20 822 | | 67 067 |
| *Of which: direct, indirect and synthetic significant holdings of the CET1 instruments of financial sector entities* | *2 475* | *23* | *36 468* |
| *Of which: direct and indirect not singnificant holdings of the CET1 instruments of financial sector entities* | 195 | 18, 72 | 195 |
| Securities at amortised cost | *1 968 072* | | *2 000 296* |
| Property and equipment | *320 430* | | *318 495* |
| Intangible assets and goodwill | 242 219 | 8 | 243 061 |
| Right-of-use assets | 52 950 | | 53 124 |
| Investment properties | *41 560* | | *25 769* |
| Derivative financial assets designated as hedge accounting | 7 463 | 7* | 7 463 |
| Deferred tax assets | *26 543* | | *28 302* |
| *Of which: deferred tax assets that rely on future profitability, do not arise from temporary difference (2)* | *5 739* | *10* | *5 828* |
| *Of which: deferred tax assets that rely on future profitability, arise from temporary difference (2)* | 19 590 | 25 | 19 578 |
| Other assets | 227 349 | | 256 834 |
| Assets classified as held-for-sale | 462 071 | | 0 |
| **TOTAL ASSETS** | **20 121 767** | | **20 170 952** |

*The additional value adjustments are determined according to simplified approach, which means that the regulatory capital is decreased by 0,1% of the marked balance sheet items.

** The intangible assets contains the intangible asstes and the leased intangible assets.

| Description (in HUF million) | Carrying values as reported in published financial statements | Carrying values under scope of regulatory consolidation | Carrying values of items | | | | |
|---|---|---|---|---|---|---|---|
| | | | Subject to the credit risk framework | Subject to the CCR framework | Subject to the securitisation framework | Subject to the market risk framework | Not subject to capital requirements or subject to deduction from capital |
| Cash, amounts due from banks and balances with the National Banks | 1 784 378 | 1 842 325 | 1 842 325 | 0 | 0 | 0 | 0 |
| Placements with other banks, net of allowance for placement losses | 410 079 | 410 209 | 410 209 | 0 | 0 | 0 | 0 |
| Financial assets at fair value through profit or loss | 251 990 | 250 899 | 0 | 27 219 | 0 | 250 899 | 215 |
| Financial assets at fair value through other comprehensive income | 2 426 779 | 2 423 729 | 2 423 729 | 0 | 0 | 0 | 2 424 |
| Loans at amorized cost | 11 846 260 | 12 210 577 | 12 210 577 | 0 | 0 | 0 | 0 |
| Loans mandatorily at fair value through profit or loss | 32 802 | 32 802 | 32 802 | 0 | 0 | 0 | 33 |
| Associates and other investments | 20 822 | 67 067 | 67 067 | 0 | 0 | 0 | 0 |
| Securities at amortised cost | 1 968 072 | 2 000 296 | 2 000 296 | 0 | 0 | 0 | 0 |
| Property and equipment | 320 430 | 318 495 | 318 495 | 0 | 0 | 0 | 0 |
| Intangible assets and goodwill | 242 219 | 243 061 | 0 | 0 | 0 | 0 | 243 061 |
| Right-of-use assets | 52 950 | 53 124 | 53 124 | 0 | 0 | 0 | 0 |
| Investment properties | 41 560 | 25 769 | 25 769 | 0 | 0 | 0 | 0 |
| Derivative financial assets designated as hedge accounting relationships | 7 463 | 7 463 | 0 | 7463 | 0 | 0 | 7 |
| Deferred tax assets | 26 543 | 28 302 | 22 474 | 0 | 0 | 0 | 5 828 |
| Other assets | 227 349 | 256 834 | 256 834 | 0 | 0 | 0 | 0 |
| Assets classified as held-for-sale | 462 071 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total assets** | **20 121 767** | **20 170 952** | **19 663 701** | **34 682** | **0** | **250 899** | **251 568** |
| Amounts due to banks, the National Governments, deposits from the National Banks and other banks | 813 399 | 812 131 | 0 | 0 | 0 | 0 | 812 131 |
| Financial liabilities at fair value through profit or loss | 30 862 | 30 862 | 0 | 0 | 0 | 0 | 30 862 |
| Deposits from customers | 15 171 308 | 15 549 425 | 0 | 0 | 0 | 0 | 15 549 425 |
| Liabilities from issued securities | 393 167 | 401 979 | 0 | 0 | 0 | 0 | 401 979 |
| Derivative financial liabilities held for trading | 86 743 | 93 809 | 0 | 0 | 0 | 0 | 93 809 |
| Derivative financial liabilities designated as hedge accounting relationships | 10 709 | 10 709 | 0 | 0 | 0 | 0 | 10 709 |
| Deferred tax liabilities | 29 195 | 29 168 | 0 | 0 | 0 | 0 | 29 168 |
| Leasing liabilities | 54 194 | 53 791 | 0 | 0 | 0 | 0 | 53 791 |
| Other liabilities | 628 468 | 616 138 | 0 | 0 | 0 | 0 | 616 138 |
| Subordinated bonds and loans | 249 938 | 249 937 | 0 | 0 | 0 | 0 | 249 937 |
| Liabilities directly associated with assets classified as held-for-sale | 362 496 | - | 0 | 0 | 0 | 0 | 0 |
| **TOTAL LIABILITIES** | **17 830 479** | **17 847 949** | 0 | 0 | 0 | 0 | **17 847 949** |
| Share capital | 28 000 | 28 000 | 0 | 0 | 0 | 0 | 28 000 |
| Retained earnings and reserves | 2 319 263 | 2 338 700 | 0 | 0 | 0 | 0 | 2 338 700 |
| Treasury shares | (60 931) | (48 310) | 0 | 0 | 0 | 0 | (48 310) |
| Non-controlling interest | 4 956 | 4 613 | 0 | 0 | 0 | 0 | 4 613 |
| **TOTAL SHAREHOLDERS' EQUITY** | **2 291 288** | **2 323 003** | **0** | **0** | **0** | **0** | **2 323 003** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **20 121 767** | **20 170 952** | **0** | **0** | **0** | **0** | **20 170 952** |

*The additional value adjustments are determined according to simplified approach, which means that the regulatory capital is decreased by 0,1% of the marked balance sheet items.

## Notes to the table:

(1) Under accounting scope of consolidation as in published financial statements.
(2) In consolidated balance sheet the amounts of deferred tax receivables and deferred tax liabilities are determined according to IAS 12, which does not take into consideration the classification expected by CRR (relying on future profitability or is not relying on future profitability, and arising from temporary difference or is not arising from temporary difference). For determining deferred tax receivables (and deferred tax liabilities) taken into account in regulatory capital, the total amount of deferred tax receivables and deferred tax liabilities is classified according to CRR categories, then in each CRR category the offsetting between deferred tax assets and associated deferred tax liabilities is done separately for each subsidiary (which is allowed according to 14 (2-3) article of 241/2014/EU RTS). Applying this methodology does not affect the difference of deferred tax receivables and deferred tax liabilities.
(3) Tier 2 instrument taking into account regulatory capital.
(4) Taking into consideration articles 81-88 of CRR

## Chart 8: Differences between accounting (IFRS) and regulatory (CRR) scopes of consolidation and the mapping of financial statement categories with regulatory risk categories

| Description (in HUF million) | Carrying values as reported in published financial statements | Carrying values under scope of regulatory consolidation | Carrying values of items | | | | |
|---|---|---|---|---|---|---|---|
| | | | Subject to the credit risk framework | Subject to the CCR framework | Subject to the securitisation framework | Subject to the market risk framework | Not subject to capital requirements or subject to deduction from capital |
| Cash, amounts due from banks and balances with the National Banks | 1 784 378 | 1 842 325 | 1 842 325 | 0 | 0 | 0 | 0 |
| Placements with other banks, net of allowance for placement losses | 410 079 | 410 209 | 410 209 | 0 | 0 | 0 | 0 |
| Financial assets at fair value through profit or loss | 251 990 | 250 899 | 0 | 27 219 | 0 | 250 899 | 215 |
| Financial assets at fair value through other comprehensive income | 2 426 779 | 2 423 729 | 2 423 729 | 0 | 0 | 0 | 2 424 |
| Loans at amorized cost | 11 846 260 | 12 210 577 | 12 210 577 | 0 | 0 | 0 | 0 |
| Loans mandatorily at fair value through profit or loss | 32 802 | 32 802 | 32 802 | 0 | 0 | 0 | 33 |
| Associates and other investments | 20 822 | 67 067 | 67 067 | 0 | 0 | 0 | 0 |
| Securities at amortised cost | 1 968 072 | 2 000 296 | 2 000 296 | 0 | 0 | 0 | 0 |
| Property and equipment | 320 430 | 318 495 | 318 495 | 0 | 0 | 0 | 0 |
| Intangible assets and goodwill | 242 219 | 243 061 | 0 | 0 | 0 | 0 | 243 061 |
| Right-of-use assets | 52 950 | 53 124 | 53 124 | 0 | 0 | 0 | 0 |
| Investment properties | 41 560 | 25 769 | 25 769 | 0 | 0 | 0 | 0 |
| Derivative financial assets designated as hedge accounting relationships | 7 463 | 7 463 | 0 | 7463 | 0 | 0 | 7 |
| Deferred tax assets | 26 543 | 28 302 | 22 474 | 0 | 0 | 0 | 5 828 |
| Other assets | 227 349 | 256 834 | 256 834 | 0 | 0 | 0 | 0 |
| Assets classified as held-for-sale | 462 071 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total assets** | **20 121 767** | **20 170 952** | **19 663 701** | **34 682** | **0** | **250 899** | **251 568** |
| Amounts due to banks, the National Governments, deposits from the National Banks and other banks | 813 399 | 812 131 | 0 | 0 | 0 | 0 | 812 131 |
| Financial liabilities at fair value through profit or loss | 30 862 | 30 862 | 0 | 0 | 0 | 0 | 30 862 |
| Deposits from customers | 15 171 308 | 15 549 425 | 0 | 0 | 0 | 0 | 15 549 425 |
| Liabilities from issued securities | 393 167 | 401 979 | 0 | 0 | 0 | 0 | 401 979 |
| Derivative financial liabilities held for trading | 86 743 | 93 809 | 0 | 0 | 0 | 0 | 93 809 |
| Derivative financial liabilities designated as hedge accounting relationships | 10 709 | 10 709 | 0 | 0 | 0 | 0 | 10 709 |
| Deferred tax liabilities | 29 195 | 29 168 | 0 | 0 | 0 | 0 | 29 168 |
| Leasing liabilities | 54 194 | 53 791 | 0 | 0 | 0 | 0 | 53 791 |
| Other liabilities | 628 468 | 616 138 | 0 | 0 | 0 | 0 | 616 138 |
| Subordinated bonds and loans | 249 938 | 249 937 | 0 | 0 | 0 | 0 | 249 937 |
| Liabilities directly associated with assets classified as held-for-sale | 362 496 | - | 0 | 0 | 0 | 0 | 0 |
| **TOTAL LIABILITIES** | **17 830 479** | **17 847 949** | 0 | 0 | 0 | 0 | **17 847 949** |
| Share capital | 28 000 | 28 000 | 0 | 0 | 0 | 0 | 28 000 |
| Retained earnings and reserves | 2 319 263 | 2 338 700 | 0 | 0 | 0 | 0 | 2 338 700 |
| Treasury shares | (60 931) | (48 310) | 0 | 0 | 0 | 0 | (48 310) |
| Non-controlling interest | 4 956 | 4 613 | 0 | 0 | 0 | 0 | 4 613 |
| **TOTAL SHAREHOLDERS' EQUITY** | **2 291 288** | **2 323 003** | **0** | **0** | **0** | **0** | **2 323 003** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **20 121 767** | **20 170 952** | **0** | **0** | **0** | **0** | **20 170 952** |

### Chart 9: Non-deducted participations in insurance undertakings

| (in HUF million) | 31.12.2019 |
|---|---|
| Holdings of own funds instruments of a financial sector entity where the institution has a significant investment not deducted from own funds (before risk-weighting) | 3 777 |
| Total RWA | 9 441 |

**Chart 10: Main sources of differences between regulatory exposure amounts and carrying values in financial statements**

| Description<br>(in HUF million) | Total | Items subject to | | | |
|---|---|---|---|---|---|
| | | Credit risk framework | CCR framework | Securitisation framework | Market risk framework |
| **Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)** | **20 170 952** | **19 663 701** | **34 682** | **0** | **250 899** |
| Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1) | 17 847 949 | 0 | 0 | 0 | 0 |
| Total net amount under the regulatory scope of condsolidation | 2 323 003 | 0 | 0 | 0 | 0 |
| Off-balance sheet amounts | 4 348 776 | 1 617 960 | 0 | 0 | 0 |
| Non deducted from regulatory capital, capital requirement increase elements | 20 229 | 20 229 | 0 | 0 | 0 |
| Differences because the transitional arrangements related to IFRS 9 or analogous ECLs* | 99 222 | 99 222 | 0 | 0 | 0 |
| **Exposure amounts considered for regulatory purposes** | **21 686 694** | **21 401 113** | **34 682** | **0** | **250 899** |

* Calculated according to 2017/2395 EU regulation.

The main reason of the difference between the carrying values is that different entites are consolidated in the regulatory and accounting scope.

## Chart 11: Consolidated entities for the year-ended 31 December 2019

| Number | Entity | Scope of accounting consolidation | Scope of regulatory consolidation |
|---|---|---|---|
| 1 | OTP Bank Plc. | Yes | Yes |
| 2 | Air-Invest Ltd. | Yes | Yes |
| 3 | AppSense Ltd. | Yes | No |
| 4 | Bajor-Polár Center Real Estate Management Ltd. | Yes | Yes |
| 5 | BALANSZ Real Estate Institute Fund | Yes | No |
| 6 | BANK CENTER No. 1. Ltd. | Yes | Yes |
| 7 | Banka OTP Albania SHA | Yes | Yes |
| 8 | CIL Babér Ltd. | Yes | Yes |
| 9 | CRESCO d.o.o. | Yes | Yes |
| 10 | Crnogorska Komercijalna Banka a.d. | Yes | Yes |
| 11 | DSK Asset Management EAD | Yes | Yes |
| 12 | DSK Auto Leasing EOOD | Yes | Yes |
| 13 | DSK Bank EAD | Yes | Yes |
| 14 | DSK DOM EAD | Yes | Yes |
| 15 | DSK Leasing AD | Yes | Yes |
| 16 | DSK Mobile EAD | Yes | Yes |
| 17 | DSK Operating lease EOOD | Yes | Yes |
| 18 | DSK Tours EOOD | Yes | Yes |
| 19 | DSK Trans Security EAD | Yes | Yes |
| 20 | EiSYS Ltd. | Yes | No |
| 21 | Express Factoring EOOD | Yes | Yes |
| 22 | Expressbank AD | Yes | Yes |
| 23 | INGA KETTŐ Ltd. | Yes | Yes |
| 24 | JN Parkolóház Real Estate Utilizer LLC | Yes | No |
| 25 | JSC "OTP Bank" (Russia) | Yes | Yes |
| 26 | LLC AllianceReserve | No | Yes |
| 27 | LLC AMC OTP Capital | Yes | Yes |
| 28 | LLC MFO "OTP Finance" | Nem | Yes |
| 29 | LLC OTP Leasing | Yes | Yes |
| 30 | Merkantil Bill and Property Investments Bank Ltd. | Yes | Yes |
| 31 | Merkantil Lease Service LLC | Yes | Yes |
| 32 | MFM Project Investment and Development Ltd. | Yes | No |
| 33 | Miskolci Diákotthon Investment Utilization LLC | Yes | No |
| 34 | Mobiasbanca - OTP Group S.A. | Yes | Yes |
| 35 | MONICOMP Ltd. | Yes | Yes |
| 36 | NIMO 2002 Ltd. | Yes | Yes |
| 37 | OPUS Securities S.A. | Yes | Yes |
| 38 | OTP Asset Management SAI S.A. | Yes | Yes |
| 39 | OTP Aventin d.o.o. | Yes | Yes |
| 40 | OTP Bank JSC (Ukraine) | Yes | Yes |
| 41 | OTP Bank Romania S.A. | Yes | Yes |
| 42 | OTP Banka Hrvatska d.d. | Yes | Yes |
| 43 | OTP Banka Slovensko a.s. | Yes | Yes |
| 44 | OTP Banka Srbija AD. Beograd | Yes | Yes |
| 45 | OTP Building Society Ltd. | Yes | Yes |
| 46 | OTP Buildings s.r.o. | Yes | Yes |
| 47 | OTP Card Factory Ltd. | Yes | Yes |
| 48 | OTP Debt Collection d.o.o. Podgorica | Yes | Yes |
| 49 | OTP Digitális Fund | Yes | No |
| 50 | OTP eBIZ Ltd. | Yes | No |
| 51 | OTP Factoring Bulgaria EAD | Yes | Yes |
| 52 | OTP Factoring Ltd. | Yes | Yes |
| 53 | OTP Factoring Management Ltd. | Yes | Yes |
| 54 | OTP Factoring Serbia d.o.o. | Yes | Yes |
| 55 | OTP Factoring Slovensko s.r.o. | Yes | Yes |
| 56 | OTP Factoring SRL | Yes | Yes |
| 57 | OTP Factoring Ukraine LLC | Yes | Yes |
| 58 | OTP Financing Cyprus Company Limited | Yes | Yes |
| 59 | OTP Financing Malta Ltd. | Yes | Yes |
| 60 | OTP Financing Netherlands B.V. | Yes | Yes |
| 61 | OTP Financing Solutions B.V. | Yes | Yes |
| 62 | OTP Fund Management Ltd. | Yes | Yes |
| 63 | OTP Funds Servicing and Consulting Ltd. | Yes | Yes |
| 64 | OTP Holding Ltd. | Yes | Yes |
| 65 | OTP Holding Malta Ltd. | Yes | Yes |
| 66 | OTP Hungaro-Project Ltd. | Yes | No |
| 67 | OTP Immobilien Verw ertung GmbH. | No | Yes |
| 68 | OTP Ingatlankezelő Ltd. | Yes | Yes |
| 69 | OTP Ingatlanpont Ltd. | Yes | No |
| 70 | OTP Ingatlanüzemeltető Ltd. | Yes | Yes |
| 71 | OTP Invest d.o.o. | Yes | Yes |
| 72 | OTP Insurance Broker EOOD | Yes | Yes |
| 73 | OTP Investments d.o.o. Novi Sad | Yes | Yes |
| 74 | OTP Leasing d.d. | Yes | Yes |
| 75 | OTP Leasing EOOD | Yes | Yes |
| 76 | OTP Leasing Romania IFN S.A. | Yes | Yes |
| 77 | OTP Leasing Srbija d.o.o. Beograd | Yes | Yes |
| 78 | OTP Life Annuity Real Estate Investment Ltd. | Yes | Yes |
| 79 | OTP Lizing d.o.o. | Yes | Yes |
| 80 | OTP Mérnöki Szolgáltató Ltd. | Yes | Yes |
| 81 | OTP Mobile Service Ltd. | Yes | No |
| 82 | OTP Mortgage Bank Ltd. | Yes | Yes |
| 83 | OTP MRP | Yes | No |
| 84 | OTP Nekretnine d.o.o. | Yes | Yes |
| 85 | OTP Osiguranje A.D.O. Beograd | Yes | No |
| 86 | OTP Osiguranje d.d. | Yes | No |
| 87 | OTP Pénzügyi Pont Ltd. | Yes | Yes |
| 88 | OTP Real Estate Investment Fund Management Ltd. | Yes | Yes |
| 89 | OTP Real Estate Leasing Ltd. | Yes | Yes |
| 90 | OTP Real Estate Ltd. | Yes | Yes |
| 91 | OTP Savjetovanje d.o.o. | Yes | Yes |
| 92 | OTP Services d. o. o. | Yes | Yes |
| 93 | OTP Solution Fund | Yes | No |
| 94 | Podgorička banka AD Podgorica | Yes | Yes |
| 95 | POK DSK-Rodina AD | Yes | Yes |
| 96 | PortfoLion Digital Ltd. | Yes | No |
| 97 | PortfoLion Venture Capital Fund Management Ltd. | Yes | No |
| 98 | Portfolion Zöld Fund | Yes | No |
| 99 | R.E. Four d.o.o., Novi Sad | Yes | Yes |
| 100 | Regional Urban Development Fund AD | Yes | Yes |
| 101 | SB Leasing d.o.o. | Yes | Yes |
| 102 | SC Aloha Buzz SRL | Yes | Yes |
| 103 | SC Favo Consultanta SRL | Yes | Yes |
| 104 | SC Tezaur Cont SRL | Yes | Yes |
| 105 | Shiw aForce.com Inc. | Yes | No |
| 106 | SKB Banka d.d. Ljubljana | Yes | Yes |
| 107 | SKB Leasing d.o.o. | Yes | Yes |
| 108 | SKB Leasing Select s.o.o. | Yes | Yes |
| 109 | SPLC Property Management Ltd. | Yes | Yes |
| 110 | SPLC-P Real estate development, Real estate management LLC | Yes | No |
| 111 | TOP Collector LLC | Yes | Yes |
| 112 | Velvin Ventures Ltd. | Yes | Yes |
| 113 | Vojvodjanska banka a.d. Novi Sad | Yes | Yes |

## Chart 12: Outline of the differences in the scopes of consolidation (entity by entity)

| Name of the entity | Method of accounting consolidation | Method of regulatory consolidation | | | | Description of the entity |
|---|---|---|---|---|---|---|
| | | Full consolidation | Proportional consolidation | Neither consolidated nor deducted | Deducted | |
| OTP Bank Plc. | Full consolidation | X | | | | Credit institution |
| Air-Invest Ltd. | Full consolidation | X | | | | Personal air transportation |
| AppSense Ltd. | Full consolidation | | | | | Computer programming |
| Bajor-Polár Center Real Estate Management Ltd. | Full consolidation | X | | | | Real estate management |
| Balansz Real Estate Institute Fund | Full consolidation | | | | | Real estate fund |
| BANK CENTER No. 1. Ltd. | Full consolidation | X | | | | Real estate management |
| Banka OTP Albania SHA | Full consolidation | X | | | | Credit institution |
| CIL Babér Ltd. | Full consolidation | X | | | | Real estate management |
| CRESCO d.o.o. | Full consolidation | X | | | | Real estate management |
| Crnogorska Komercijalna Banka a.d. | Full consolidation | X | | | | Credit institution |
| DSK Asset Management EAD | Full consolidation | X | | | | Fund management |
| DSK Auto Leasing EOOD | Full consolidation | X | | | | Leasing activities |
| DSK Bank EAD | Full consolidation | X | | | | Credit institution |
| DSK DOM EAD | Full consolidation | X | | | | Other credit supply |
| DSK Leasing AD | Full consolidation | X | | | | Leasing activities |
| DSK Mobile EAD | Full consolidation | X | | | | IT services |
| DSK Operating lease EOOD | Full consolidation | X | | | | Leasing activities |
| DSK Tours EOOD | Full consolidation | X | | | | Travel agency services |
| DSK Trans Security EAD | Full consolidation | X | | | | Security and money transportation services |
| EISYS Ltd. | Full consolidation | | | | | information technology consultancy |
| Express Factoring EOOD | Full consolidation | X | | | | Factoring entity |
| Expressbank AD | Full consolidation | X | | | | Credit institution |
| INGA KETTŐ Ltd. | Full consolidation | X | | | | Real estate management |
| JN Parkolóház Real Estate Utilizer LLC | Full consolidation | | | | | Real estate development |
| JSC "OTP Bank" (Russia) | Full consolidation | X | | | | Credit institution |
| LLC AllianceReserve | | X | | | | Operating and management consulting |
| LLC AMC OTP Capital | Full consolidation | X | | | | Fund management |
| LLC MFO "OTP Finance" | Full consolidation | X | | | | Other credit supply |
| LLC OTP Leasing | Full consolidation | X | | | | Leasing Activities |
| Merkantil Bill and Property Investments Bank Ltd. | Full consolidation | X | | | | Credit institution |
| Merkantil Lease Service LLC | Full consolidation | X | | | | Leasing activities |
| MFM Projekt beruházási és Fejlesztési Ltd. | Full consolidation | | | | | Real estate utilization |
| Miskolci Diákotthon Investment Utilization LLC | Full consolidation | | | | | Real estate utilization |
| Mobiasbanca - OTP Group S.A. | Full consolidation | X | | | | Credit institution |
| MONICOMP Ltd. | Full consolidation | X | | | | IT hardw are services |
| NIMO 2002 Ltd. | Full consolidation | X | | | | Real estate utilization |
| OPUS Securities S.A. | Full consolidation | X | | | | Structured financing |
| OTP Asset Management SAI S.A. | Full consolidation | X | | | | Asset management |
| OTP Aventin d.o.o. | Full consolidation | X | | | | Real estate activities |
| OTP Bank JSC (Ukraine) | Full consolidation | X | | | | Credit institution |
| OTP Bank Romania S.A. | Full consolidation | X | | | | Credit institution |
| OTP Banka Hrvatska d.d. | Full consolidation | X | | | | Credit institution |
| OTP Banka Slovensko a.s. | Full consolidation | X | | | | Credit institution |
| OTP Banka Srbija a.d. Novi Sad | Full consolidation | X | | | | Credit institution |
| OTP Building Society Ltd. | Full consolidation | X | | | | Savings and mortgage activities |
| OTP Buildings s.r.o. | Full consolidation | X | | | | Real estate utilization |
| OTP Card Factory Ltd. | Full consolidation | X | | | | Card manufacturing |
| OTP Debt Collection d.o.o. Podgorica | Full consolidation | X | | | | Factoring entity |
| OTP Digitális Fund | Full consolidation | | | | | Venture Capital Fund |
| OTP eBIZ Ltd. | Full consolidation | | | | | IT services |
| OTP Factoring Bulgaria EAD | Full consolidation | X | | | | Factoring entity |
| OTP Factoring Ltd. | Full consolidation | X | | | | Factoring entity |
| OTP Factoring Management Ltd. | Full consolidation | X | | | | Factoring entity |
| OTP Factoring Serbia d.o.o. | Full consolidation | X | | | | Factoring entity |
| OTP Factoring Slovensko s.r.o. | Full consolidation | X | | | | Factoring entity |
| OTP Factoring SRL | Full consolidation | X | | | | Factoring entity |
| OTP Factoring Ukraine LLC | Full consolidation | X | | | | Factoring entity |
| OTP Financing Cyprus Company Limited | Full consolidation | X | | | | Group-financing services |
| OTP Financing Malta Ltd. | Full consolidation | X | | | | Group-financing services |
| OTP Financing Netherlands B.V. | Full consolidation | X | | | | Group-financing services |
| OTP Financing Solutions B.V. | Full consolidation | X | | | | Group-financing services |
| OTP Fund Management Ltd. | Full consolidation | X | | | | Fund management |

| Name of the entity | Method of accounting consolidation | Method of regulatory consolidation | | | | Description of the entity |
|---|---|---|---|---|---|---|
| | | Full consolidation | Proportional consolidation | Neither consolidated nor deducted | Deducted | |
| OTP Funds Servicing and Consulting Ltd. | Full consolidation | X | | | | Fund servicing and consulting |
| OTP Holding Ltd. | Full consolidation | X | | | | Holding |
| OTP Holding Malta Ltd. | Full consolidation | X | | | | Holding |
| OTP Hungaro-Project Ltd. | Full consolidation | | | | | Operating and management consulting |
| OTP Immobilien Verw ertung GmbH. | | X | | | | Real estate utilization |
| OTP Ingatlankezelő Ltd. | Full consolidation | X | | | | Real estate management |
| OTP Ingatlanpont Ltd. | Full consolidation | | | | | Real estate activities |
| OTP Insurance Broker EOOD | | X | | | | Insurance broker |
| OTP Ingatlanüzemeltető Ltd. | Full consolidation | X | | | | Real estate utilization |
| OTP Invest d.o.o. | Full consolidation | X | | | | Fund management |
| OTP Investments d.o.o. Novi Sad | Full consolidation | X | | | | Real estate activities |
| OTP Kockázati Fund | | | | | | Venture Capital Fund |
| OTP Leasing d.d. | Full consolidation | X | | | | Leasing activities |
| OTP Leasing EOOD | Full consolidation | X | | | | Leasing activities |
| OTP Leasing Romania IFN S.A. | Full consolidation | X | | | | Leasing activities |
| OTP Leasing Srbija d.o.o. Beograd | Full consolidation | X | | | | Leasing activities |
| OTP Life Annuity Real Estate Investment Ltd. | Full consolidation | X | | | | Life annuity services |
| OTP Lizing d.o.o. | Full consolidation | X | | | | Leasing activities |
| OTP Mérnöki Szolgáltató Ltd. | Full consolidation | X | | | | Engineering service |
| OTP Mobile Service Ltd. | Full consolidation | | | | | IT services |
| OTP Mortgage Bank Ltd. | Full consolidation | X | | | | Mortgage activities |
| OTP MRP | Full consolidation | | | | | Profit-sharing and bonus plans |
| OTP Nekretnine d.o.o. | Full consolidation | X | | | | Real estate management |
| OTP Osiguranje A.D.O. Beograd | Full consolidation | | | | | Insurance entity |
| OTP Osiguranje d.d. | Full consolidation | | | | | Insurance entity |
| OTP Pénzügyi Pont Ltd. | Full consolidation | X | | | | Financial product broker |
| OTP Real Estate Investment Fund Management Ltd. | Full consolidation | X | | | | Fund management |
| OTP Real Estate Leasing Ltd. | Full consolidation | X | | | | Leasing activities |
| OTP Real Estate Ltd. | Full consolidation | X | | | | Real estate vendor |
| OTP Savjetovanje d.o.o. | Full consolidation | X | | | | Real estate management |
| OTP Services d. o. o. | Full consolidation | X | | | | Leasing activities |
| OTP Solution Fund | Full consolidation | | | | | Fund |
| OTP-DayOne Magvető Fund | | | | | | Venture Capital Fund |
| Podgorička banka AD Podgorica | Full consolidation | X | | | | Credit institution |
| POK DSK-Rodina AD | Full consolidation | X | | | | Retirement insurance activities |
| PortfoLion Digital Ltd. | Full consolidation | | | | | Operating and management consulting |
| PortfoLion Venture Capital Fund Management Ltd. | Full consolidation | | | | | Venture Capital management |
| Portfolion Regionális Fund | Full consolidation | | | | | Venture Capital Fund |
| Portfolion Zöld Fund | | | | | | Venture Capital Fund |
| R.E. Four d.o.o., Novi Sad | Full consolidation | X | | | | Real estate vendor |
| Regional Urban Development Fund AD | Full consolidation | | | | | Fund |
| SB Leasing d.o.o. | Full consolidation | X | | | | Leasing activities |
| SC Aloha Buzz SRL | Full consolidation | X | | | | Other financial activities |
| SC Favo Consultanta SRL | Full consolidation | X | | | | Other financial activities |
| SC Tezaur Cont SRL | Full consolidation | X | | | | Other financial activities |
| Shiw aForce.com Inc. | Full consolidation | | | | | Computer programming |
| SKB Banka d.d. Ljubljana | Full consolidation | X | | | | Credit institution |
| SKB Leasing d.o.o. | Full consolidation | X | | | | Leasing activities |
| SKB Leasing Select s.o.o. | Full consolidation | X | | | | Leasing activities |
| SPLC Property Management Ltd. | Full consolidation | X | | | | Retail of vehicles |
| SPLC-P Real estate development, Real estate managem | Full consolidation | | | | | Real estate development |
| TOP Collector LLC | Full consolidation | X | | | | Other financial activities |
| Velvin Ventures Ltd. | Full consolidation | X | | | | Real estate management |
| Vojvodjanska banka a.d. Novi Sad | Full consolidation | X | | | | Credit institution |
| D-ÉG Thermoset Ltd. | Propertional consolidation (Equity method) | | | | | Wholesale of heating utilities |
| Szallas.hu Ltd. | Propertional consolidation (Equity method) | | | | | Webportal service |

Differences related to deductions from regulatory capital according to accounting and regulatory scope of consolidation:

The differences due to different scopes of consolidation (accounting and regulatory) have an effect on the following deductions from regulatory capital as at 31st December 2019:

- Additional value adjustments
- Intangible assets
- Treasury shares
- Deferred tax assets that rely on future profitability and do not arise from temporary differences

The Group applies the simplified approach in case of the additional value adjustments, which determines the deduction from regulatory capital as the 0.1% of the sum of fair-valued assets and liabilities stated in the balance sheet (under accounting scope of consolidation). The calculated additional value adjustments is HUF 2,840 million according to balance sheet as in published financial statements, in the case of the balance sheet under regulatory scope of consolidation the additional value adjustments would be HUF 2,848 million on 31st December 2019.

In case of accounting scope of consolidation the deduction from regulatory capital due to the intangible assets is HUF 230,017 million. Under regulatory scope of consolidation the deduction from regulatory capital due to the intangible assets is HUF 243,061 million.

In case of accounting scope of consolidation the deduction from regulatory capital due to the treasury shares is HUF 60,931 million. Under regulatory scope of consolidation the deduction from regulatory capital due to the treasury shares is HUF 48,310 million.

In case of accounting scope of consolidation the deduction from regulatory capital due to deferred tax assets that rely on future profitability and do not arise from temporary differences is HUF 5,739 million, under regulatory scope of consolidation is HUF 5,828 million.

Breakdown of regulatory capital is presented according to the regulatory scope of consolidation in the next section. Under accounting scope of consolidation the regulatory capital is HUF 2,390,688 million, the capital adequacy ratio is 16.8%, CET1 ratio is 14.4%, taking into account the profit for 2019.20

Due to the COVID 19 pandemia, in order to strengthen the banking system, Hungarian National Bank requests banks to make sure that dividends are neither approved, nor paid until the 30.09.2020. In this document the regulatory capital is presented In line with the request of the National Bank and dividend payment is not taken into account in the regulatory capital[1].

[1] https://www.mnb.hu/en/pressroom/press-releases/press-releases-2020/the-mnb-takes-several-measures-to-support-the-operation-of-banks (21.04.2020)

## Chart 13: Breakdown of regulatory capital including transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds in accordance with 2017/2395 EU regulation

| | **Common Equity Tier 1 capital: instruments and reserves (in HUF million)** | **(A) 31 December 2019** | **(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE** | **(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013** |
|---|---|---|---|---|
| 1 | Capital instruments and the related share premium accounts | 28 000 | 26 (1), 27, 28, 29, EBA list 26 (3) | |
| | of which: share | 28 000 | EBA list 26 (3) | |
| 2 | Retained earnings (1) | 2 178 390 | 26 (1) (c) | |
| 3 | Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards) | 65 843 | 26 (1) | |
| 3a | Funds for general banking risk | 0 | 26 (1) (f) | |
| 4 | Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1 | 0 | 486 (2) | |
| 5 | Minority interests (amount allowed in consolidated CET1) | 2 566 | 84, 479, 480 | 0 |
| 5a | Independently reviewed interim profits net of any foreseeable charge or dividend | 0 | 26 (2) | |
| 6 | **Common Equity Tier 1 (CET1) capital before regulatory adjustments** | **2 274 799** | | |

| | **Common Equity Tier 1 (CET1) capital: regulatory adjustments (in HUF million)** | **(A) 31 December 2019** | **(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE** | **(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013** |
|---|---|---|---|---|
| 7 | Additional value adjustments (negative amount) | (2 848) | 34, 105 | |
| 8 | Intangible assets (net of related tax liability) (negative amount) | (243 061) | 36 (1) (b), 37, 472 (4) | |
| 10 | Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount) | (5 828) | 36 (1) (c), 38, 472 (5) | |
| 11 | Fair value reserves related to gains or losses on cash flow hedges | | 33 (1) (a) | |
| 12 | Negative amounts resulting from the calculation of expected loss amounts | | 36 (1) (d), 40, 159, 472 (6) | |
| 13 | Any increase in equity that results from securitised assets (negative amount) | | 32 (1) | |
| 14 | Gains or losses on liabilities valued at fair value resulting from changes in own credit standing | | 33 (1) (b) | |
| 15 | Defined-benefit pension fund assets (negative amount) | | 36 (1) (e), 41, 472 (7) | |
| 16 | Direct and indirect holdings by an institution of own CET1 instruments (negative amount) | (48 310) | 36 (1) (f), 42, 472 (8) | |
| 17 | Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negatvie amount) | | 36 (1) (g), 44, 472 (9) | |
| 18 | Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | | 36 (1) (h), 43, 45, 46, 49 (1)-(3), 79, 472 (10) | 30 658 |
| 19 | Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | | 36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1)-(3), 79, 470, 472 (11) | |

| | Common Equity Tier 1 (CET1) capital: regulatory adjustments (in HUF million) | (A) 31 December 2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 20a | Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative | | 36 (1) (k) | |
| 20b | of which: qualifying holdings outside the financial sector (negative amount) | | 36 (1) (k) (i), 89-91 | |
| 20c | of which: securitisation positions (negative amount) | | 36 (1) (k) (ii)<br>243 (1) (b)<br>244 (1) (b)<br>258 | |
| 20d | of which: free deliveries (negative amount) | | 36 (1) (k) (iii), 379 (3) | |
| 21 | Deferred tax assets arising from temporary difference (amount above 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met) (negative amount) | | 36 (1) (c), 38, 48 (1) (a), 470, 472 (5) | |
| 22 | Amount exceeding the 15% threshold (negative amount) | | 48 (1) | 59 377 |
| 23 | of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities | | 36 (1) (i), 48 (1) (b), 470, 472 (11) | 39 798 |
| 24 | of which: deferred tax assets arising from temporary difference | | 36 (1) (c), 38, 48 (1) (a), 470, 472 (5) | 19 578 |
| 25a | Losses for the current financial year (negative amount) | | 36 (1) (a), 472 (3) | |
| 25b | Foreseeable tax charges relating to CET1 items (negative amount) | | 36 (1) (l) | |
| 26 | Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment (2) | 99 293 | | |
| 27 | Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount) | | 36 (1) (j) | |
| 28 | **Total regulatory adjustments to Common Equity Tier 1 (CET1)** | **(200 754)** | | |
| 29 | **Common Equity Tier 1 (CET1) capital** | **2 074 045** | | |

| | Additional Tier 1 (AT1) capital: instruments (in HUF million) | (A) 31 December 2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 30 | Capital instruments and the related share premium accounts | | 51, 52 | |
| 31 | of which: classified as equity under applicable accounting standards | | | |
| 32 | of which: classified as liabilities under applicable accounting standards | | | |
| 33 | Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1 | | 486 (3) | |
| 34 | Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties | | 85, 86, 480 | |
| 35 | of which: instruments issued by subsidiaries subject to phase-out | | 486 (3) | |
| 36 | **Additional Tier 1 (AT1) capital before regulatory adjustments** | **0** | | |

| | Additional Tier 1 (AT1) capital: regulatory adjustments (in HUF million) | (A) 31 December 2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 37 | Direct and indirect holdings by an institution of own AT1 instruments (negative amount) | | 52 (1) (b), 56 (a), 57, 475 (2) | |
| 38 | Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | | 56 (b), 58, 475 (3) | |
| 39 | Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | | 56 (c), 59, 60, 79, 475 (4) | |
| 40 | Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | | 56 (d), 59, 79, 475 (4) | |
| 42 | Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount) | | 56 (e) | |
| 43 | **Total regulatory adjustments to Additional Tier 1 (AT1) capital** | **0** | | |
| 44 | **Additional Tier 1 (AT1) capital** | **0** | | |
| 45 | **Tier 1 capital (T1 = CET1 + AT1)** | **2 074 045** | | |

| | Tier 2 (T2) capital: instruments and provisions (in HUF million) | (A) 31 December 2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 46 | Capital instruments and the related share premium accounts | 334 471 | 62, 63 | |
| 47 | Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2 | | 486 (4) | |
| 48 | Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party | 1 102 | 87, 88, 480 | |
| 49 | of which: instruments issued by subsidiaries subject to phase-out | | 486 (4) | |
| 50 | Credit risk adjustments | | 62 (c) & (d) | |
| 51 | **Tier 2 (T2) capital before regulatory adjustment** | **335 573** | | |

| | Tier 2 (T2) capital: regulatory adjustments (in HUF million) | (A) 31 December 2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 52 | Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount) | | 63 (b) (i), 66 (a), 67, 477 (2) | |
| 53 | Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount) | | 66 (b), 68, 477 (3) | |
| 54 | Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount) | | 66 (c), 69, 70, 79, 477 (4) | |
| 55 | Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts) | | 66 (d), 69, 79, 477 (4) | |
| 57 | **Total regulatory adjustments to Tier 2 (T2) capital** | | | |
| 58 | **Tier 2 (T2) capital** | **335 573** | | |
| 59 | **Total capital (TC = T1 + T2)** | **2 409 618** | | |
| 60 | **Total risk weighted assets** | **14 439 218** | | |

| | Capital ratios and buffers (in HUF million) | (A) 31 December 2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 61 | **Common Equity Tier 1 (as a percentage of total risk exposure amount)** | **14.36%** | 92 (2) (a), 465 | |
| 62 | **Tier 1 (as a percentage of total risk exposure amount)** | **14.36%** | 92 (2) (b), 465 | |
| 63 | **Total capital (as a percentage of total risk exposure amount)** | **16.69%** | 92 (2) (c) | |
| 64 | Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of total risk exposure amount) | 8.625% | CRD 128, 129, 130, 131 and 133 | |
| 65 | of which: capital conservation buffer requirement | 2.500% | | |
| 66 | of which: countercyclical buffer requirement | 0.125% | | |
| 67 | of which: systemic risk buffer requirement (3) | | | |
| 67a | of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer | 1.50% | CRD 131 | |
| 68 | Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount) | 6.36% | CRD 128 | |

| | Amounts below the thresholds for deduction (before risk-weighting) (in HUF million) | (A) 31 December 2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 72 | Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | (30 658) | 36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4) | |
| 73 | Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | | 36 (1) (i), 45, 48, 470, 472 (11) | |
| 75 | Deferred tax assets arising from temporary difference (amount below 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met) | | 36 (1) (c), 38, 48, 470, 472 (5) | |

| | Applicable caps on the inclusion of provisions in Tier 2 (in HUF million) | (A) 31 December 2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 76 | Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap) | | 62 | |
| 77 | Cap on inclusion of credit risk adjustments in T2 under standardised approach | | 62 | |
| 78 | Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap) | | 62 | |
| 79 | Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach | | 62 | |

| | Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022) (in HUF million) | (A) 31 December 2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 80 | Current cap on CET1 instruments subject to phase-out arrangements | | 484 (3), 486 (2) & (5) | |
| 81 | Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities) | | 484 (3), 486 (2) & (5) | |
| 82 | Current cap on AT1 instruments subject to phase-out arrangements | | 484 (4), 486 (3) & (5) | |
| 83 | Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) | | 484 (4), 486 (3) & (5) | |
| 84 | Current cap on T2 instruments subject to phase-out arrangements | | 484 (5), 486 (4) & (5) | |
| 85 | Amount excluded from T2 due to cap (excess over cap after redemptions and maturities) | | 484 (5), 486 (4) & (5) | |

(1) Profit for financial year 2019 is included in retained earnings.

(2) Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds according to 2017/2395 EU regulation.

(3) Capital buffer is not implemented

**Chart 14: The effect of the transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds in accordance with 2017/2395 EU regulation**

| IFRS 9 effect | | |
|---|---|---|
| **(in HUF million)** | | **31.12.2019** |
| **Regulatory capital** | | |
| 1 | Common Equity Tier 1 (CET1) capital | 2 074 045 |
| 2 | Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 1 974 752 |
| 3 | Tier 1 capital | 2 074 045 |
| 4 | Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 1 974 752 |
| 5 | Total capital | 2 409 618 |
| 6 | Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 2 310 325 |
| **Total risk weighted assets** | | |
| 7 | Total risk w eighted assets | 14 439 218 |
| 8 | Total risk-w eighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 14 349 781 |
| **Capital ratios** | | |
| 9 | Common Equity Tier 1 (as a percentage of total risk exposure amount) | 14.36% |
| 10 | Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 13.76% |
| 11 | Tier 1 (as a percentage of total risk exposure amount) | 14.36% |
| 12 | Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 13.76% |
| 13 | Total capital (as a percentage of total risk exposure amount) | 16.69% |
| 14 | Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 16.10% |
| **Leverage ratio** | | |
| 15 | Total exposure | 21 606 453 |
| 16 | Leverage ratio | 9.60% |
| 17 | Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 9.14% |

## Chart 15: Capital instruments' main features on 31st December 2019

| | Capital instruments' main features template [1] | | | | |
|---|---|---|---|---|---|
| 1 | Issuer | OTP Bank Plc. | OTP Bank Plc. | Opus Securities S.A. | OTP Bank Plc. |
| 2 | Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement | HU0000061726 | XS0274147296 | XS0272723551 | XS2022388586 |
| 3 | Governing law (s) of the instrument | Hungarian law | In general English law except for Subordination w hich is governed by Hungarian law | In general English law except for provisions related to Subordination of the Subordinated Sw ap Agreement w hich is governed by Hungarian law . The Security Deposit Agreement and the Custody Agreement are governed by Hungarian law . The Guarantee is governed by the law s of the State of New York. | In general English law except for Subordination and w aiver of set-off, w hich is governed by Hungarian law |
| | *Regulatory treatment* | | | | |
| 4 | Transitional CRR rules | Common Equity Tier 1 | Tier 2 | Tier 2 | Tier 2 |
| 5 | Post-transitional CRR rules | Common Equity Tier 1 | Tier 2 | Tier 2 | Tier 2 |
| 6 | Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated | Solo & Consolidated | Solo & Consolidated | Consolidated | Solo & Consolidated |
| 7 | Instrument type (types to be specified by each jurisdiction) | Share, Common Equity Tier 1 as published in Regulation (EU) No 575/2013 article 28 | Tier 2 as published in Regulation (EU) No 575/2013 article 63 | Tier 2 as published in Regulation (EU) No 575/2013 article 63 | Tier 2 as published in Regulation (EU) No 575/2013 article 63 |
| 8 | Amount recognised in regulatory capital (currency in million, as of most recent reporting date) | 28 000.001 m HUF | In standalone regulatory capital [2]: 112 330 m HUF (decreased by ow n instruments of OTP Bank) In consolidated regulatory capital [3]: 80 167 m HUF (decreased by ow n instruments of OTP Bank and other subsidiaries) | 89 935 m HUF | 164 369 m HUF (4) |
| 9 | Nominal amount of instrument | 28 000.001 m HUF | 500 m EUR | 514.274 m EUR | 500 m EUR |
| 9a | Issue price | 100 HUF | 99.375 per cent. | 100 per cent. | 99.738 per cent. |
| 9b | Redemption price | N/A | 100 per cent. + cumulated non-paid interest (if any) | 100 per cent. + accumulated interest (if any) | 100 per cent. + cumulated non-paid interest (if any) |
| 10 | Accounting classification | Shareholders' equity | Liability - amortised cost | Shareholders' equity | Liability - amortised cost |
| 11 | Original date of issuance | 10/08/1995 | 07/11/2006 | 31/10/2006 | 15/7/2019 |
| 12 | Perpeptual or dated | Perpetual | Perpetual | Perpetual | Dated |
| 13 | Original maturity date | No maturity | No maturity | No maturity | 15/7/2029 |
| 14 | Issuer call subject to prior supervisory approval | Yes | Yes | Yes | Yes |
| 15 | Optional call date, contingent call dates, and redemption amount | N/A | First call date: 07/11/2016 at 100 per cent. + cumulated non-paid interest (if any); Contingent call options: Redemption for Taxation Reasons and Redemption for Regulatory Purposes, on the next Interest Payment Date after notification (or any time before 07/11/2016), at 100 per cent. + cumulated non-paid interest (if any) (+ accumulated interest if redeemed before 07/11/2016) | First call date: 31/10/2016 at 100 per cent. if OTP exercises its option to terminate the Subordinated Sw ap Agreement (SSA) Contingent call options: (i) if OTP exercises its option to terminate the SSA at any time prior to 31 October 2016 follow ing the occurrence of a Redemption Event (at least 85 per cent of the outstanding amount have been exchanged and/or purchased and cancelled); (ii) if OTP exercises its option to terminate the SSA at any time prior to 31 October 2016 or on any Interest Payment Date thereafter follow ing the occurrence of a Relevant Event | Optional call date: 15/07/2024 at 100 per cent. + accrued and unpaid interest; Contingent call options: Redemption Due to Tax Event and Due to Capital Disqualification Event at 100 per cent. + accrued and unpaid interest |

| | Capital instruments' main features template [1] (continuation) | | | | |
|---|---|---|---|---|---|
| 16 | Subsequent call dates, if applicable | N/A | Quarterly (on 7 February, 7 May, 7 August, 7 November every year) after (and inculding) 7/11/2016 | Quarterly (on 31 January, 30 April, 31 July, 31 October every year) after (and including) 31/10/2016 | Optional call date: 15/07/2024 |
| 17 | Fixed or floating dividend/coupon | Floating (dividend) | Fixed to floating | Fixed to floating | Fixed to fixed |
| 18 | Coupon rate and any related index | N/A | Fixed 5.875% p. a. payable annualy in the first 10 years, three-month EURIBOR + 3% p.a., variable after year 10 (payable quarterly) | Fixed 3.95% p.a. payable annualy in the first 10 years, three-month EURIBOR + 3% p.a., variable after year 10 (payable quarterly) | Fix coupon of 2.875% p.a., paid annually in the first five years, starting from year 6 until maturity, the yearly fix coupon is calculated as the sum of the initial margin (320 basis points) and the 5 year mid-swap rate prevailing at the end of year 5 |
| 19 | Existence of a dividend stopper | N/A | Yes | Yes | No |
| 20a | Fully discretionary, partially discretionary or mandatory (in terms of timing | N/A | Full discretionary | Full discretionary | Mandatory |
| 20b | Fully discretionary, partially discretionary or mandatory (in terms of amount) | N/A | Full discretionary | Full discretionary | Mandatory |
| 21 | Existence of step up or other incentive to redeem | N/A | No | No | No |
| 22 | Noncumulative or cumulative | Noncumulative | Cumulative | Noncumulative | Cumulative |
| 23 | Convertible or non-convertible | N/A | Non-convertible | Non-convertible | Non-convertible |
| 24 | If convertible, conversion trigger (s) | N/A | N/A | N/A | N/A |
| 25 | If convertible, fully or partially | N/A | N/A | N/A | N/A |
| 26 | If convertible, conversion rate | N/A | N/A | N/A | N/A |
| 27 | If convertible, mandatory or optional conversion | N/A | N/A | N/A | N/A |
| 28 | If convertible, specifiy instrument type convertible into | N/A | N/A | N/A | N/A |
| 29 | If convertible, specifiy issuer of instrument it converts into | N/A | N/A | N/A | N/A |
| 30 | Write-down features | No | No | No | No |
| 31 | If write-down, write-down trigger (s) | N/A | N/A | N/A | N/A |
| 32 | If write-down, full or partial | N/A | N/A | N/A | N/A |
| 33 | If write-down, permanent or temporary | N/A | N/A | N/A | N/A |
| 34 | If temporary write-down, description of write-up mechanism | N/A | N/A | N/A | N/A |
| 35 | Position in subordination hierachy in liquidation (specify instrument type immediately senior to instrument) | Under the Act XLIX of 1991 on Bankruptcy, Liquidation and Voluntary Winding-up Proceedings (Subsection 4 of Section 61) and Regulation No 575/2013 of the European Parliament and of the Counsil (CRR) (Paragraph j) of Section 28) the instruments will rank below all other claims in the event of the liquidation of OTP. Tier 2 instruments under Article 63 of the CRR will be immeadiately senior to this instrument. | Under the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Subsection 2 of Section 57) the instruments will rank below the claims described at Paragraph h) of Subsection 1 of Section 57 at the Act XLIX of 1991 on Bankruptcy, Liquidation and Voluntary Winding-up Proceedings (Csődtv.) in the event of the liquidation of OTP. Claims under instrument XS2022388586 will be immeadiately senior to this instrument. | Under the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Subsection 2 of Section 57) the instruments will rank below the claims described at Paragraph h) of Subsection 1 of Section 57 at the Act XLIX of 1991 on Bankruptcy, Liquidation and Voluntary Winding-up Proceedings (Csődtv.) in the event of the liquidation of OTP. Claims under instrument XS2022388586 will be immeadiately senior to this instrument. | Under the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Subsection 2 of Section 57) the instruments will rank below the claims described at Paragraph h) of Subsection 1 of Section 57 at the Act XLIX of 1991 on Bankruptcy, Liquidation and Voluntary Winding-up Proceedings (Csődtv.) in the event of the liquidation of OTP. Subordinated instruments under the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises and Regulation (EU) No 575/2013 of the European Parliament and of the Council (CRR), which are not Tier 2 instruments under Article 63 of the CRR will be immediately senior to this instrument. |
| 36 | Non-compliant transitioned features | No | No | No | No |
| 37 | If yes, specifiy non-compliant features | N/A | N/A | N/A | N/A |

(1) 'N/A' inserted if the question is not applicable
(2) Calculated according to IFRS data
(3) Calculated according to IFRS data
(4) Calculated according to IFRS data

### I.4.3. Internal capital requirement calculation

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

The internal model applied for credit risk capital requirement covers a significant part of the credit portfolio. The model, based on the simulation of the macroeconomic environment, determines the loss and the required capital requirement under stress for each portfolio. For credit portfolios not involved in the internal model, the Group applies standardized approach.

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

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

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

## I.5. Trading book market and counterparty risks (capital requirements)

Market risk is the risk that movements in market risk factors, including foreign exchange rates, commodity prices, interest rates, credit spreads and equity prices will reduce the group's income or the value of its portfolios.

**Chart 16: Trading book positions capital requirement**

| Description<br>(in HUF million) | RWAs | Capital requirements |
|---|---|---|
| Interest rate risk (general and specific) | 163 536 | 13 083 |
| Equity risk (general and specific) | 549 | 44 |
| Foreign exchange risk | 31 363 | 2 509 |
| Commodity risk | 2 991 | 239 |
| Options | | |
| Simplified approach | 0 | 0 |
| Delta-plus method | 372 | 30 |
| Scenario approach | 0 | 0 |
| Securitisation (specific riks) | 0 | 0 |
| **Total** | **198 812** | **15 905** |

## Chart 17: Analysis of CCR exposure by approach

| Description (in HUF million) | Notional | Replacement cost/current market value | Potential future credit exposure | EEPE (Effective Expected Positive Exposure) | Multiplier | EAD post CRM | RWAs |
|---|---|---|---|---|---|---|---|
| Mark to market | | 13 841 | 97 675 | | | 89 042 | 13 695 |
| Original exposure | 0 | | | | | 0 | 0 |
| Standardised approach | | 0 | | | 0 | | |
| IMM (for derivatives and SFTs) | | | | 0 | 0 | 0 | 0 |
| *Of which securities financing transactions* | | | | 0 | 0 | 0 | 0 |
| *Of which derivatives and long settlement transactions* | | | | 0 | 0 | 0 | 0 |
| *Of which from contractual cross-product netting* | | | | 0 | 0 | 0 | 0 |
| Financial collateral simple method (for SFTs) | | | | | | 0 | 0 |
| Financial collateral comprehensive method (for SFTs) | | | | | | 19 393 | 56 385 |
| VaR for SFTs | | | | | | 0 | 0 |
| **Total** | | | | | | | **70 080** |

## Chart 18: CVA capital charge

| Description (in HUF million) | Exposure value | RWAs |
|---|---|---|
| Total portfolios subject to the advanced method | 0 | 0 |
| VaR component (including the 3 x multiplier) | | 0 |
| SVaR component (including the 3 x multiplier) | | 0 |
| All portfolios subject to the standardised method | 38 138 | 5 741 |
| Based on the original exposure method | 0 | 0 |
| Total subject to the CVA capital charge | 0 | 0 |

## Chart 19: CCR exposures by regulatory portfolio and risk

| (in HUF million) | Risk weight | | | | | | | | | | | Total | Of which unrated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Exposure classes | 0% | 2% | 4% | 10% | 20% | 50% | 70% | 75% | 100% | 150% | Other | | |
| Central governments or central banks | 6 823 | 0 | 0 | 0 | 0 | 7 186 | 0 | 0 | 0 | 0 | 0 | 14 009 | 0 |
| Regional government or local authorities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Public sector entities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Multilateral development banks | 0 | 0 | 0 | 0 | 66 | 0 | 0 | 0 | 0 | 0 | 0 | 66 | 66 |
| International organisations | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Institutions | 0 | 0 | 0 | 0 | 28 974 | 6 008 | 0 | 0 | 1 243 | 0 | 0 | 36 225 | 12 035 |
| Corporates | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 45 531 | 5 386 | 0 | 50 917 | 39 909 |
| Retail | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3 670 | 0 | 0 | 0 | 3 670 | 3 670 |
| Institutions and corporates with a short-term credit assessment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other items | 0 | 3 549 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 3 550 | 0 |
| **Total** | **6 823** | **3 549** | **0** | **0** | **29 040** | **13 194** | **0** | **3 670** | **46 775** | **5 386** | **0** | **108 436** | **55 680** |

Note: „Of which unrated" column contains the expousres which do not have external credit ratings

**Chart 20: Impact of netting and collateral held on exposure values**

| (in HUF million) | Gross positive fair value or net carrying amount | Netting benefits | Netted current credit exposure | Collateral held | Net credit exposure |
|---|---|---|---|---|---|
| **Derivatives** | **58 613** | **0** | **58 613** | **2 299** | **56 314** |
| **SFTs** | **59 287** | **0** | **59 287** | **41 134** | **18 153** |
| Cross-product netting | 162 060 | 71 588 | 90 472 | 56 505 | 33 967 |
| Total | 279 961 | 71 588 | 208 373 | 99 938 | 108 435 |

**Chart 21: Composition of collateral for exposures to CCR**

| | Collateral used in derivative transactions | | | | Collateral used in SFTs | |
|---|---|---|---|---|---|---|
| | Fair value of collateral received | | Fair value of posted collateral | | Fair value of collateral received | Fair value of posted collateral |
| (in HUF million) | Segregated | Unsegregated | Segregated | Unsegregated | | |
| Cash | 0 | 28 684 | 41 787 | 11 223 | 410 | 271 |
| Total | 0 | 28 684 | 41 787 | 11 223 | 410 | 271 |

## I.6. Countercyclical buffer

In accordance with the Aricle 140. of CRD, institution-specific countercyclical capital buffer consists of the weighted average of the countercyclical buffer rates that apply in the jurisdictions where the relevant credit exposures of the institution are located. In case of OTP Group the institutions-specific countercyclical buffer rate is not material, only 12.5 basispoint. It implicates HUF 18 049 m capital buffer.

## I.7. Leverage

In accordance with the permission of the supervisory authority referring to 575/2013/EU Article 499 (3), the calculation of leverage ratio is based on end-of-quarter data. The Group calculates the leverage ratio without the transitional provisions according to the article 499 (1) of CRR.

**Chart 22: Net exposure value to leverage ratio**

| | **in HUF million** | **Applicable Amount** |
|---|---|---|
| 1 | Total assets as per published financial statements | 20 121 767 |
| 2 | Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation | 49 185 |
| 3 | (Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013) | 0 |
| 4 | Adjustments for derivative financial instruments | 89 042 |
| 5 | Adjustment for securities financing transactions (SFTs) | 19 393 |
| 6 | Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures) | 1 648 210 |
| EU-6a | (Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013) | 0 |
| EU-6b | (Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013) | 0 |
| 7 | Other adjustments | (321 142) |
| **8** | **Leverage ratio total exposure measure** | **21 606 453** |

## Chart 23: Leverage ratio

| | in HUF million | CRR leverage ratio exposures |
|---|---|---|
| **On-balance sheet exposures (excluding derivatives and SFTs)** | | |
| 1 | On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral) | 20 101 376 |
| 2 | (Asset amounts deducted in determining Tier 1 capital) | (251 568) |
| **3** | **Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)*** | **19 849 808** |
| **Derivative exposures** | | |
| 4 | Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin) | 31 597 |
| 5 | Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method) | 57 445 |
| EU-5a | Exposure determined under Original Exposure Method | 0 |
| 6 | Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework | 0 |
| 7 | (Deductions of receivables assets for cash variation margin provided in derivatives transactions) | 0 |
| 8 | (Exempted CCP leg of client-cleared trade exposures) | 0 |
| 9 | Adjusted effective notional amount of written credit derivatives | 0 |
| 10 | (Adjusted effective notional offsets and add-on deductions for written credit derivatives) | 0 |
| **11** | **Total derivatives exposures (sum of lines 4 to 10)** | **89 042** |
| **SFT exposures** | | |
| 12 | Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions | 0 |
| 13 | (Netted amounts of cash payables and cash receivables of gross SFT assets) | 0 |
| 14 | Counterparty credit risk exposure for SFT assets | 19 393 |
| EU-14a | Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013 | 0 |
| 15 | Agent transaction exposures | 0 |
| EU-15a | (Exempted CCP leg of client-cleared SFT exposure) | 0 |
| **16** | **Total securities financing transaction exposures (sum of lines 12 to 15a)** | **19 393** |
| **Other off-balance sheet exposures** | | |
| 17 | Off-balance sheet exposures at gross notional amount | 4 049 605 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | (2 401 395) |
| **19** | **Other off-balance sheet exposures (sum of lines 17 and 18)*** | **1 648 210** |
| **Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)** | | |
| EU-19a | (Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet)) | 0 |
| EU-19b | (Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet)) | 0 |
| **Capital and total exposure mesure** | | |
| 20 | Tier 1 capital | 2 074 045 |
| 21 | Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b) | 21 606 453 |
| **Leverage ratio** | | |
| **22** | **Leverage ratio** | **9.60%** |
| **Choice on transitional arrangements and amount of derecognised fiduciary items** | | |
| EU-23 | Choice on transitional arrangements for the definition of the capital measure | Fully phased in |
| EU-24 | Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013 | 0 |

Note: The exposures are calculated according to 2017/2395 EU regulation, including the effect of transitional arrangements for mitigating the impact of the introduction of IFRS 9 and the correction in accordance with the Article 1. (7) paragraph b) point.

The change of Tier1 capital and the leverage ratio total assets can have an impact on leverage ratio. Due to the acquisitions happened in 2019, OTP Group has been extended with 6 new banks, and total assets increased by ~38%. Mainly because of this the leverage ratio slightly decreased compared to end of 2018. (31.12.2018: 10,10%)

Currently there is no regulatory minimum level for the leverage ratio. In line with the proposal of the European decision makers OTP Group considers 3% as minimum level of leverage ratio. Taking into accout that the current level of the leverage ratio exceed this minimum level, there is no intention of decreasing the leverage ratio. The Group monitors the level of leverage ratio quarterly and as part of recovery plan indicators informs the Asset – Liability Committee. If the leverage ratio reaches crtical level, the Asset - Liability Committee ask the competent departments to prepare action plan in oder to handle the breaching the minimum level.

**Chart 24: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)**

| | in HUF million | CRR leverage ratio exposures |
|---|---|---|
| **EU-1** | **Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:** | **19 849 808** |
| EU-2 | Trading book exposures | 215 820 |
| EU-3 | Banking book exposures, of which: | 19 633 988 |
| EU-4 | Covered bonds | 104 634 |
| EU-5 | Exposures treated as sovereigns | 5 642 062 |
| EU-6 | Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns | 295 032 |
| EU-7 | Institutions | 334 220 |
| EU-8 | Secured by mortgages of immovable properties | 4 312 423 |
| EU-9 | Retail exposures | 3 787 054 |
| EU-10 | Corporate | 3 662 017 |
| EU-11 | Exposures in default | 299 296 |
| EU-12 | Other exposures (eg equity, securitisations, and other non-credit obligation assets) | 1 197 250 |

# I.8. Credit risk adjustments

## I.8.1. Methodology of valuation and provisions

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

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

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

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

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

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

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

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

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

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

- significant increase in credit risk compared to the initial recognition.

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

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

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

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

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

A credit risk exposure shall be considered as restructured:

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

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

Portfolio (collective) assessment

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

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

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

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

Individual assessment

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

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

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

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

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

**Chart 25: Qualified exposures and impairment**

| (in HUF million) | Accumulated specific / general credit risk adjustment |
|---|---|
| **Opening balance** | **720 222** |
| Increases due to amounts set aside for estimated loan losses during the period | 175 479 |
| Decreases due to amounts reversed for estimated loan losses during the period | 0 |
| Decreases due to amounts taken against accumulated credit risk adjustments | (181 328) |
| Transfers betw een credit risk adjustments | 11 192 |
| Impact of exchange rate differences | 57 045 |
| Cured from default or non-impaired | 0 |
| Other adjustments | 1 714 |
| **Closing balance** | **784 323** |
| Recoveries on credit risk adjustments recorded directly to the statement of profit or loss | (1 599) |
| Specific credit risk adjustments directly recorded to the statement of profit or loss | 4 733 |

**Chart 26: Changes of non-performing loan exposures**

| | (in HUF million) | Gross carrying value defaulted exposures |
|---|---|---|
| **1** | **Opening balance - 31.12.2018** | **744 115** |
| 2 | Loans and debt securities that have defaulted since the last reporting period | 104 722 |
| 3 | Returned to non-defaulted status | 19 276 |
| 4 | Amounts written-off | 124 870 |
| 5 | Other changes* | (5 536) |
| **6** | **Closing balance - 31.12.2019 (6 =1 + 2 - 3 - 4 + 5)** | **699 154** |

* Contains the IFRS 9 transitional difference

## I.8.2. Exposures to credit risks

The presented RWAs and exposures in this chapter are calculated according to 2017/2395 EU regulation, including the effect of transitional arrangements for mitigating the impact of the introduction of IFRS 9 and the correction in accordance with the Article 1. (7) paragraph b) point.

**Chart 27: Net exposures broken down by net exposure classes (before credit risk mitigation)**

| Exposures<br>(in HUF million) | 31.12.2019 | 2019 Average |
|---|---|---|
| Exposures to central governments or central banks | 6 046 687 | 5 558 886 |
| Exposures to regional governments or local authorities | 140 409 | 112 765 |
| Exposures to public sector entities | 175 180 | 188 320 |
| Exposures to multilateral development banks | 10 822 | 8 123 |
| Exposures to international organisation | 0 | 7 |
| Exposures to institutions | 631 292 | 592 363 |
| Exposures to corporates | 4 619 524 | 3 884 040 |
| Retail exposures | 3 710 556 | 3 213 302 |
| Exposures secured by mortgages on immovable property | 4 378 603 | 3 800 356 |
| Exposures in default | 297 817 | 314 318 |
| Exposures associated with particularly high risk | 38 127 | 44 248 |
| Exposures in the form of covered bonds | 104 634 | 98 131 |
| Exposures to institutions and corporates with a short-term credit assessment | 0 | 0 |
| Exposures in the form of units or shares in collective investment undertakings ('CIUs') | 17 413 | 24 135 |
| Equity exposures | 87 938 | 78 392 |
| Other items | 1 130 272 | 987 397 |
| **Total** | **21 389 274** | **18 904 783** |

## Chart 28: Exposures broken down by geographical areas (by the country of obligors) on 31st December 2019

| (in HUF million) | Exposures to central governments or central banks | Exposures to regional governments or local authorities | Exposures to public sector entities | Exposures to multilateral development banks | Exposures to international organisation | Exposures to institutions | Exposures to corporates | Retail exposures | Exposures secured by mortgages on immovable property | Exposures in default | Exposures associated with particularly high risk | Exposures in the form of covered bonds | Exposures to institutions and corporates with a short-term credit assessment | Exposures in the form of units or shares in collective investment undertakings ('CIUs') | Equity exposures | Other items | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total** | **6 046 687** | **140 409** | **175 180** | **10 822** | **0** | **631 292** | **4 619 524** | **3 710 556** | **4 378 603** | **297 817** | **38 127** | **104 634** | **0** | **17 413** | **87 938** | **1 130 272** | **21 389 274** |
| Albania | 79 732 | 0 | 0 | 0 | 0 | 14 199 | 62 048 | 13 135 | 78 486 | 3 371 | 0 | 0 | 0 | 0 | 0 | 9 064 | 260 035 |
| Austria | 2 | 0 | 0 | 0 | 0 | 4 473 | 299 | 115 | 276 | 25 | 0 | 0 | 0 | 0 | 0 | 2 646 | 7 836 |
| Belgium | 13 | 0 | 0 | 0 | 0 | 4 974 | 15 596 | 95 | 110 | 15 | 74 | 0 | 0 | 0 | 0 | 0 | 20 877 |
| Bulgaria | 541 321 | 6 478 | 12 003 | 6 124 | 0 | 41 493 | 784 050 | 922 267 | 649 567 | 66 579 | 48 | 0 | 0 | 313 | 2 424 | 201 623 | 3 234 290 |
| Belize | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4 998 | 5 000 |
| Switzerland | 0 | 0 | 0 | 0 | 0 | 15 715 | 56 134 | 31 | 106 | 4 | 0 | 0 | 0 | 0 | 0 | 0 | 71 990 |
| Cyprus | 330 | 0 | 0 | 0 | 0 | 0 | 13 079 | 10 | 6 | 0 | 2 722 | 0 | 0 | 0 | 0 | 1 | 16 148 |
| Czech Republic | 0 | 0 | 0 | 0 | 0 | 630 | 879 | 91 | 3 175 | 1 | 0 | 0 | 0 | 0 | 0 | 8 | 4 784 |
| Germany | 26 347 | 0 | 0 | 0 | 0 | 24 265 | 2 824 | 311 | 274 | 74 | 0 | 0 | 0 | 0 | 0 | 0 | 54 095 |
| Spain | 31 646 | 0 | 0 | 0 | 0 | 1 063 | 987 | 54 | 24 | 8 | 0 | 0 | 0 | 0 | 0 | 0 | 33 782 |
| France | 48 | 0 | 0 | 0 | 0 | 68 910 | 1 445 | 263 | 249 | 9 | 0 | 0 | 0 | 0 | 0 | 0 | 70 924 |
| United Kingdom | 2 093 | 0 | 0 | 0 | 0 | 46 154 | 6 012 | 496 | 754 | 236 | 0 | 0 | 0 | 0 | 0 | 0 | 55 745 |
| Greece | 50 | 0 | 0 | 0 | 0 | 0 | 1 591 | 400 | 24 | 47 | 0 | 0 | 0 | 0 | 0 | 0 | 2 112 |
| Croatia | 650 667 | 14 667 | 90 806 | 0 | 0 | 16 739 | 283 663 | 431 315 | 451 393 | 37 268 | 98 | 0 | 0 | 0 | 3 365 | 98 400 | 2 078 381 |
| Hungary | 3 309 448 | 68 092 | 72 198 | 0 | 0 | 79 858 | 1 559 640 | 781 531 | 1 694 617 | 84 166 | 9 108 | 104 634 | 0 | 17 100 | 74 122 | 433 976 | 8 288 490 |
| Italy | 13 | 0 | 0 | 0 | 0 | 2 644 | 7 788 | 475 | 359 | 28 | 0 | 0 | 0 | 0 | 0 | 0 | 11 307 |
| Japan | 0 | 0 | 0 | 0 | 0 | 1 812 | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 815 |
| Lithuania | 6 512 | 0 | 0 | 0 | 0 | 0 | 81 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 6 593 |
| Republic of Moldova | 81 519 | 0 | 0 | 0 | 0 | 18 489 | 67 298 | 24 708 | 19 486 | 785 | 0 | 0 | 0 | 0 | 0 | 13 815 | 226 100 |
| Montenegro | 110 353 | 3 947 | 28 | 0 | 0 | 2 687 | 39 403 | 111 276 | 106 553 | 9 261 | 35 | 0 | 0 | 0 | 70 | 72 532 | 456 145 |
| North Macedonia | 0 | 0 | 0 | 0 | 0 | 178 | 1 023 | 108 | 110 | 10 | 0 | 0 | 0 | 0 | 0 | 0 | 1 429 |
| Netherlands | 205 | 0 | 0 | 0 | 0 | 1 271 | 6 715 | 290 | 281 | 22 | 0 | 0 | 0 | 0 | 0 | 0 | 8 784 |
| Poland | 46 934 | 0 | 0 | 0 | 0 | 327 | 1 268 | 140 | 147 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 48 818 |
| Portugal | 0 | 0 | 0 | 0 | 0 | 155 | 927 | 35 | 20 | 4 | 0 | 0 | 0 | 0 | 0 | 0 | 1 141 |
| Romania | 185 023 | 1 190 | 0 | 0 | 0 | 24 486 | 143 643 | 148 346 | 409 742 | 27 364 | 0 | 0 | 0 | 0 | 285 | 63 350 | 1 003 429 |
| Serbia | 345 320 | 8 427 | 65 | 0 | 0 | 23 955 | 624 730 | 350 937 | 355 714 | 15 702 | 16 869 | 0 | 0 | 0 | 1 527 | 94 877 | 1 838 123 |
| Russian Federation | 126 794 | 0 | 0 | 4 698 | 0 | 33 323 | 165 916 | 547 354 | 21 372 | 17 649 | 257 | 0 | 0 | 0 | 53 | 45 379 | 962 795 |
| Sweden | 61 | 0 | 0 | 0 | 0 | 1 138 | 1 744 | 22 | 4 | 9 | 0 | 0 | 0 | 0 | 0 | 0 | 2 978 |
| Slovenia | 248 459 | 30 950 | 0 | 0 | 0 | 77 440 | 414 038 | 172 828 | 294 821 | 0 | 4 496 | 0 | 0 | 0 | 805 | 31 996 | 1 275 833 |
| Slovakia | 66 474 | 6 658 | 80 | 0 | 0 | 69 394 | 64 954 | 92 416 | 199 960 | 10 176 | 1 834 | 0 | 0 | 0 | 63 | 29 940 | 541 949 |
| Ukraine | 161 627 | 0 | 0 | 0 | 0 | 41 051 | 279 530 | 110 534 | 89 618 | 24 784 | 1 467 | 0 | 0 | 0 | 488 | 27 662 | 736 761 |
| United States | 25 166 | 0 | 0 | 0 | 0 | 7 551 | 10 731 | 84 | 269 | 2 | 1 119 | 0 | 0 | 0 | 4 735 | 0 | 49 657 |
| Other | 528 | 0 | 0 | 0 | 0 | 6 918 | 1 485 | 889 | 1 086 | 216 | 0 | 0 | 0 | 0 | 1 | 5 | 11 128 |

## Chart 29: Exposure classes broken down by counterparty type on 31st December 2019

| (in HUF million) | Exposures to central governments or central banks | Exposures to regional governments or local authorities | Exposures to public sector entities | Exposures to multilateral development banks | Exposures to international organisation | Exposures to institutions | Exposures to corporates | Retail exposures | Exposures secured by mortgages on immovable property | Exposures in default | Exposures associated with particularly high risk | Exposures in the form of covered bonds | Exposures to institutions and corporates with a short-term credit assessment | Exposures in the form of units or shares in collective investment undertakings ('CIUs') | Equity exposures | Other items | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total** | **6 046 687** | **140 409** | **175 180** | **10 822** | **0** | **631 292** | **4 619 524** | **3 710 556** | **4 378 603** | **297 817** | **38 127** | **104 634** | **0** | **17 413** | **87 938** | **1 130 272** | **21 389 274** |
| Governments | 5 566 725 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5 566 725 |
| Municipal | 12 574 | 137 607 | 0 | 0 | 0 | 0 | 0 | 0 | 331 | 134 | 0 | 0 | 0 | 0 | 0 | 0 | 150 646 |
| Public sector entities | 68 433 | 504 | 175 180 | 0 | 0 | 0 | 0 | 0 | 6 063 | 1 250 | 0 | 0 | 0 | 0 | 0 | 0 | 251 430 |
| Multilaterális fejlesztési bankok | 0 | 0 | 0 | 4 698 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4 698 |
| Institutions | 0 | 0 | 0 | 0 | 0 | 560 747 | 0 | 0 | 0 | 15 | 0 | 0 | 0 | 0 | 0 | 0 | 560 762 |
| Coporate | 6 168 | 2 083 | 0 | 399 | 0 | 66 062 | 3 162 196 | 0 | 525 938 | 76 446 | 26 878 | 0 | 0 | 0 | 0 | 0 | 3 866 170 |
| Corporate SME | 104 773 | 193 | 0 | 3 118 | 0 | 4 483 | 1 457 328 | 0 | 680 133 | 40 436 | 4 940 | 0 | 0 | 0 | 0 | 0 | 2 295 404 |
| Retail | 232 167 | 0 | 0 | 0 | 0 | 0 | 0 | 3 344 248 | 3 033 904 | 165 360 | 0 | 0 | 0 | 0 | 0 | 0 | 6 775 679 |
| Retail SME | 55 847 | 22 | 0 | 2 607 | 0 | 0 | 0 | 366 308 | 132 234 | 14 176 | 0 | 0 | 0 | 0 | 0 | 0 | 571 194 |
| Equity | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 6 309 | 0 | 0 | 0 | 87 938 | 0 | 94 247 |
| Other* | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 104 634 | 0 | 17 413 | 0 | 1 130 272 | 1 252 319 |

* Other, non-credit risk items; collective, investment funds

## Chart 30: Exposure classes broken down by residual maturity on 31st December 2019

| (in HUF million) | On demand | ≤ 1 year | > 1 year ≤5 year | > 5 year | No stated maturity | Total |
|---|---|---|---|---|---|---|
| **Total** | **0** | **4 427 099** | **5 626 279** | **8 367 472** | **2 968 424** | **21 389 274** |
| Exposures to central governments or central banks | 0 | 1 519 115 | 1 948 017 | 2 204 003 | 375 552 | 6 046 687 |
| Exposures to regional governments or local authorities | 0 | 7 788 | 13 973 | 87 275 | 31 373 | 140 409 |
| Exposures to public sector entities | 0 | 75 070 | 36 969 | 63 110 | 31 | 175 180 |
| Exposures to multilateral development banks | 0 | 1 056 | 7 747 | 2 019 | 0 | 10 822 |
| Exposures to international organisation | 0 | 0 | 0 | 0 | 0 | 0 |
| Exposures to institutions | 0 | 199 532 | 260 407 | 171 353 | 0 | 631 292 |
| Exposures to corporates | 0 | 1 588 042 | 1 344 514 | 826 875 | 860 093 | 4 619 524 |
| Retail exposures | 0 | 632 755 | 1 260 690 | 1 407 283 | 409 828 | 3 710 556 |
| Exposures secured by mortgages on immovable property | 0 | 362 961 | 590 842 | 3 131 406 | 293 394 | 4 378 603 |
| Exposures in default | 0 | 31 368 | 60 163 | 128 220 | 78 066 | 297 817 |
| Exposures associated with particularly high risk | 0 | 8 333 | 10 146 | 10 602 | 9 046 | 38 127 |
| Exposures in the form of covered bonds | 0 | 0 | 90 319 | 14 315 | 0 | 104 634 |
| Exposures to institutions and corporates with a short-term credit assessment | 0 | 0 | 0 | 0 | 0 | 0 |
| Exposures in the form of units or shares in collective investment undertakings ('CIUs') | 0 | 0 | 0 | 17 413 | 0 | 17 413 |
| Equity exposures | 0 | 0 | 0 | 0 | 87 938 | 87 938 |
| Other items | 0 | 1 079 | 2 492 | 303 598 | 823 103 | 1 130 272 |

Due to the acquisitions (6 new banks were acquiered) happened in 2019, the exposures of OTP Group increased significantly, compared to 2018.

## Chart 31: Aging of past-due exposures

| | Gross carrying values | | | | | |
|---|---|---|---|---|---|---|
| **(in HUF million)** | **≤ 30 days** | **> 30 days ≤ 60 days** | **> 60 days ≤ 90 days** | **> 90 days ≤ 180 days** | **> 180 days ≤ 1 year** | **> 1 year** |
| Loans | 420 085 | 70 337 | 36 395 | 58 800 | 73 283 | 395 785 |
| Debt securities | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total exposures** | **420 085** | **70 337** | **36 395** | **58 800** | **73 283** | **395 785** |

## Chart 32: Non-performing and forborne exposures

| | Gross carrying amount of performing and non-performing exposures | | | | | | | Accumulated impairment and provisions and negative fair value adjustments due to credit risk | | | | Collaterals and financial guarantees recieved | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Of which performing but past due > 30 days and ≤90 days | Of which performing forborne | Of which non-performing | | | | On performing exposures | | On non-performing exposures | | On non-performing exposures | Of which forborne exposures |
| (in HUF million) | | | | | Of which defaulted | Of which impaired | Of which forborne | | Of which forborne | | Of which forborne | | |
| Debt securities | 4 396 560 | 0 | 0 | 9 479 | 9 479 | 5 968 | 0 | (5 117) | 0 | (1 930) | 0 | 0 | 0 |
| Loand and advances | 14 685 266 | 190 468 | 63 984 | 793 946 | 778 491 | 788 693 | 278 382 | (193 595) | (10 423) | (535 272) | (175 126) | 160 115 | 113 612 |
| Off-balance -sheet exposures | 4 274 245 | | 1 902 | 18 600 | 13 674 | | 396 | 41 413 | 117 | 7 625 | 43 | 1 822 | 93 |

Note: Exposures according to EBA definition.

## Chart 33: Collateral obtained by taking possession and execution processes

| | (in HUF million) | Collateral obtained by taking possession | |
|---|---|---|---|
| | | Value at initial recognition | Accumulated negative changes |
| 1 | Property, plant and equipment (PP&E) | | |
| 2 | Other than PP&E | 23 411 | (7 370) |
| *3* | Residential immovable property | 7 178 | (850) |
| *4* | Commercial immovable property | 11 498 | (5 443) |
| *5* | Movable property (auto,shipping, etc) | 295 | (7) |
| *6* | Equity and debt instruments | 4 440 | (1 070) |
| *7* | Other | | |
| **8** | **Total** | **23 411** | **(7 370)** |

## Chart 34: Credit quality of exposures by exposure class and instrument on 31st December 2019

| (in HUF million) | Gross carrying values of | | Specific/General credit risk adjustment | Net values |
|---|---|---|---|---|
| | Defaulted exposures | Non-defaulted exposures | | |
| Exposures to central governments or central banks | 0 | 6 052 977 | (10 511) | 6 042 466 |
| Exposures to regional governments or local authorities | 154 | 140 776 | (393) | 140 537 |
| Exposures to public sector entities | 2 070 | 175 863 | (1 503) | 176 430 |
| Exposures to multilateral development banks | 0 | 10 730 | (99) | 10 631 |
| Exposures to international organisation | 0 | 0 | 0 | 0 |
| Exposures to institutions | 16 | 633 750 | (2 459) | 631 307 |
| Exposures to corporates | 222 508 | 4 672 841 | (157 953) | 4 737 396 |
| Retail exposures | 472 550 | 3 830 467 | (409 497) | 3 893 520 |
| Exposures secured by mortgages on immovable property | 0 | 4 424 262 | (45 659) | 4 378 603 |
| Exposures in default | 0 | 0 | 0 | 0 |
| Exposures associated w ith particularly high risk | 0 | 51 371 | (13 244) | 38 127 |
| Exposures in the form of covered bonds | 0 | 104 683 | (49) | 104 634 |
| Exposures to institutions and corporates w ith a short-term credit assessment | 0 | 0 | 0 | 0 |
| Exposures in the form of units or shares in collective investment undertakings ('CIUs') | 0 | 17 413 | 0 | 17 413 |
| Equity exposures | 0 | 97 684 | (9 746) | 87 938 |
| Other exposures | 0 | 1 410 026 | (279 754) | 1 130 272 |
| **Total** | **697 298** | **21 622 843** | **(930 867)** | **21 389 274** |

**Chart 35: Credit quality of exposures by counterparty types on 31st December 2019**

| (in HUF million) | Gross carrying values of | | Specific / General credit risk adjustment | Net values |
|---|---|---|---|---|
| | Defaulted exposures | Non-defaulted exposures | | |
| Governments | 0 | 5 570 058 | (3 333) | 5 566 725 |
| Municipal | 154 | 150 886 | (396) | 150 644 |
| Public sector entities | 2 070 | 251 419 | (2 058) | 251 431 |
| Multilateral development banks | 0 | 4 698 | 0 | 4 698 |
| Institutions | 16 | 563 051 | (2 305) | 560 762 |
| Coporate | 152 690 | 3 848 236 | (134 756) | 3 866 170 |
| Corporate SME | 71 785 | 2 278 401 | (54 781) | 2 295 405 |
| Retail | 443 386 | 6 755 996 | (423 704) | 6 775 678 |
| Retail SME | 27 197 | 563 982 | (19 985) | 571 194 |
| Equity | 0 | 103 994 | (9 746) | 94 248 |
| Other* | 0 | 1 532 122 | (279 803) | 1 252 319 |
| **Total** | **697 298** | **21 622 843** | **(930 867)** | **21 389 274** |

* Other, non-credit risk items; collective, investment funds

**Chart 36: Credit quality of exposures by geography on 31st December 2019**

| (in HUF million) | Gross carrying values of | | Specific / General credit risk adjustment | Net values |
|---|---|---|---|---|
| | Defaulted exposures | Non-defaulted exposures | | |
| **Összesen** | **697 298** | **21 622 841** | **(930 866)** | **21 389 274** |
| Albania | 4 686 | 258 895 | (3 546) | 260 035 |
| Austria | 81 | 9 466 | (1 711) | 7 836 |
| Belgium | 63 | 20 908 | (93) | 20 878 |
| Bulgaria | 143 411 | 3 271 010 | (180 123) | 3 234 289 |
| Belize | 0 | 6 463 | (1 463) | 5 000 |
| Switzerland | 17 | 72 534 | (561) | 71 990 |
| Cyprus | 3 | 16 517 | (372) | 16 148 |
| Czech Republic | 4 | 4 803 | (22) | 4 785 |
| Germany | 252 | 54 431 | (588) | 54 095 |
| Spain | 16 | 33 792 | (27) | 33 781 |
| France | 37 | 70 959 | (72) | 70 924 |
| United Kingdom | 1 196 | 55 566 | (1 016) | 55 746 |
| Greece | 143 | 2 080 | (111) | 2 112 |
| Croatia | 83 155 | 2 094 840 | (99 613) | 2 078 382 |
| Hungary | 177 686 | 8 368 131 | (257 325) | 8 288 492 |
| Italy | 85 | 11 428 | (206) | 11 307 |
| Japan | 0 | 1 815 | 0 | 1 815 |
| Lithuania | 1 | 6 594 | (1) | 6 594 |
| Republic of Moldova | 1 286 | 226 831 | (2 017) | 226 100 |
| Montenegro | 20 629 | 462 564 | (27 049) | 456 144 |
| North Macedonia | 36 | 1 438 | (45) | 1 429 |
| Netherlands | 84 | 8 825 | (124) | 8 785 |
| Poland | 6 | 48 827 | (15) | 48 818 |
| Portugal | 9 | 1 143 | (11) | 1 141 |
| Romania | 45 485 | 1 006 071 | (48 128) | 1 003 428 |
| Serbia | 28 111 | 1 842 355 | (32 342) | 1 838 124 |
| Russian Federation | 96 412 | 1 025 481 | (158 097) | 962 796 |
| Sweden | 45 | 2 972 | (39) | 2 978 |
| Slovenia | 2 | 1 279 381 | (3 550) | 1 275 833 |
| Slovakia | 24 830 | 556 267 | (39 149) | 541 948 |
| Ukraine | 68 769 | 739 841 | (71 849) | 736 761 |
| United States | 13 | 49 697 | (53) | 49 657 |
| Other | 745 | 10 916 | (539) | 11 123 |

**Chart 37: Overview of CRM techniques**

| (in HUF million) | Exposures unsecured - Carrying amount | Exposures to be secured | Exposures secured by collateral | Exposures secured by financial guarantees | Exposures secured by credit derivatives |
|---|---|---|---|---|---|
| Total loans | 22 802 745 | 722 102 | 128 796 | 593 306 | 0 |
| Total debt securities | 0 | 0 | 0 | 0 | 0 |
| **Total exposures** | **22 802 745** | **722 102** | **128 796** | **593 306** | **0** |
| Of which defaulted | 301 149 | 4 962 | 517 | 4 444 | 0 |

Note: The table contains exposures secured by financial collaterals and guarantees. Exposures secured by mortgage collaterals are included in “Exposures unsecured” column.

## I.9. Use of External Credit Assessment Institutions

To determine the risk weight of non-trading-book exposures, the Group applies the rating of Fitch, an accepted external credit rating agency. OTP Group applies the following table in case of the exposures and issuer in order to determine the credit quality step from the internal ratings. OTP Group applies external credit rating in case of exposures to souvereign, institutions and corporate, credit ratings are taken into account on client basis. Risk weights are derived based on CRR Articles 114, 119, 120, 121 and 122.

**Chart 38: Each credit assessment corresponds to the following credit quality step**

| Fitch's ratings | Credit quality step | Fitch's ratings | Credit quality step |
|---|---|---|---|
| AAA | 1 | BB- | 4 |
| AA+ | 1 | B+ | 5 |
| AA | 1 | B | 5 |
| AA- | 1 | B- | 5 |
| A+ | 2 | CCC+ | 6 |
| A | 2 | CCC | 6 |
| A- | 2 | CCC- | 6 |
| BBB+ | 3 | CC | 6 |
| BBB | 3 | C | 6 |
| BBB- | 3 | DDD | 6 |
| BB+ | 4 | DD | 6 |
| BB | 4 | D | 6 |

**Chart 39: Exposures broken down by credit quality steps (CQS) of obligors**

| | Risk weight | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **(in HUF million)** | **0%** | **4%** | **10%** | **20%** | **35%** | **50%** | **75%** | **100%** | **150%** | **250%** | **Total** | **Of which unrated** |
| Exposures to central governments or central banks | 4 571 546 | 25 316 | 38 324 | 376 439 | 0 | 256 502 | 0 | 778 560 | 0 | 0 | 6 046 687 | 0 |
| Exposures to regional governments or local authorities | 0 | 0 | 122 687 | 0 | 0 | 0 | 0 | 17 699 | 0 | 0 | 140 386 | 140 386 |
| Exposures to public sector entities | 71 072 | 0 | 0 | 282 | 0 | 0 | 0 | 103 826 | 0 | 0 | 175 180 | 175 180 |
| Exposures to multilateral development banks | 4 698 | 0 | 6 125 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 10 823 | 6 124 |
| Exposures to international organisation | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exposures to institutions | 0 | 0 | 215 688 | 0 | 0 | 145 489 | 0 | 270 114 | 0 | 0 | 631 291 | 377 756 |
| Exposures to corporates | 0 | 0 | 0 | 0 | 0 | 2 | 0 | 4 526 219 | 4 | 0 | 4 526 225 | 4 452 067 |
| Retail exposures | 0 | 0 | 0 | 0 | 0 | 0 | 3 699 500 | 0 | 0 | 0 | 3 699 500 | 3 699 499 |
| Exposures secured by mortgages on immovable property | 0 | 0 | 0 | 0 | 1 924 579 | 217 574 | 1 209 366 | 1 027 083 | 0 | 0 | 4 378 602 | 4 330 184 |
| Exposures in default | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 233 625 | 63 737 | 0 | 297 362 | 297 362 |
| Exposures associated with particularly high risk | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 37 594 | 0 | 37 594 | 37 594 |
| Exposures in the form of covered bonds | 0 | 0 | 0 | 0 | 0 | 104 634 | 0 | 0 | 0 | 0 | 104 634 | 104 634 |
| Exposures to institutions and corporates with a short-term credit assessment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exposures in the form of units or shares in collective investment undertakings ('CIUs') | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 17 413 | 0 | 0 | 17 413 | 17 413 |
| Equity exposures | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 42 272 | 0 | 45 666 | 87 938 | 87 938 |
| Other exposures | 539 752 | 0 | 0 | 0 | 0 | 0 | 0 | 570 292 | 0 | 20 229 | 1 130 273 | 1 130 272 |
| **Total** | **5 187 068** | **25 316** | **382 824** | **376 721** | **1 924 579** | **724 201** | **4 908 866** | **7 587 103** | **101 335** | **65 895** | **21 283 908** | **14 856 409** |

Note: “Of which unrated” column contains the expousres which do not have external credit ratings.

## I.10. Capital requirement for operational risk

OTP Group’s operational risk capital requirement, which was determined by the advanced measurement approach and the basic indicator approach in line with the principle of ‘partial use’, was HUF 122,681 million on 31st December 2019.

**Chart 40: Operational risk capital requirements on 31st December 2019**

| Operational risk capital requirement's breakdown based on methods (in HUF million) | |
|---|---|
| Basic Indicator Approach | 50 950 |
| Standardised Approach | 0 |
| Alternative Standardised Approach | 0 |
| Advanced Measurement Approach | 71 731 |
| **Total** | **122 681** |

# I.11. Exposures in equities not included in the trading book

## I.11.1. Trading purposes, valuation methods

**Aspects of classification for trading purposes:**

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

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

The classification into the trading book has the following criteria:

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

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

Long-term investments can be classified as it follows:

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

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

**Accounting and valuation methods:**

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

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

## I.11.2. Exposures in equities not included in the trading book on 31st December 2018

**Chart 41: Exposures in equities not included in the trading book according to IFRS on 31st December 2019**

| Num-ber | Entity | Balance sheet value (in HUF million) | Listed (Exchanged-traded) |
|---|---|---|---|
| 1 | ABE Clearing SAS | 0 | No |
| 2 | Agro banka a.d. in bankruptcy | 0 | No |
| 3 | Auctioneer s. r. o. | 1 | No |
| 4 | AY BANKA LONDON u likvidaciji | 0 | No |
| 5 | BANKART PROCESIRANJE PLACILNIH INSTRUMENTOV D.O.O., LJUBLJANA | 805 | No |
| 6 | Beogradska Berza Ad., Beograd | 3 | No |
| 7 | Borika Bankservice AD | 2 032 | No |
| 8 | Budapest Stock Exchange Ltd. | 123 | No |
| 9 | Bulgarian Development Bank | 0 | No |
| 10 | Bulgarian Stock exchange AD | 5 | No |
| 11 | BULGARLEASING JSC | 0 | No |
| 12 | Central Depositary AD | 43 | No |
| 13 | Centralna depositary agency a.d. | 47 | No |
| 14 | Club Hotel Füred Szálloda Ltd. | 1 630 | No |
| 15 | Company for Cash Services AD | 392 | No |
| 16 | Diákigazolvány Ltd. | 3 | No |
| 17 | Dinghy Sport Club Hungary Ltd. | 57 | No |
| 18 | DUNAVSKI PROJEK.CENTAR Beograd | 0 | No |
| 19 | Elektroprivreda Crne Gore ad Nikšić | 68 | No |
| 20 | Első Alkotmány Utcai Ingatlanhasznosító Ltd.. | 0 | No |
| 21 | EUROAXIS BANK MOSKVA in bankruptcy | 0 | No |
| 22 | Financial Research Corporation | 0 | No |
| 23 | First Ukrainian Credit Bureau LLC | 11 | No |
| 24 | FORTENOVA GROUP STAK STICHTING | 1 100 | No |
| 25 | Garantiqa Credit Guarantee Closed Co. Ltd. | 280 | No |
| 26 | Govcka Project Company SRL | 197 | No |
| 27 | HAGE Ltd. | 135 | No |
| 28 | HROK d.o.o. | 84 | No |
| 29 | HRVATSKI NOGOMETNI KLUB HAJDUK SPLIT Š.D.D. | 0 | No |
| 30 | IKARUS Vehicle Manufacturing Company Limited "liq." | 0 | No |
| 31 | IMOS AD ŠID | 0 | No |
| 32 | Industrija motora Rakovica | 0 | No |
| 33 | Ingatlanvagyon Projekt 14. Ltd. | 36 | No |
| 34 | Investment Broker Varna JSC | 0 | No |
| 35 | Investment Company "CG Broker-Dealer" JSC | 22 | No |
| 36 | Investment Projekt 1. d.o.o. | 0 | No |
| 37 | Istarska autocesta d.d. | 4 | No |
| 38 | JSC PFTS | 2 | No |
| 39 | JSC Rostov Regional Mortgage Corporation | 0 | No |
| 40 | JSC Settlement Center | 0 | No |
| 41 | Jubmes banka a.d. | 0 | No |
| 42 | Kiev International Stock Exchange | 0 | No |
| 43 | KÖZVIL Ltd. | 0 | No |
| 44 | Lutrija Crne Gore ad | 6 | No |
| 45 | MasterCard Incorporated | 262 | No |
| 46 | Mátrai Pow er Plant Closed Company Limited by Share | 0 | No |
| 47 | METANOLSKO SIRĆETNI KOMBINAT KIKINDA | 0 | No |
| 48 | MIN Holding Nis v.a. | 0 | No |
| 49 | Montair A.D. | 0 | No |
| 50 | Montenegroberza ad | 35 | No |
| 51 | OFB Projects EOOD | 0 | No |
| 52 | OJSC Saint Petersburg Exchange | 0 | No |
| 53 | OTP Advisors SRL | 9 | No |
| 54 | OTP Consulting Romania SRL | 22 | No |
| 55 | OTP Nedvizhimost OOO | 57 | No |
| 56 | OTP Travel Ltd. | 2 614 | No |
| 57 | OTP Újlakás Credit Intermediary LLC | 9 | No |
| 58 | OTP Vendéglátás és Hotelszolgáltatás Szervező Ltd. | 3 | No |
| 59 | Overdose Vagyonkezelő Ltd. "u.v.l." | 0 | No |
| 60 | PEKO, TOVARNA OBUTVE, D.D. - V STECAJU | 0 | |
| 61 | PEVEC d.o.o. Beograd | 2 046 | No |
| 62 | Pokojninska družba A d.d. | 208 | No |
| 63 | POSLOVNO LOGISTICKI CENTAR "MORACA" AD PODGORICA | 0 | No |
| 64 | Privredna banka a.d. - in bankruptcy | 0 | No |
| 65 | Project Company Complex Banya EOOD | 1 017 | No |
| 66 | Project 03 s.r.o. | 2 | No |
| 67 | Projekt 13 Apartmany Slovensko s.r.o. | 2 | No |
| 68 | Projekt-Ingatlan 8. Ltd. | 396 | No |
| 69 | Razvojna banka Vojvodine a.d. - in bankruptcy | 0 | No |
| 70 | Rea Project One Company SRL | 58 | No |
| 71 | Recreatours AD Beograd | 11 | No |
| 72 | REG.AGEN.ALMA MONS N.SAD | 0 | No |
| 73 | RESPV s.r.l. | 0 | No |
| 74 | S.W.I.F.T. SCRL | 95 | No |
| 75 | SC AS Tourism SRL | 2 668 | No |
| 76 | SC Casa de Compensare SA | 0 | No |
| 77 | SC Cefin Real Estate Kappa SRL | 0 | No |
| 78 | Shiw aForce.com Ltd. | 1 | No |
| 79 | Sklad za reševanje bank | 4 288 | No |
| 80 | SLOBODNA CARINSKA ZONA NOVI SAD | 14 | No |
| 81 | SOMBORSATAN DOO SOMBOR | 0 | No |
| 82 | South Invest Montengro doo | 0 | No |
| 83 | SPC MILENIUM VRŠAC | 14 | No |
| 84 | Special Purpose Company LLC | 0 | No |
| 85 | Središnja depozitarna agencija d.d. | 1 | No |
| 86 | TRŽIŠTE NOVCA AD BEOGRAD | 0 | No |
| 87 | Trziste novca d.d. | 29 | No |
| 88 | Vesta United Regional Registrar OJSC | 0 | No |
| 89 | Središnja depozitarna agencija d.d. | 1 | No |
| 90 | VISA Incorporated | 12 794 | No |
| 91 | Zagrebacka burza d.d. | 97 | No |
| 92 | Zelena Nektretnine d.o.o. | 1 261 | No |
| 93 | "13.Jul -Plantaze" a.d. Podgorica | 591 | No |

The consolidated gain realised from sales and liquidations relating to exposures in equities not included in the trading book was HUF 2 044 million realted to 31.12.2019.

## I.12. Exposure to interest rate risk on positions not included in the trading book

Asset-Liability Directorate measures banking book interest rate risk exposure in case of the most important currency – HUF - monthly, and also presents it to the management with the same frequency. In case of the other currencies consolidated exposure is measured quarterly.

The size and direction of the exposure is determined based on sensitivity analysis mainly.

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 analysis were prepared by assuming only the adversing interest rate changes. The main assumptions were as follows:

- Floating-rate assets and liabilities were repriced to the modeled 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.
- The assets and liabilities with interest rate lower than 0.3% assumed to be unchanged during the whole period.

The sensitivity of interest income to changes in BUBOR was analyzed assuming two interest rate path scenarios:

- HUF base rate stays unchanged and BUBOR decreases gradually to 0.0% (scenario 1)
- HUF base rate stays unchanged and BUBOR decreases gradually by 50 bps over the next year (scenario 2)

The net interest income in a one year period after January 1, 2020 would be decreased by HUF 1205 million (scenario 1) and HUF 3060 million (scenario 2) as a result of these simulation. This effect is counterbalanced by capital gains (HUF 223 million for scenario 1, HUF 2 670 million for scenario 2) on the government bond portfolio held for hedging.

Furthermore, the effects of an instant 10 bp parallel shift of the HUF, EUR and USD yield-curves on net interest income over a one-year period and on the market value of the hedge government bond portfolio booked against capital was analyzed. The results can be summarized as follows (HUF million):

**Chart 42: The effects of the parallel shifts of the yield-curves to the net interest income on a one-year period and to the market value of the hedge government bond portfolio booked against capital**

| Description<br>(in HUF million) | Effects to the net interest income (1Year period) | (Price change of AFS government bonds) |
|---|---|---|
| HUF -0.1% parallel shift | (1 742) | 558 |
| EUR -0.1% parallel shift | (1 261) | 0 |
| USD -0.1% parallel shift | (253) | 0 |
| **Total** | **(3 256)** | **558** |

# I.13. Remuneration policy

## I.13.1. Decision-making process applied in determining the remuneration policy

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

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

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

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

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

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

OTP Bank Plc's Remuneration Committee consists of 3-7 members (chairman and at least two other members) appointed by the Board of Directors from among its own members, taking into consideration that the members cannot be employed by the bank. The Remuneration Committee held sessions and voted in writing twelve times in 2019 and carried out its activities without an external consultant.

OTP Bank Plc's Risk Assumption and Risk Management Committee's tasks include the examination of the remuneration policy from a perspective where the incentive elements of the designed remuneration system takes into consideration the risks, the capital and liquidity situation of the credit institution, as well as the probability and sequence of incomes. The Risk Assumption and Risk Management Committee also participates in the identification procedure necessary for the determination of the personal scope of the Banking Group's Remuneration Policy.

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

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

In 2019 the introduction of a proportionality rule can be considered a material change in relation to the regulation of the Banking Group's Remuneration Policy, according to which the application of deferral and share-based payment rules have been eliminated in the case of the joint existence of up to EUR 50,000 annual performance-based remuneration and up to 25% performance-based remuneration ratio.

## I.13.2. Scope of the remuneration policy

The rules of the Banking Group's Remuneration Policy shall be applied in OTP Bank Plc and in all Banking Group Subsidiaries under the consolidated supervision of the Hungarian National Bank where identified employees are employed. The identification of the identified employees is based on the provisions of Regulation (EU) No 604/2014 (RTS), with that the Supervisory Board of OTP Bank Plc also takes into consideration additional risk aspects in the identification process. For the sake of proportionality, OTP Bank Plc classifies all the Banking Group Subsidiaries into low, medium or high risk categories based on a combination of balance sheet total, net earnings for the year and the complexity of the business. The Supervisory Board of OTP Bank Plc identifies the managers of the high-risk Banking Group Subsidiaries under the consolidated level personal scope of the Banking Group's Remuneration Policy even if it is not required by RTS regulations. Subconsolidated and local level identification of employees takes place when the employee concerned does not have decision-making power and competence over the entire Banking Group, and his or her professional activities may affect only a particular Banking Group Subsidiary or a sub-consolidated group controlled by that subsidiary. Identified employees employed by OTP Bank Plc – with respect to group responsibility – are identified at consolidated level.

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

For proportionate application, those employees identified at a local or subconsolidated level may be exempted from the application of the deferred and share-based payment rules whose annual performance-based remuneration does not exceed EUR 50,000 and 25% of the total remuneration. It is not possible to apply this rule to employees identified at consolidated level.

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

## I.13.3. Relationship between performance and performance-based remuneration

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

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

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

- the banking group-level (domestic and foreign companies that operated as group members under consolidated supervision in the whole evaluated business year) RORAC (Return on Risk-Adjusted Capital), which indicates return relative to the capital requirement associated with the given risk of an activity, as well as
- criteria that measure strategic and individual performance (financial indicators and indicators measuring the quality of work performance).

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

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

## I.13.4. Ratio of fixed to performance-based remuneration

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

The remuneration of the various positions of additional persons belonging to the scope of the Bank Group Remuneration Policy comprises of a fixed and a performance-based remuneration element. The main elements of fixed remuneration are basic salary and ordinary shares issued by OTP Bank.

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

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

## I.13.5. Criteria of variable remuneration

At Banking Group level, the maximum amount available for performance-based remuneration in a given year is determined by OTP Bank Plc.'s Supervisory Board. OTP Bank Plc. uses the combined method when determining the amount of the performance-based remuneration (variable remuneration), with the proviso that the maximum amount available for performance-based remuneration is determined in line with the Banking Group's capital position and its expected financial performance.

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

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

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

The share allocation at a reduced price may include a maximum allowance of HUF 2,000 per share on the date of Supervisory Board decision and the income content realisable per share shall equal the smaller of the amount specified by the Supervisory Board of OTP Bank Plc. as at the date of the exercising the share allocation or HUF 4,000. The conditions of the share based remuneration are determined by the Supervisory Board of OTP Bank Plc. within the frames defined by the Annual General Meeting. In respect of the personal scope identified on consolidated level, as a general rule, the share-based portion of variable remuneration is provided by OTP Bank Plc. to those concerned, while in the sub-consolidated and local level identified personal scope, and within the subsidiaries operating outside of the territory of the European Union, virtual share allocation is applied.

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

Pursuant to the general rule that is in line with the provisions of the Credit Institutions Act, in the consolidated level identified personal scope 60%, while in sub-consolidated and local level personal scope, as a general rule, 40% of the variable remuneration is deferred for 3 years – in the case of the President-CEO and deputy-CEOs of OTP Bank Plc. for 4 year –, within which period the extent of the deferred payment shall be identical every year.

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

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

## I.13.6. Summarised information relating to the remuneration

Within the context of the Bank Group's Remuneration Policy, the summarised information pertaining to the remuneration of the staff employed in positions that have a material impact on the risk profile is contained in the following table.

**Chart 43: Summarised information of remuneration categorized by activities[1)]**

| | Remuneration for 2019 | | | | | |
|---|---|---|---|---|---|---|
| (in HUF million) | Investment banking | Retail banking | Asset management | Corporate functions | Independent control functions | All other |
| **The remuneration of the staff whose professional activities have a material impact on the risk profile** | **731** | **5 261** | **28** | **9 871** | **2 774** | **419** |
| *OTP Bank Plc.* | *380* | *1 613* | | *3 009* | *577* | *369* |
| *OTP Mortgage Bank Ltd.* | *27* | *37* | *0* | *110* | *16* | *0* |
| *OTP Building Society Ltd.* | | *10* | | *57* | *18* | |
| *Merkantil Bank Ltd.* | *0* | *217* | *0* | *468* | *44* | *35* |
| *Other subsidiaries* | *324* | *3 384* | *28* | *6 227* | *2 119* | *15* |

Comments:

1) The specification of activities made in accordance with annex 13. of MNB regulation 38/2019. (XI.20.):
   a. Investment banking: including corporate finance advice services, private equity, capital markets, trading and sales;
   b. Retail banking: including total lending activity (to individuals and enterprises);
   c. Asset management: including portfolio management, managing of UCITS and other forms of asset management;
   d. Corporate functions: all functions that have responsibilities for the whole institution at the consolidated level and for subsidiaries with such functions at the solo level, (e.g. Human Resources, IT);
   e. Independent control functions: staff active in the independent risk management, compliance and internal audit functions as described in the EBA's guidelines on internal governance;
   f. All other: staff who cannot be mapped into one of other business areas.

**Chart 44: Summarised information of remuneration according to the type of remuneration**

| | Persons receiving remuneration 1) | Remuneration for 2019 | | | Amount of unpaid, deferred remuneration | | The amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments |
|---|---|---|---|---|---|---|---|
| | | Fixed remuneration | Performance based remuneration 2) | | Entitlement obtained | Entitlement not obtained | |
| | | | Cash based | Share based | | | |
| | (persons) | (in HUF million) | | | | | |
| **The remuneration of the staff whose professional activities have a material impact on the risk profile 1)** | **517** | **11 960** | **3 562** | **3 562** | **576** | **6 232** | **2 578** |
| *OTP Bank Plc.* | *62* | *3 108* | *1 420* | *1 420* | *267* | *3 312* | *1 481* |
| *OTP Mortgage Bank Ltd.* | *8* | *118* | *36* | *36* | *4* | *57* | *14* |
| *OTP Building Society Ltd.* | *7* | *61* | *12* | *12* | *0* | *11* | *2* |
| *Merkantil Bank Ltd.* | *23* | *538* | *113* | *113* | *10* | *172* | *82* |
| *Other subsidiaries 3)* | *417* | *8 135* | *1 981* | *1 981* | *295* | *2 680* | *999* |

Comments:

1) Persons under the Bank Group Remuneration Policy whose employed in positions that have a material impact on the risk profile in 2019.
2) The sum of calculated performance-based remuneration after the year 2019, the settlement of which shall take place based on the performance evaluation after the General Meeting closing the year 2019.
3) In case of the subsidiaries under consolidated supervision the fixed remuneration is calculated at the closing exchange rate as at 31 December 2019, the performance based remuneration is calculated at the official middle rate of the National Bank of Hungary on the day of the evaluation of the financial year.

The unpaid deferred remuneration and the awarded remuneration during the business year of the employees whose were identified before 2019, and not employed in identified position in 2019, or the employment was terminated by maintaining the deferred parts or retired, was the follows:

**Chart 45: The changes in the remuneration of the staff whose professional activities have a material impact on the risk profile**

| | Persons receiving remuneration | Amount of unpaid, deferred remuneration | | The amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments |
|---|---|---|---|---|
| | | Entitlement obtained | Entitlement not obtained | |
| | (persons) | (in HUF million) | | |
| **The remuneration of the staff whose professional activities have a material impact on the risk profile** | **40** | **10** | **298** | **432** |
| *OTP Bank Plc.* | *13* | *7* | *181* | *301* |
| *OTP Mortgage Bank Ltd.* | *2* | *0* | *6* | *8* |
| *OTP Building Society Ltd.* | *3* | *0* | *14* | *12* |
| *Merkantil Bank Ltd.* | *0* | *0* | *0* | *0* |
| *Other subsidiaries* | *22* | *3* | *97* | *111* |

During the business year in the frame of the Remuneration Policy nobody was compensated above a law with a severance payment and three person was compensated with sign-on bonus of 29.6 million HUF. Related on acquisitions one person was purchased from previous contract (assuming the payment of earlier deferred installments) in the amount of 52.9 million HUF and on person was compensated with retention bonus in the amount 19.9 million HUF.

During the year 2019 one person was compensated between 3.0 and 3.5 million EUR and three person was compensated between 1.0 and 1.5 million EUR.

Remuneration settled in 2019 for the members of the OTP Bank Plc. Board of Directors and the Supervisory Board amounted to HUF 1,422 million, which amount includes the fixed share-based remuneration of the members of the Board of Directors as well, that was settled after the General Meeting closing the year 2018.

**Chart 46: Remuneration settled in 2019 for the members of the OTP Bank Plc. Board of Directors and the Supervisory Board**

| Name | Position | Amount of compensation | | Total amount of cash compensation in 2019 (HUF) |
|---|---|---|---|---|
| | | HUF/month | OTP shares number/month[1] | |
| **Board of Directors** | | | | |
| Dr. Sándor Csányi | Chairman | 810 000 | 1 000 | 9 720 000 |
| Tamás Erdei | Vice Chairman (non-executive)[2] | 695 000 | 900 | 8 340 000 |
| Antal György Kovács | Member | 695 000 | 800 | 8 340 000 |
| László Wolf | Member | 695 000 | 800 | 8 340 000 |
| Dr. Antal Pongrácz | Member (non-executive) | 695 000 | 800 | 8 340 000 |
| Dr. István Gresa | Member (non-executive) | 695 000 | 800 | 8 340 000 |
| Mihály Baumstark | Member (non-executive) | 695 000 | 800 | 8 340 000 |
| Dr. Tibor Bíró | Member (non-executive) | 695 000 | 800 | 8 340 000 |
| Dr. László Utassy | Member (non-executive) | 695 000 | 800 | 8 340 000 |
| Dr. József Vörös | Member (non-executive) | 695 000 | 800 | 8 340 000 |
| **Supervisory Board** | | | | |
| Tibor Tolnay | Chairman | 2 400 000 | --- | 28 800 000 |
| Dr. Gábor Horváth | Vice Chairman | 1 900 000 | --- | 22 800 000 |
| Olivier Péqueux | Member | 1 700 000 | --- | ---[3] |
| Dr. Gellért Márton Vági | Member | 1 700 000 | --- | 20 400 000 |
| Ágnes Rudas[4] | Member (employee) | 1 700 000 | --- | 5 723 333 |
| Klára Bella[5] | Member (employee) | 1 700 000 | --- | 14 676 667 |
| András Michnai | Member (employee) | 1 700 000 | --- | 20 400 000 |

Comments:

1) The share allowance is granted once a year within 30 days of the General Meeting closing the evaluated financial year; the beneficiaries bear the burden of restraint on alienation with respect to 50% of the share allowance until the end of mandate.
2) From April 12 2019 in the position of Vice Chairman (previously Board member, in which position the honorary fee of the OTP ordinary share was 800 pieces/month)
3) The compensation has been transferred to Groupama S.A
4) Until 12. April 2019
5) From 12 April 2019

In case of Hungarian subsidiaries there is no remuneration paid for Board of Directors and Supervisory Board members, employed by the Bank Group.

**Chart 47: Received remuneration of the OTP Mortgage Bank Ltd.'s Board of Directors and Supervisory Board in 2019**

| Name | Position | Notes | Amount of compensation HUF/month | Total amount of cash compensation in 2019 HUF |
|---|---|---|---|---|
| **Board of Directors** | | | | |
| Antal György Kovács | Chairman | | --- | --- |
| András Becsei | Member | | --- | --- |
| Zoltán Roskó | Member | | 120 000 | 1 440 000 |
| Attila Kovács | Member | | --- | --- |
| Ákos Ferenc Fischl | Member | | --- | --- |
| Csaba Nagy | Member | | --- | --- |
| Anna Mitkova Florova | Member | | --- | --- |
| **Supervisory Board** | | | | |
| Győző Nyitrai | Chairman | | --- | --- |
| Ágota Selymesi | Member | | --- | --- |
| Zoltán Kormos | Member | | --- | --- |

**Chart 48: Received remuneration of the OTP Building Society Ltd.'s Board of Directors and Supervisory Board members in 2019**

| Name | Position | Notes | Amount of compensation HUF/month | Total amount of cash compensation in 2019 HUF |
|---|---|---|---|---|
| **Board of Directors** | | | | |
| Antal György Kovács | Chairman | | --- | --- |
| Csaba Nagy | Member | | --- | --- |
| Árpád Srankó | Member | | --- | --- |
| Attila Kovács | Member | | --- | --- |
| András Becsei | Member | | --- | --- |
| Anna Mitkova Florova | Member | | --- | --- |
| **Supervisory Board** | | | | |
| József Windheim | Chairman | | --- | --- |
| dr. Ilona Ádámné Környei | Member | | --- | --- |
| Beáta Anett Sukovich | Member | | 120 000 | 1 440 000 |
| dr. Tamás Gudra | Member | | 120 000 | 1 440 000 |

**Chart 49: Received remuneration of the Merkantil Bank Ltd.'s Board of Directors and Supervisory Board members in 2019**

| Name | Position | Notes | Amount of compensation<br>HUF/month | Total amount of cash compensation in 2019<br>HUF |
|---|---|---|---|---|
| **Board of Directors** | | | | |
| dr. László Utassy | Chairman | | --- | --- |
| Tibor László Csonka | Member | | --- | --- |
| dr. Ibolya Rajmonné Veres | Member | | --- | --- |
| Péter Köntös | Member | | --- | --- |
| dr. Bálint Csere | Member | | --- | --- |
| **Supervisory Board** | | | | |
| dr. Ferenc Ecsedi | Chairman | | --- | --- |
| Zsuzsanna Szabó | Member | | --- | --- |
| Ágota Selymesi | Member | | --- | --- |
| dr. Tamás Suchman | Member | | 300 000 | 3 600 000 |

In other subsidiaries under the Bank Group's Remuneration Policy the remuneration of the Board of Directors and the Supervisory Board members in 2019 was HUF 357 million.

## I.14. Disclosure of encumbered and unencumbered assets

**Chart 50: The encumbered and unencumbered assets in carrying and fair value amounts by broad categories of asset type**

| (in HUF million) | Carrying amount of encumbered assets | Fair value of encumbered assets | Carrying amount of unencumbered assets | Fair value of unencumbered assets |
|---|---|---|---|---|
| **Assets of the reporting institution** | **1 089 436** | | **16 683 810** | |
| Equity instruments | 979 | 979 | 82 814 | 82 739 |
| Debt securities | 336 130 | 352 119 | 3 795 386 | 3 827 419 |
| Other assets | 1 110 | | 1 469 624 | |

**Chart 51: Collateral received, by broad categories of product type**

| (in HUF million) | Fair value of encumbered collateral received or own debt securities issued | Fair value of collateral received or own debt securities issued available for encumbrance |
|---|---|---|
| **Collateral received by the reporting institution** | **0** | **113 672** |
| Equity instruments | 0 | 0 |
| Debt securities | 0 | 61 302 |
| Other collateral received | 0 | 52 370 |
| **Own debt securities issued other than own covered bonds or ABSs** | **0** | **0** |

**Chart 52: Encumbered assets/collateral received and associated liabilities**

| (in HUF million) | Matching liabilities, contingent liabilities or securities lent | Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered |
|---|---|---|
| **Carrying amount of selected financial liabilities** | **905 976** | **1 078 557** |

**Information on importance of encumbrance**

The encumbrances of OTP Group's assets and collaterals received are caused by different types of transactions.

- The collateral for the funds granted by the MNB's Funding for Growth Scheme is partly the loans refinanced through the funds, and in part the loans that cover the mortgage bonds issued by OTP Mortgage Bank, which are in the Group's books.
- The covered loan provided by the MNB is secured by mortgage bonds, which are in the Group's books.
- One of the Group's subsidiary bank issue mortgage bonds to finance their assets. The collateral for mortgage bonds is the mortgage loan stock placed from the funds.
- The encumbrances caused by derivative transactions largely stem from CIRS transactions, the market value of which may fluctuate depending on the foreign exchange rate.
- Some subsidiary banks enter into repo agreements, the collateral for which typically consists of government bonds issued by the government of that country.
- The value of other encumbrances (e.g. collaterals from securities lending, collaterals for VISA/MasterCard or stock exchanges) is the least relevant in the Group's encumbrances

OTP Group's repo stock and issued mortgage bonds both decreased in 2019. On the other hand, the value of encumbrances arising from the Funding for Growth Scheme funds has reduced.

The intragroup asset encumbrance stemmed from derivative transactions, repo agreements, and mortgage bond issuance.

At OTP Mortgage Bank, the stock of receivables that may be accepted as collateral has somewhat exceeded the stock of mortgage bonds issued.

The ISDA/CSA agreement regulates how to define the value of the collateral behind derivative transactions for all major partners. In the case of derivative transactions, if the total current market value of the derivative transactions with a partner, as calculated by the calculation agent, is negative, then the value that corresponds to the negative NPV shall be placed on the partner’s margin account.

From the items recognized under other assets in balance sheet, OTP Group does not consider its cash balance, intangible assets, tangible assets, inventories or deferred tax assets subject to encumbrance.

## I.15. Liquidity risk

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

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

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

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

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

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

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

Liquidity reserve consists of assets that can be quickly converted into cash because of their maturity, or their eligibility for covered financing (repo), therefore they can be used to meet financial obligations, expected or unforeseeable, when they are due. The main components of the liquid asset portfolio include the central bank placements, government securities and mortgage bonds, a smaller share of corporate bonds eligible for central bank repo and money market placements. Using the conservative approach of liquidity management, the expected cashflows of maturing client loan portfolio are not considered as safe liquidity.

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

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

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

**Chart 53: Liquidity coverage ratio**

| (in HUF million) | Description | Total unweighted value (average) 31.12.2019 | Total weighted value (average) 31.12.2019 |
|---|---|---|---|
| Number of data points used in the calculation of averages | | 12 | 12 |
| **HIGH-QUALITY LIQUID ASSETS** | | | |
| 1. | Total high-quality liquid assets (HQLA) | | 4 714 400 |
| **CASH – OUTFLOWS** | | | |
| 2. | Retail deposits and deposits from small business customers, of which: | 8 276 509 | 629 707 |
| 3. | *Stable deposits* | 5 915 950 | 295 798 |
| 4. | *Less stable deposits* | 2 299 421 | 272 772 |
| 5. | Unsecured wholesale funding | 3 884 649 | 1 974 639 |
| 6. | *Operational deposits (all counterparties) and deposits in networks of cooperative banks* | 59 882 | 13 963 |
| 7. | *Non-operational deposits (all counterparties)* | 3 818 597 | 1 954 506 |
| 8. | *Unsecured debt* | 6 170 | 6 170 |
| 9. | Secured wholesale funding | 0 | 0 |
| 10. | Additional requirements | 2 302 758 | 380 368 |
| 11. | *Outflows related to derivative exposures and other collateral requirements* | 52 844 | 52 844 |
| 12. | *Outflows related to loss of funding on debt products* | 0 | 0 |
| 13. | Credit and liquidity facilities | 2 249 914 | 327 524 |
| 14. | Other contractual funding obligations | 151 314 | 118 692 |
| 15. | Other contingent funding obligations | 995 845 | 34 577 |
| 16. | TOTAL CASH OUTFLOWS | 15 611 074 | 3 137 983 |
| **CASH – INFLOWS** | | | |
| 17. | *Secured lending (e.g. reverse repos)* | 68 859 | 5 028 |
| 18. | *Inflows from fully performing exposures* | 609 616 | 421 870 |
| 19. | *Other cash inflows* | 158 087 | 153 976 |
| EU-19a | *{Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies}* | | 0 |
| EU-19b | *{Excess inflows from a related specialised credit institution}* | | 0 |
| 20. | **TOTAL CASH INFLOWS** | 836 562 | 580 874 |
| EU-20a | ***Fully exempt inflows*** | 0 | 0 |
| EU-20b | ***Inflows subject to 90% cap*** | 0 | 0 |
| EU-20c | ***Inflows subject to 75% cap*** | 836 562 | 580 874 |
| | | | **TOTAL ADJUSTED VALUE** |
| 21. | **LIQUIDITY BUFFER** | | 4 714 400 |
| 22. | **TOTAL NET CASH OUTFLOWS** | | 2 557 109 |
| 23. | **LIQUIDITY COVERAGE RATIO (%)** | | 185% |

The declaration about the appropiatenes of the liqudity risk management can be found in the **Hiba! A hivatkozási forrás nem található.** Annex. The Asset –Liability Committee, approved the declaration. (ref. 2020/51/2.).

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

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

# II. OTP Bank

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

## II.1. Regulatory capital and capital requirements

### II.1.1. Capital adequacy of OTP Bank

The capital requirement calculation of OTP Bank for the end of 2019 is based on IFRS and audited data.

OTP Bank applied standardized capital calculation method regarding credit and market risk, and advanced measurement approach (AMA) regarding the operational risk. OTP Bank regulatory capital requirement as of end of December 2019 was HUF 552,883 million, the amount of regulatory capital was HUF 1,905,795 million. The capital adequacy ratio calculated in line with article 92 of CRR stood at 27.58%.

**Chart 54: OTP Bank's overview of RWAs**

| | RWAs | Minimum capital requirements |
|---|---|---|
| (in HUF million) | 31.12.2019 | 31.12.2019 |
| **Credit risk (excluding CCR)** | **6 243 173** | **499 454** |
| Of which the standardised approach | 6 243 173 | 499 454 |
| **CCR** | **152 895** | **12 232** |
| Of which mark to market | 148 072 | 11 389 |
| Of which CVA | 4 823 | 386 |
| **Market risk** | **120 351** | **9 628** |
| Of which the standardised approach | 120 351 | 9 628 |
| **Operational risk** | **394 615** | **31 569** |
| Of which basic indicator approach | 0 | 0 |
| Of which standardised approach | 0 | 0 |
| Of which advances measurement approach | 394 615 | 31 569 |
| **Total** | **6 911 033** | **552 883** |

Note: The credit risk RWA is calculated according to 2017/2395 EU regulation, including the effect of transitional arrangements for mitigating the impact of the introduction of IFRS 9 and the correction in accordance with the Article 1. (7) paragraph b) point.

## Chart 55: Credit risk exposure and CRM effects on 31st December 2019

| (in HUF million) | Exposures before CCF and CRM | | Exposures post CCF and CRM | | RWAs and RWA density | |
|---|---|---|---|---|---|---|
| | On-balance sheet amount | Off-balance sheet amount | On-balance sheet amount | Off-balance sheet amount | RWAs | RWA density |
| Exposures to central governments or central banks | 2 688 711 | 0 | 3 064 898 | 9 817 | 88 337 | 2.87% |
| Exposures to regional governments or local authorities | 67 407 | 23 459 | 56 962 | 11 209 | 14 023 | 20.57% |
| Exposures to public sector entities | 64 257 | 0 | 51 443 | 0 | 23 070 | 44.85% |
| Exposures to multilateral development banks | 4 688 | 0 | 4 688 | 0 | 0 | 0.00% |
| Exposures to international organisation | 0 | 0 | 0 | 0 | 0 | 0.00% |
| Exposures to institutions | 1 660 140 | 1 008 518 | 1 730 717 | 754 770 | 534 760 | 21.52% |
| Exposures to corporates | 1 968 724 | 1 084 376 | 1 707 953 | 491 085 | 2 116 677 | 96.25% |
| Retail exposures | 735 678 | 395 655 | 472 056 | 75 797 | 402 379 | 73.45% |
| Exposures secured by mortgages on immovable property | 531 742 | 63 494 | 531 742 | 22 338 | 427 053 | 77.07% |
| Exposures in default | 29 721 | 841 | 25 618 | 176 | 28 000 | 108.55% |
| Exposures associated with particularly high risk | 1 536 468 | 526 | 1 536 468 | 263 | 2 305 097 | 150.00% |
| Exposures in the form of covered bonds | 220 076 | 0 | 220 076 | 0 | 42 155 | 19.15% |
| Exposures to institutions and corporates with a short-term credit assessment | 0 | 0 | 0 | 0 | 0 | 0.00% |
| Exposures in the form of units or shares in collective investment undertakings ('CIUs') | 17 100 | 0 | 17 100 | 0 | 17 100 | 100.00% |
| Equity exposures | 84 158 | 0 | 84 158 | 0 | 134 204 | 159.47% |
| Other items | 306 673 | 194 | 306 673 | 194 | 110 318 | 35.95% |
| **Total** | **9 915 543** | **2 577 063** | **9 810 552** | **1 365 649** | **6 243 173** | **55.86%** |

## II.1.2. Information about disclosure requirements related to the regulatory capital in line with Commission Implementing Regulation (EU) No. 1423/2013

### Chart 56: Mapping of financial statement categories with regulatory categories

| Description (in HUF million) | Carrying values as reported in published financial statements | Carrying values of items | | | | |
|---|---|---|---|---|---|---|
| | | Subject to the credit risk framework | Subject to the CCR framework | Subject to the securitisation framework | Subject to the market risk framework | Not subject to capital requirements or subject to deduction from capital |
| Cash, amounts due from banks and balances with the National Bank of Hungary | 289 686 | 289 686 | 0 | 0 | 0 | 0 |
| Placements with other banks, net of allowance for placement losses | 1 560 142 | 1 560 142 | 0 | 0 | 0 | 0 |
| Repo receivables | 45 539 | 0 | 45 539 | 0 | 17 340 | 0 |
| Financial assets at fair value through profit or loss | 172 229 | 0 | 38 965 | 0 | 172 229 | 150 |
| Financial assets at fair value through other comprehensive income | 1 485 977 | 1 485 977 | 0 | 0 | 0 | 1 486 |
| Loans | 3 315 069 | 3 315 069 | 0 | 0 | 0 | 0 |
| Securities at amortised cost | 1 447 224 | 1 447 224 | 0 | 0 | 0 | 0 |
| Investments properties | 2 381 | 2 381 | 0 | 0 | 0 | 0 |
| Investments in subsidiaries | 1 542 538 | 1 542 538 | 0 | 0 | 0 | 0 |
| Intangible assets | 53 282 | 0 | 0 | 0 | 0 | 53 282 |
| Property and equipment | 77 754 | 77 754 | 0 | 0 | 0 | 0 |
| Right-of-use assets | 13 607 | 13 607 | 0 | 0 | 0 | 0 |
| Derivative financial assets designated as hedge accounting relationships | 16 677 | 0 | 16 677 | 0 | 0 | 17 |
| Deferred tax assets | 0 | 0 | 0 | 0 | 0 | 0 |
| Other assets | 116 699 | 116 699 | 0 | 0 | 0 | 0 |
| **TOTAL ASSETS** | **10 138 804** | **9 851 077** | **101 181** | **0** | **189 569** | **54 935** |
| Amounts due to banks, the National Governments, deposits from the National Banks and other banks | 738 054 | 0 | 0 | 0 | 0 | 738 054 |
| Deposits from customers | 6 573 550 | 0 | 0 | 0 | 0 | 6 573 550 |
| Repo liabilities | 462 621 | 0 | 0 | 0 | 0 | 462 621 |
| Liabilities from issued securities | 43 284 | 0 | 0 | 0 | 0 | 43 284 |
| Subordinated bonds and loans | 279 394 | 0 | 0 | 0 | 0 | 279 394 |
| Financial liabilities at fair value through profit or loss | 28 861 | 0 | 0 | 0 | 0 | 28 861 |
| Held for trading derivative financial liabilities | 83 088 | 0 | 0 | 0 | 0 | 83 088 |
| Derivative financial liabilities designated as hedge accounting relationships | 10 023 | 0 | 0 | 0 | 0 | 10 023 |
| Deferred tax liabilities | 5 875 | 0 | 0 | 0 | 0 | 5 875 |
| Leasing liabilities | 13 660 | 0 | 0 | 0 | 0 | 13 660 |
| Other liabilities | 246 676 | 0 | 0 | 0 | 0 | 246 676 |
| **TOTAL LIABILITIES** | **8 485 086** | **0** | **0** | **0** | **0** | **8 485 086** |

### Chart 57: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

| Description (in HUF million) | Total | Items subject to | | | |
|---|---|---|---|---|---|
| | | Credit risk framework | CCR framework | Securitisation framework | Market risk framework |
| **Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)** | **10 138 804** | **9 851 077** | **101 181** | **0** | **189 569** |
| Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1) | 8 485 086 | 0 | 0 | 0 | 0 |
| Total net amount under the regulatory scope of condsolidation | 1 653 718 | 0 | 0 | 0 | 0 |
| Off-balance sheet amounts | 2 835 742 | 1 389 610 | 0 | 0 | 0 |
| Non deducted from regulatory capital, capital requirement increase elements | 12 812 | 12 812 | 0 | 0 | 0 |
| Differences because the transitional arrangements related to IFRS 9 or analogous ECLs* | 31 242 | 31 242 | 0 | 0 | 0 |
| **Exposure amounts considered for regulatory purposes** | **11 575 491** | **11 284 741** | **101 181** | **0** | **189 569** |

* Calculated according to 2017/2395 EU regulation

**Chart 58: OTP Bank's regulatory capital**

| Total regulatory capital (in HUF million) | 31 December 2019 | Cross reference to raws of own funds disclosure template |
|---|---|---|
| Paid in capital | 28 000 | (1) |
| Retained earnings | 1 393 266 | (2) |
| Accumulated other comprehensive income and other reserves | 41 735 | (3) |
| Balance sheet profit or loss | 193 354 | (2) |
| Intangible assets (-) | (53 282) | (8) |
| Prudential filters | (1 834) | (7) |
| Deferred tax assets | (283) | (10) |
| Treasury shares (-) | (2 636) | (16) |
| *(–) Direct shares* | *(2 636)* | |
| *(–) Indirect shares* | *0* | |
| Other transitional adjusments (1) | 30 775 | (26) |
| **Common Equity Tier 1 capital** | **1 629 096** | **(29)** |
| **Total Tier 1 capital** | **1 629 096** | **(45)** |
| Upper Tier 2 capital | 276 699 | |
| **Total Tier 2 capital** | **276 699** | **(58)** |
| **Total regulatory capital** | **1 905 795** | **(59)** |

(1) Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds according to 2017/2395 EU regulation.

Due to the COVID 19 pandemia, in order to strengthen the banking system, Hungarian National Bank requests banks to make sure that dividends are neither approved, nor paid until the 30.09.2020. In this document the regulatory capital is presented In line with the request of the National Bank and dividend payment is not taken into account in the regulatory capital[2].

2 https://www.mnb.hu/en/pressroom/press-releases/press-releases-2020/the-mnb-takes-several-measures-to-support-the-operation-of-banks (21.04.2020)

## Chart 59: Breakdown of regulatory capital including transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds in accordance with 2017/2395 EU regulation

| Common Equity Tier 1 capital: instruments and reserves (in HUF million) | | (A) 31 December 2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 1 | Capital instruments and the related share premium accounts | 28 000 | 26 (1), 27, 28, 29, EBA list 26 (3) | |
| | of which: share | 28 000 | EBA list 26 (3) | |
| 2 | Retained earnings (1) | 1 586 621 | 26 (1) (c) | |
| 3 | Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards) | 41 735 | 26 (1) | |
| 3a | Funds for general banking risk | | 26 (1) (f) | |
| 4 | Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1 | | 486 (2) | |
| 5 | Minority interests (amount allowed in consolidated CET1) | | 84, 479, 480 | |
| 5a | Independently reviewed interim profits net of any foreseeable charge or dividend | | 26 (2) | |
| 6 | **Common Equity Tier 1 (CET1) capital before regulatory adjustments** | **1 656 355** | | |

| Common Equity Tier 1 (CET1) capital: regulatory adjustments (in HUF million) | | (A) 31 December 2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 7 | Additional value adjustments (negative amount) | (1 834) | 34, 105 | |
| 8 | Intangible assets (net of related tax liability) (negative amount) | (53 282) | 36 (1) (b), 37, 472 (4) | |
| 10 | Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount) | (283) | 36 (1) (c), 38, 472 (5) | |
| 11 | Fair value reserves related to gains or losses on cash flow hedges | | 33 (1) (a) | |
| 12 | Negative amounts resulting from the calculation of expected loss amounts | | 36 (1) (d), 40, 159, 472 (6) | |
| 13 | Any increase in equity that results from securitised assets (negative amount) | | 32 (1) | |
| 14 | Gains or losses on liabilities valued at fair value resulting from changes in own credit standing | | 33 (1) (b) | |
| 15 | Defined-benefit pension fund assets (negative amount) | | 36 (1) (e), 41, 472 (7) | |
| 16 | Direct and indirect holdings by an institution of own CET1 instruments (negative amount) | (2 636) | 36 (1) (f), 42, 472 (8) | |
| 17 | Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negatvie amount) | | 36 (1) (g), 44, 472 (9) | |
| 18 | Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | | 36 (1) (h), 43, 45, 46, 49 (1)-(3), 79, 472 (10) | (26 177) |
| 19 | Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | | 36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1)-(3), 79, 470, 472 (11) | (1 519 174) |

| | Common Equity Tier 1 (CET1) capital: regulatory adjustments (in HUF million) | (A) 31 December 2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 20a | Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative | | 36 (1) (k) | |
| 20b | of which: qualifying holdings outside the financial sector (negative amount) | | 36 (1) (k) (i), 89-91 | |
| 20c | of which: securitisation positions (negative amount) | | 36 (1) (k) (ii)<br>243 (1) (b)<br>244 (1) (b)<br>258 | |
| 20d | of which: free deliveries (negative amount) | | 36 (1) (k) (iii), 379 (3) | |
| 21 | Deferred tax assets arising from temporary difference (amount above 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met) (negative amount) | | 36 (1) (c), 38, 48 (1) (a), 470, 472 (5) | |
| 22 | Amount exceeding the 15% threshold (negative amount) | | 48 (1) | 0 |
| 23 | of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities | | 36 (1) (i), 48 (1) (b), 470, 472 (11) | 0 |
| 25 | of which: deferred tax assets arising from temporary difference | | 36 (1) (c), 38, 48 (1) (a), 470, 472 (5) | |
| 25a | Losses for the current financial year (negative amount) | | 36 (1) (a), 472 (3) | |
| 25b | Foreseeable tax charges relating to CET1 items (negative amount) | | 36 (1) (l) | |
| 26 | Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment (2) | 30 775 | | |
| 27 | Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount) | | 36 (1) (j) | |
| 28 | **Total regulatory adjustments to Common Equity Tier 1 (CET1)** | **(27 259)** | | |
| 29 | **Common Equity Tier 1 (CET1) capital** | **1 629 096** | | |

| | Additional Tier 1 (AT1) capital: instruments (in HUF million) | (A) 31 December 2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 30 | Capital instruments and the related share premium accounts | | 51, 52 | |
| 31 | of which: classified as equity under applicable accounting standards | | | |
| 32 | of which: classified as liabilities under applicable accounting standards | | | |
| 33 | Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1 | | 486 (3) | |
| 34 | Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties | | 85, 86, 480 | |
| 35 | of which: instruments issued by subsidiaries subject to phase-out | | 486 (3) | |
| 36 | **Additional Tier 1 (AT1) capital before regulatory adjustments** | **0** | | |

| | Additional Tier 1 (AT1) capital: regulatory adjustments (in HUF million) | (A) 31 December 2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 37 | Direct and indirect holdings by an institution of own AT1 instruments (negative amount) | | 52 (1) (b), 56 (a), 57, 475 (2) | |
| 38 | Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | | 56 (b), 58, 475 (3) | |
| 39 | Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | | 56 (c), 59, 60, 79, 475 (4) | |
| 40 | Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | | 56 (d), 59, 79, 475 (4) | |
| 42 | Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount) | | 56 (e) | |
| 43 | **Total regulatory adjustments to Additional Tier 1 (AT1) capital** | **0** | | |
| 44 | **Additional Tier 1 (AT1) capital** | **0** | | |
| 45 | **Tier 1 capital (T1 = CET1 + AT1)** | **1 629 096** | | |

| | Tier 2 (T2) capital: instruments and provisions (in HUF million) | (A) 31 December 2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 46 | Capital instruments and the related share premium accounts | 276 699 | 62, 63 | |
| 47 | Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2 | | 486 (4) | |
| 48 | Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party | | 87, 88, 480 | |
| 49 | of which: instruments issued by subsidiaries subject to phase-out | | 486 (4) | |
| 50 | Credit risk adjustments | | 62 (c) & (d) | |
| 51 | **Tier 2 (T2) capital before regulatory adjustment** | **276 699** | | |

| | Tier 2 (T2) capital: regulatory adjustments (in HUF million) | (A) 31 December 2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 52 | Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount) | | 63 (b) (i), 66 (a), 67, 477 (2) | |
| 53 | Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount) | | 66 (b), 68, 477 (3) | |
| 54 | Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount) | | 66 (c), 69, 70, 79, 477 (4) | |
| 55 | Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts) | | 66 (d), 69, 79, 477 (4) | (69 163) |
| 57 | **Total regulatory adjustments to Tier 2 (T2) capital** | **0** | | |
| 58 | **Tier 2 (T2) capital** | **276 699** | | |
| 59 | **Total capital (TC = T1 + T2)** | **1 905 795** | | |
| 60 | **Total risk weighted assets** | **6 911 033** | | |

| Capital ratios and buffers (in HUF million) | | (A) 31 December 2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 61 | **Common Equity Tier 1 (as a percentage of total risk exposure amount)** | **23.57%** | 92 (2) (a), 465 | |
| 62 | **Tier 1 (as a percentage of total risk exposure amount)** | **23.57%** | 92 (2) (b), 465 | |
| 63 | **Total capital (as a percentage of total risk exposure amount)** | **27.58%** | 92 (2) (c) | |
| 64 | Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of total risk exposure amount) | 7.000% | CRD 128, 129, 130, 131 and 133 | |
| 65 | of which: capital conservation buffer requirement | 2.500% | | |
| 66 | of which: countercyclical buffer requirement (3) | | | |
| 67 | of which: systemic risk buffer requirement (3) | | | |
| 67a | of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer (4) | | CRD 131 | |
| 68 | Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount) | 15.57% | CRD 128 | |

| Amounts below the thresholds for deduction (before risk-weighting) (in HUF million) | | (A) 31 December 2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 72 | Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions | 26 177 | 36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4) | |
| 73 | Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions | | 36 (1) (i), 45, 48, 470, 472 (11) | |
| 75 | Deferred tax assets arising from temporary difference (amount below 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met) | | 36 (1) (c), 38, 48, 470, 472 (5) | |

| Applicable caps on the inclusion of provisions in Tier 2 (in HUF million) | | (A) 31 December 2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 76 | Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap) | | 62 | |
| 77 | Cap on inclusion of credit risk adjustments in T2 under standardised approach | | 62 | |
| 78 | Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap) | | 62 | |
| 79 | Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach | | 62 | |

| | Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022) (in HUF million) | (A) 31 December 2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 80 | - Current cap on CET1 instruments subject to phase-out arrangements | | 484 (3), 486 (2) & (5) | |
| 81 | - Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities) | | 484 (3), 486 (2) & (5) | |
| 82 | - Current cap on AT1 instruments subject to phase-out arrangements | | 484 (4), 486 (3) & (5) | |
| 83 | - Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) | | 484 (4), 486 (3) & (5) | |
| 84 | - Current cap on T2 instruments subject to phase-out arrangements | | 484 (5), 486 (4) & (5) | |
| 85 | - Amount excluded from T2 due to cap (excess over cap after redemptions and maturities) | | 484 (5), 486 (4) & (5) | |

(1) Profit for financial year 2019 ais included in retained earnings
(2) Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds according to 2017/2395 EU regulation.
(3) Capital buffer is not implemented
(4) Not relevant capital buffer

Information about the main characteristics of capital instruments is under Group level data.

**Chart 60: The effect of the transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds in accordance with 2017/2395 EU regulation**

| IFRS 9 effect | | |
|---|---|---|
| **(in HUF million)** | | **31.12.2019** |
| **Regulatory capital** | | |
| 1 | Common Equity Tier 1 (CET1) capital | 1 629 096 |
| 2 | Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 1 598 321 |
| 3 | Tier 1 capital | 1 629 096 |
| 4 | Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 1 598 321 |
| 5 | Total capital | 1 905 795 |
| 6 | Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 1 875 020 |
| **Total risk weighted assets** | | |
| 7 | Total risk w eighted assets | 6 911 033 |
| 8 | Total risk-w eighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 6 886 609 |
| **Capital ratios** | | |
| 9 | Common Equity Tier 1 (as a percentage of total risk exposure amount) | 23.57% |
| 10 | Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 23.21% |
| 11 | Tier 1 (as a percentage of total risk exposure amount) | 23.57% |
| 12 | Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 23.21% |
| 13 | Total capital (as a percentage of total risk exposure amount) | 27.58% |
| 14 | Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 27.23% |
| **Leverage ratio** | | |
| 15 | Total exposure | 11 525 450 |
| 16 | Leverage ratio | 14.13% |
| 17 | Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 13.87% |

## II.2. Trading book market and counterparty risks (capital requirements)

### Chart 61: Trading book positions capital requirement

| Description (in HUF million) | RWAs | Capital requirements |
|---|---|---|
| Interest rate risk (general and specific) | 88 188 | 7 055 |
| Equity risk (general and specific) | 549 | 44 |
| Foreign exchange risk | 28 357 | 2 269 |
| Commodity risk | 2 885 | 231 |
| Options | | |
| Simplified approach | | |
| Delta-plus method | 372 | 30 |
| Scenario approach | | |
| Securitisation (specific riks) | | |
| **Total** | **120 351** | **9 628** |

### Chart 62: Analysis of CCR exposure by approach

| Description (in HUF million) | Notional | Replacement cost/current market value | Potential future credit exposure | EEPE (Effective Expected Positive Exposure) | Multiplier | EAD post CRM | RWAs |
|---|---|---|---|---|---|---|---|
| Mark to market | | 20 478 | 110 765 | | | 102 533 | 70 819 |
| Original exposure | 0 | | | | | 0 | 0 |
| Standardised approach | | 0 | | | 0 | 0 | 0 |
| IMM (for derivatives and SFTs) | | | | 0 | 0 | 0 | 0 |
| *Of which securities financing transactions* | | | | 0 | 0 | 0 | 0 |
| *Of which derivatives and long settlement transactions* | | | | 0 | 0 | 0 | 0 |
| *Of which from contractual cross-product netting* | | | | 0 | 0 | 0 | 0 |
| Financial collateral simple method (for SFTs) | | | | | | 0 | 0 |
| Financial collateral comprehensive method (for SFTs) | | | | | | 80 718 | 77 253 |
| VaR for SFTs | | | | | | 0 | 0 |
| **Total** | | | | | | | **148 072** |

### Chart 63: CVA capital charge

| Description (in HUF million) | Exposure value | RWAs |
|---|---|---|
| Total portfolios subject to the advanced method | 0 | 0 |
| VaR component (including the 3 x multiplier) | | 0 |
| SVaR component (including the 3 x multiplier) | | 0 |
| All portfolios subject to the standardised method | 34 375 | 4 823 |
| Based on the original exposure method | 0 | 0 |
| Total subject to the CVA capital charge | 0 | 0 |

## Chart 64: CCR exposures by regulatory portfolio and risk

| Exposure classes | Risk weight | | | | | | | | | | | Total | Of which unrated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (in HUF million) | 0% | 2% | 4% | 10% | 20% | 50% | 70% | 75% | 100% | 150% | Other | | |
| Central governments or central banks | 5 835 | 0 | 0 | 0 | 0 | 7 186 | 0 | 0 | 0 | 0 | 0 | 13 021 | 0 |
| Regional government or local authorities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Public sector entities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Multilateral development banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| International organisations | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Institutions | 237 | 0 | 0 | 0 | 23 288 | 6 740 | 0 | 0 | 94 275 | 0 | 0 | 124 540 | 100 116 |
| Corporates | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 39 370 | 0 | 0 | 39 370 | 28 363 |
| Retail | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3 670 | 0 | 0 | 0 | 3 670 | 3 670 |
| Institutions and corporates with a short-term credit assessment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other items | 0 | 2 648 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 2 649 | 0 |
| **Total** | **6 073** | **2 648** | **0** | **0** | **23 288** | **13 926** | **0** | **3 670** | **133 646** | **0** | **0** | **183 250** | **132 149** |

Note: „Of which unrated” column contains the expousres which do not have external credit ratings

## Chart 65: Exposures to CCP-s

| Description (in HUF million) | EAD post CRM | RWAs |
|---|---|---|
| **Exposures to QCCPs (total)** | | |
| Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which | 2 648 | 53 |
| (i) OTP derivatives | 2 648 | 53 |
| (ii) Exchange-traded derivatives | 0 | 0 |
| (iii) SFTs | 0 | 0 |
| (iv) Netting sets where cross-product netting has been approved | 0 | 0 |
| Segregated initial margin | 41 787 | |
| Non-segregated initial margin | 0 | 0 |
| Prefunded default fund contributions | 1 | 1 |
| Alternative calculation of own funds requirements for exposures | | 0 |
| **Exposures to non-QCCPs (total)** | | **0** |
| Exposures for trades at non QCCPs (excluding initial margin and default fund contributions); of which | 0 | 0 |
| (i) OTP derivatives | 0 | 0 |
| (ii) Exchange-traded derivatives | 0 | 0 |
| (iii) SFTs | 0 | 0 |
| (iv) Netting sets where cross-product netting has been approved | 0 | 0 |
| Segregated initial margin | 0 | |
| Non-segregated initial margin | 0 | 0 |
| Prefunded default fund contributions | 0 | 0 |
| Unfunded default fund contributions | 0 | 0 |

### Chart 66: Impact of netting and collateral held on exposure values

| (in HUF million) | Gross positive fair value or net carrying amount | Netting benefits | Netted current credit exposure | Collateral held | Net credit exposure |
|---|---|---|---|---|---|
| **Derivatives** | **48 301** | **0** | **48 301** | **2 280** | **46 021** |
| **SFTs** | **37 731** | **0** | **37 731** | **33 251** | **4 481** |
| Cross-product netting | 672 390 | 81 252 | 591 138 | 458 391 | 132 747 |
| Total | 758 422 | 81 252 | 677 170 | 493 921 | 183 249 |

### Chart 67: Composition of collateral for exposures to CCR

| | Collateral used in derivative transactions | | | | Collateral used in SFTs | |
|---|---|---|---|---|---|---|
| | Fair value of collateral received | | Fair value of posted collateral | | | |
| (in HUF million) | Segregated | Unsegregated | Segregated | Unsegregated | Fair value of collateral received | Fair value of posted collateral |
| Cash | 0 | 28 684 | 41 787 | 11 223 | 410 | 271 |
| Total | 0 | 28 684 | 41 787 | 11 223 | 410 | 271 |

## II.3. Leverage

### Chart 68: Net exposure value to leverage ratio

| | in HUF million | Applicable Amount |
|---|---|---|
| 1 | Total assets as per published financial statements | 10 138 804 |
| 2 | Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation | 0 |
| 3 | (Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013) | 0 |
| 4 | Adjustments for derivative financial instruments | 102 531 |
| 5 | Adjustment for securities financing transactions (SFTs) | 80 718 |
| 6 | Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures) | 1 389 599 |
| EU-6a | (Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013) | 0 |
| EU-6b | (Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013) | 0 |
| 7 | Other adjustments | (186 202) |
| **8** | **Leverage ratio total exposure measure** | **11 525 450** |

## Chart 69: Leverage ratio

| | in HUF million | CRR leverage ratio exposures |
|---|---|---|
| **On-balance sheet exposures (excluding derivatives and SFTs)** | | |
| 1 | On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral) | 10 007 873 |
| 2 | (Asset amounts deducted in determining Tier 1 capital) | (55 271) |
| **3** | **Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)** | **9 952 602** |
| **Derivative exposures** | | |
| 4 | Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin) | 35 970 |
| 5 | Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method) | 66 562 |
| EU-5a | Exposure determined under Original Exposure Method | 0 |
| 6 | Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework | 0 |
| 7 | (Deductions of receivables assets for cash variation margin provided in derivatives transactions) | 0 |
| 8 | (Exempted CCP leg of client-cleared trade exposures) | 0 |
| 9 | Adjusted effective notional amount of written credit derivatives | 0 |
| 10 | (Adjusted effective notional offsets and add-on deductions for written credit derivatives) | 0 |
| **11** | **Total derivatives exposures (sum of lines 4 to 10)** | **102 531** |
| **SFT exposures** | | |
| 12 | Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions | 0 |
| 13 | (Netted amounts of cash payables and cash receivables of gross SFT assets) | 0 |
| 14 | Counterparty credit risk exposure for SFT assets | 80 718 |
| EU-14a | Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013 | 0 |
| 15 | Agent transaction exposures | 0 |
| EU-15a | (Exempted CCP leg of client-cleared SFT exposure) | 0 |
| **16** | **Total securities financing transaction exposures (sum of lines 12 to 15a)** | **80 718** |
| **Other off-balance sheet exposures** | | |
| 17 | Off-balance sheet exposures at gross notional amount | 2 577 063 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | (1 187 464) |
| **19** | **Other off-balance sheet exposures (sum of lines 17 and 18)** | **1 389 599** |
| **Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)** | | |
| EU-19a | (Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet)) | 0 |
| EU-19b | (Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet)) | 0 |
| **Capital and total exposure mesure** | | |
| 20 | Tier 1 capital | 1 629 096 |
| 21 | Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b) | 11 525 450 |
| **Leverage ratio** | | |
| **22** | **Leverage ratio** | **14.13%** |
| **Choice on transitional arrangements and amount of derecognised fiduciary items** | | |
| EU-23 | Choice on transitional arrangements for the definition of the capital measure | Fully phased in |
| EU-24 | Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013 | 0 |

Note: The exposures are calculated according to 2017/2395 EU regulation, including the effect of transitional arrangements for mitigating the impact of the introduction of IFRS 9 and the correction in accordance with the Article 1. (7) paragraph b) point.

The change of Tier1 capital and risk weighted assets can have an impact on leverage ratio. There was no material change in the value of leverage ratio in 2019.

# II.4. Credit risk adjustments

## II.4.1. Methodology of valuation and provisions

The financial reports of the OTP Bank are based on IFRS regulation. Measurement and provision allocation of assets, investments and off-balance sheet liabilities are realized according to frameworks of relevant IFRS/IAS standards.
In its regulations entitled "International Financing Reporting Standards (IFRS) valuation requirements" OTP Bank provides detailed regulations pertaining to the measurement and provision recognition of outstanding debts, investments and off-balance sheet liabilities.

The recognized provision level reflects to the foreseeable risks and potential losses. The amount of the recognized impairment is the difference between the book value of the outstanding debt and the expected amount of the recovered debt. OTP Bank recognizes risk provision for off-balance sheet (pending, future) liabilities on the basis of their assessment. If the measurement process reveals that the amount of the risk provision exceeds the amount required on the basis of the assessment, the excess amount of the risk provision is released.
At initial recognition the financial assets must be tested based on the business model and the contracted cash flow characteristics, based on which it can be determined according to which measurement method, specified in the IFRS 9 standard, the given asset is to be managed and valued. The assets can be allocated to the following three categories:

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

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

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

In case of the Stage 1 deals 12-month credit losses must be calculated by the expectations of the default probability, for Stage 2 and Stage 3 deals lifetime expected losses must be calculated as impairment.
Depending on the item, assessment based on the following aspects:

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

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

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

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

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

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

A credit risk exposure shall be considered as restructured:

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

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

**Portfolio (collective) assessment**

The collective assessment based on the following parameters: probability of defaults, cure rate, loss given default. The condition of applying collective assessment is that the assets should be allocable to groups representing similar credit risk based on major credit risk characteristics and their capability to fulfill contractual obligations. The most important variables of the assessment procedure are payment delay, deal/client rating, the restructuring information and the default status.
Upon estimating the future cash flows related to the group(s) of financial assets, the historic credit loss data of the assets representing similar credit risk, the macroeconomic factors and information on the future of financial instruments must be taken into account.
The OTP Bank shall measure expected credit losses of a financial asset in a way that reflects:

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

**Individual assessment**

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

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

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

- changes of impairement regarding “Placements with other banks”in Note 5.
- changes of impairement regarding “Securities at amortised cost” in Note 11.
- changes of impairement regarding “Loans” in Note 9.

**Chart 70: Qualified exposures and impairment**

| (in HUF million) | Accumulated specific / general credit risk adjustment |
|---|---|
| **Opening balance** | **72 906** |
| Increases due to amounts set aside for estimated loan losses during the period | 42 671 |
| Decreases due to amounts reversed for estimated loan losses during the period | 0 |
| Decreases due to amounts taken against accumulated credit risk adjustments | (16 826) |
| Transfers between credit risk adjustments | (13 475) |
| Impact of exchange rate differences | 1 385 |
| Cured from default or non-impaired | 0 |
| Other adjustments | 0 |
| **Closing balance** | **86 661** |
| Recoveries on credit risk adjustments recorded directly to the statement of profit or loss | 0 |
| Specific credit risk adjustments directly recorded to the statement of profit or loss | 199 |

**Chart 71: Changes of non-performing loan exposures**

| (in HUF million) | Gross carrying value defaulted exposures |
|---|---|
| **1. Opening balance - 31.12.2018** | **64 803** |
| 2. Loans and debt securities that have defaulted since the last reporting period | 10 858 |
| 3. Returned to non-defaulted status | 1 942 |
| 4. Amounts written-off | 4 905 |
| 5. Other changes* | (26 609) |
| **6. Closing balance - 31.12.2019 (6 =1 + 2 - 3 - 4 + 5)** | **42 204** |

* Contains the IFRS 9 transitional difference

## II.4.2. Exposures to credit risk

The presented RWAs and exposures in this chapter are calculated according to 2017/2395 EU regulation, including the effect of transitional arrangements for mitigating the impact of the introduction of IFRS 9 and the correction in accordance with the Article 1. (7) paragraph b) point.

**Chart 72: Net exposures broken down by exposure classes (without the effect of credit risk mitigation methods)**

| Exposures<br>(in HUF million) | 31.12.2019 | 2019 Average |
|---|---|---|
| Exposures to central governments or central banks | 3 074 715 | 3 110 018 |
| Exposures to regional governments or local authorities | 68 194 | 69 227 |
| Exposures to public sector entities | 51 443 | 56 409 |
| Exposures to multilateral development banks | 4 688 | 2 128 |
| Exposures to international organisation | 0 | 0 |
| Exposures to institutions | 2 485 488 | 2 138 858 |
| Exposures to corporates | 2 292 432 | 2 138 769 |
| Retail exposures | 558 928 | 546 430 |
| Exposures secured by mortgages on immovable property | 554 080 | 541 351 |
| Exposures in default | 26 292 | 28 315 |
| Exposures associated with particularly high risk | 1 536 731 | 1 336 362 |
| Exposures in the form of covered bonds | 220 076 | 230 006 |
| Exposures to institutions and corporates with a short-term credit assessment | 0 | 0 |
| Exposures in the form of units or shares in collective investment undertakings ('CIUs') | 17 100 | 16 531 |
| Equity exposures | 84 158 | 66 115 |
| Other items | 306 867 | 279 180 |
| **Total** | **11 281 192** | **10 559 700** |

## Chart 73: Exposures broken down by geographical areas (by the country of obligors) on 31st December 2019

| (in HUF million) | Exposures to central governments or central banks | Exposures to regional governments or local authorities | Exposures to public sector entities | Exposures to multilateral development banks | Exposures to international organisation | Exposures to institutions | Exposures to corporates | Retail exposures | Exposures secured by mortgages on immovable property | Exposures in default | Exposures associated with particularly high risk | Exposures in the form of covered bonds | Exposures to institutions and corporates with a short-term credit assessment | Exposures in the form of units or shares in collective investment undertakings ('CIUs') | Equity exposures | Other items | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total** | **3 074 715** | **68 194** | **51 443** | **4 688** | **0** | **2 485 488** | **2 292 432** | **558 928** | **554 080** | **26 292** | **1 536 731** | **220 076** | **0** | **17 100** | **84 158** | **306 867** | **11 281 192** |
| Albania | 0 | 0 | 0 | 0 | 0 | 31 213 | 0 | 0 | 0 | 0 | 11 865 | 0 | 0 | 0 | 0 | 0 | 43 078 |
| Austria | 0 | 0 | 0 | 0 | 0 | 1 333 | 58 | 1 | 0 | 5 | 0 | 0 | 0 | 0 | 0 | 0 | 1 397 |
| Australia | 0 | 0 | 0 | 0 | 0 | 230 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 230 |
| Belgium | 0 | 0 | 0 | 0 | 0 | 401 | 15 647 | 0 | 0 | 0 | 93 | 0 | 0 | 0 | 0 | 0 | 16 141 |
| Bulgaria | 10 803 | 0 | 0 | 0 | 0 | 4 346 | 15 519 | 2 | 74 515 | 0 | 280 924 | 0 | 0 | 0 | 0 | 0 | 386 109 |
| Canada | 0 | 0 | 0 | 0 | 0 | 198 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 199 |
| Switzerland | 0 | 0 | 0 | 0 | 0 | 9 231 | 56 089 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 65 321 |
| Cyprus | 0 | 0 | 0 | 0 | 0 | 0 | -1 032 | 0 | 0 | 0 | 4 983 | 0 | 0 | 0 | 40 | 0 | 3 991 |
| Czech Republic | 0 | 0 | 0 | 0 | 0 | 5 | 129 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 134 |
| Germany | 25 969 | 0 | 0 | 0 | 0 | 14 432 | 1 032 | 3 | 0 | 29 | 0 | 0 | 0 | 0 | 0 | 0 | 41 465 |
| Denmark | 0 | 0 | 0 | 0 | 0 | 168 | 216 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 384 |
| Spain | 0 | 0 | 0 | 0 | 0 | 1 047 | 262 | 0 | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 312 |
| France | 0 | 0 | 0 | 0 | 0 | 33 486 | 110 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 33 597 |
| United Kingdom | 0 | 0 | 0 | 0 | 0 | 37 357 | 177 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 37 536 |
| Croatia | 1 647 | 0 | 0 | 0 | 0 | 71 708 | 6 294 | 3 | 8 450 | 0 | 206 781 | 0 | 0 | 0 | 0 | 0 | 294 883 |
| Hungary | 2 947 916 | 68 194 | 51 443 | 0 | 0 | 1 680 014 | 1 397 793 | 558 798 | 426 835 | 26 255 | 225 411 | 220 076 | 0 | 17 100 | 68 603 | 306 867 | 7 995 305 |
| Ireland | 0 | 0 | 0 | 0 | 0 | 400 | 28 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 428 |
| Italy | 0 | 0 | 0 | 0 | 0 | 150 | 1 298 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 450 |
| Japan | 0 | 0 | 0 | 0 | 0 | 1 600 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 601 |
| Lithuania | 6 511 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 6 511 |
| Luxembourg | 0 | 0 | 0 | 0 | 0 | 2 964 | 79 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3 043 |
| Moldova | 0 | 0 | 0 | 0 | 0 | 1 084 | 0 | 0 | 0 | 0 | 24 159 | 0 | 0 | 0 | 0 | 0 | 25 243 |
| Montenegro | 10 013 | 0 | 0 | 0 | 0 | 28 966 | 0 | 0 | 0 | 0 | 49 495 | 0 | 0 | 0 | 0 | 0 | 88 474 |
| Malta | 0 | 0 | 0 | 0 | 0 | 0 | 718 530 | 0 | 0 | 0 | 37 270 | 0 | 0 | 0 | 0 | 0 | 755 800 |
| Netherlands | 0 | 0 | 0 | 0 | 0 | 542 | 3 875 | 1 | 14 | 0 | 521 | 0 | 0 | 0 | 4 | 0 | 4 957 |
| Poland | 15 629 | 0 | 0 | 0 | 0 | 226 | 257 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 16 113 |
| Romania | 13 044 | 0 | 0 | 0 | 0 | 32 786 | 5 358 | 27 | 30 743 | 1 | 105 473 | 0 | 0 | 0 | 0 | 0 | 187 432 |
| Serbia | 6 875 | 0 | 0 | 0 | 0 | 289 964 | 52 603 | 5 | 13 508 | 0 | 206 309 | 0 | 0 | 0 | 1 295 | 0 | 570 559 |
| Russian Federation | 36 308 | 0 | 0 | 4 688 | 0 | 30 722 | 0 | 1 | 0 | 1 | 149 429 | 0 | 0 | 0 | 0 | 0 | 221 149 |
| Sweden | 0 | 0 | 0 | 0 | 0 | 1 027 | 1 744 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 773 |
| Slovenia | 0 | 0 | 0 | 0 | 0 | 67 782 | 6 993 | 0 | 0 | 0 | 107 372 | 0 | 0 | 0 | 0 | 0 | 182 147 |
| Slovakia | 0 | 0 | 0 | 0 | 0 | 138 844 | 577 | 50 | 4 | 0 | 16 592 | 0 | 0 | 0 | 1 160 | 0 | 157 227 |
| Turkey | 0 | 0 | 0 | 0 | 0 | 349 | 9 | 1 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 360 |
| Ukraine | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 8 | 0 | 0 | 106 502 | 0 | 0 | 0 | 1 | 0 | 106 512 |
| United States | 0 | 0 | 0 | 0 | 0 | 2 618 | 8 562 | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 13 055 | 0 | 24 238 |
| Other | 0 | 0 | 0 | 0 | 0 | 294 | 224 | 15 | 8 | 0 | 3 552 | 0 | 0 | 0 | 0 | 0 | 4 093 |

## Chart 74: Exposure classes broken down by counterparty type on 31st December 2019

| (in HUF million) | Exposures to central governments or central banks | Exposures to regional governments or local authorities | Exposures to public sector entities | Exposures to multilateral development banks | Exposures to international organisation | Exposures to institutions | Exposures to corporates | Retail exposures | Exposures secured by mortgages on immovable property | Exposures in default | Exposures associated with particularly high risk | Exposures in the form of covered bonds | Exposures to institutions and corporates with a short-term credit assessment | Exposures in the form of units or shares in collective investment undertakings ('CIUs') | Equity exposures | Other items | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total** | **3 074 715** | **68 194** | **51 443** | **4 688** | **0** | **2 485 488** | **2 292 432** | **558 928** | **554 080** | **26 292** | **1 536 731** | **220 076** | **0** | **17 100** | **84 158** | **306 867** | **11 281 192** |
| Governments | 2 688 711 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 688 711 |
| Municipal | 12 576 | 65 916 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 78 492 |
| Public sector entities | 12 814 | 0 | 51 443 | 0 | 0 | 0 | 0 | 0 | 0 | 67 | 0 | 0 | 0 | 0 | 0 | 0 | 64 324 |
| Multilateral development banks | 0 | 0 | 0 | 4 688 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4 688 |
| Institutions | 0 | 0 | 0 | 0 | 0 | 2 414 901 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 414 901 |
| Coporate | 390 | 2 084 | 0 | 0 | 0 | 66 086 | 1 771 385 | 0 | 142 895 | 5 668 | 12 128 | 0 | 0 | 17 100 | 0 | 0 | 2 017 736 |
| Corpoarte SME | 102 343 | 194 | 0 | 0 | 0 | 4 501 | 448 613 | 0 | 296 504 | 7 856 | 4 719 | 0 | 0 | 0 | 0 | 0 | 864 730 |
| Retail | 201 582 | 0 | 0 | 0 | 0 | 0 | 72 434 | 510 627 | 108 503 | 11 925 | 0 | 0 | 0 | 0 | 0 | 0 | 905 071 |
| Retail SME | 56 299 | 0 | 0 | 0 | 0 | 0 | 0 | 48 301 | 6 178 | 776 | 0 | 0 | 0 | 0 | 0 | 0 | 111 554 |
| Equity | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 519 884 | 0 | 0 | 0 | 84 158 | 0 | 1 604 042 |
| Other* | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 220 076 | 0 | 0 | 0 | 306 867 | 526 943 |

* Other, non-credit risk items; collective, investment funds

## Chart 75: Exposure classes broken down by residual maturity on 31st December 2019

| (in HUF million) | On demand | < = 1 year | > 1 year < = 5 year | > 5 year | No stated maturity | Total |
|---|---|---|---|---|---|---|
| **Total** | **0** | **4 044 210** | **2 284 579** | **3 034 442** | **1 917 961** | **11 281 192** |
| Exposures to central governments or central banks | 0 | 1 102 153 | 1 035 277 | 937 285 | 0 | **3 074 715** |
| Exposures to regional governments or local authorities | 0 | 3 317 | 4 205 | 60 672 | 0 | **68 194** |
| Exposures to public sector entities | 0 | 23 290 | 9 565 | 18 588 | 0 | **51 443** |
| Exposures to multilateral development banks | 0 | 0 | 4 688 | 0 | 0 | **4 688** |
| Exposures to international organisation | 0 | 0 | 0 | 0 | 0 | **0** |
| Exposures to institutions | 0 | 1 300 472 | 379 967 | 805 049 | 0 | **2 485 488** |
| Exposures to corporates | 0 | 1 314 761 | 479 585 | 496 146 | 1 940 | **2 292 432** |
| Retail exposures | 0 | 238 405 | 128 967 | 191 556 | 0 | **558 928** |
| Exposures secured by mortgages on immovable property | 0 | 51 645 | 120 589 | 381 846 | 0 | **554 080** |
| Exposures in default | 0 | 4 424 | 2 873 | 18 995 | 0 | **26 292** |
| Exposures associated w ith particularly high risk | 0 | 5 743 | 434 | 5 558 | 1 524 996 | **1 536 731** |
| Exposures in the form of covered bonds | 0 | 0 | 118 429 | 101 647 | 0 | **220 076** |
| Exposures to institutions and corporates w ith a short-term credit assessment | 0 | 0 | 0 | 0 | 0 | **0** |
| Exposures in the form of units or shares in collective investment undertakings ('CIUs') | 0 | 0 | 0 | 17 100 | 0 | **17 100** |
| Equity exposures | 0 | 0 | 0 | 0 | 84 158 | **84 158** |
| Other items | 0 | 0 | 0 | 0 | 306 867 | **306 867** |

Due to the organic growth, the exposures of OTP Bank increased significantly in 2019, compared to 2018.

## Chart 76: Aging of past-due exposures

| | Gross carrying values | | | | | |
|---|---|---|---|---|---|---|
| (in HUF million) | ≤ 30 days | > 30 days ≤ 60 days | > 60 days ≤ 90 days | > 90 days ≤ 180 days | > 180 days ≤ 1 year | > 1 year |
| Loans | 5 019 709 | 11 652 | 5 436 | 6 231 | 3 762 | 14 044 |
| Debt securities | 2 931 358 | 0 | 0 | 0 | 0 | 0 |
| **Total exposures** | 7 951 067 | 11 652 | 5 436 | 6 231 | 3 762 | 14 044 |

## Chart 77: Non-performing and forborne exposures

| | Gross carrying amount of performing and non-performing exposures | | | | | | | Accumulated impairment and provisions and negative fair value adjustments due to credit risk | | | | Collaterals and financial guarantees recieved | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Of which performing but past due > 30 days and <=90 days | Of which performing forborne | Of which non-performing | | | | On performing exposures | | On non-performing exposures | | On non-performing exposures | Of which forborne exposures |
| (in HUF million) | | | | | Of which defaulted | Of which impaired | Of which forborne | | Of which forborne | | Of which forborne | | |
| Debt securities | 2 931 358 | 0 | 0 | 5 243 | 5 243 | 5 243 | 0 | (3 185) | 0 | (1 205) | 0 | 0 | 0 |
| Loans and advances | 5 085 184 | 10 657 | 22 101 | 56 139 | 54 730 | 54 694 | 30 887 | (52 714) | (5 569) | (29 585) | (16 184) | 19 277 | 23 231 |
| Off-balance -sheet exposures | 2 829 906 | | 674 | 4 177 | 4 177 | | 49 | 12 642 | 109 | 1 646 | 22 | 501 | 91 |

Note: Exposures according to EBA definition.

## Chart 78: Credit quality of exposures by exposure class and instrument on 31st December 2019

| (in HUF million) | Gross carrying values of | | Specific/General credit risk adjustment | Net values |
|---|---|---|---|---|
| | Defaulted exposures | Non-defaulted exposures | | |
| Central governments or central banks | 0 | 3 076 639 | (5 535) | 3 071 104 |
| Regional governments or local authorities | 1 | 68 714 | (521) | 68 194 |
| Public sector entities | 92 | 51 643 | (225) | 51 510 |
| Multilateral development banks | 0 | 4 698 | (10) | 4 688 |
| Exposures to international organisation | 0 | 0 | 0 | 0 |
| Institutions | 1 | 2 487 820 | (2 333) | 2 485 488 |
| Corporates | 20 837 | 2 308 588 | (21 819) | 2 307 606 |
| Retail | 21 170 | 568 063 | (15 643) | 573 590 |
| Secured by mortgages on immovable property | 0 | 559 999 | (5 919) | 554 080 |
| Exposures in default | 0 | 0 | 0 | 0 |
| Items associated w ith particularly high risk | 0 | 1 946 667 | (409 936) | 1 536 731 |
| Covered bonds | 0 | 220 076 | 0 | 220 076 |
| Exposures to institutions and corporates w ith a short-term credit assessment | 0 | 0 | 0 | 0 |
| Collective investments undertakings | 0 | 17 100 | 0 | 17 100 |
| Equity exposures | 0 | 110 540 | (26 382) | 84 158 |
| Other exposures | 0 | 306 888 | (21) | 306 867 |
| **Total** | **42 101** | **11 727 435** | **(488 344)** | **11 281 192** |

## Chart 79: Credit quality of exposures by counterparty types on 31st December 2019

| (in HUF million) | Gross carrying values of | | Specific/General credit risk adjustment | Net values |
|---|---|---|---|---|
| | Defaulted exposures | Non-defaulted exposures | | |
| Governments | 0 | 2 689 439 | (728) | 2 688 711 |
| Municipal | 1 | 79 012 | (521) | 78 492 |
| Public sector entities | 92 | 64 487 | (255) | 64 324 |
| Multilateral development banks | 0 | 4 698 | (10) | 4 688 |
| Institutions | 1 | 2 417 121 | (2 221) | 2 414 901 |
| Coporate | 7 622 | 2 032 611 | (22 497) | 2 017 736 |
| Corpoarte SME | 13 215 | 865 221 | (13 706) | 864 730 |
| Retail | 19 242 | 904 593 | (18 764) | 905 071 |
| Retail SME | 1 928 | 111 580 | (1 954) | 111 554 |
| Equity | 0 | 2 031 709 | (427 667) | 1 604 042 |
| Other* | 0 | 526 964 | (21) | 526 943 |
| **Total** | **42 101** | **11 727 435** | **(488 344)** | **11 281 192** |

* Other, not mentioned items (e. g tangible assets)

## Chart 80: Credit Quality of exposures by geography on 31st December 2019

| (in HUF million) | Gross carrying values of: Defaulted exposures | Gross carrying values of: Non-defaulted exposures | Specific/General credit risk adjustment | Net values |
|---|---|---|---|---|
| **Total** | **42 101** | **11 727 435** | **(488 344)** | **11 281 192** |
| Albania | 0 | 43 078 | 0 | 43 078 |
| Austria | 12 | 1 393 | (8) | 1 397 |
| Australia | 1 | 230 | (1) | 230 |
| Belgium | 0 | 16 168 | (27) | 16 141 |
| Bulgaria | 0 | 387 896 | (1 787) | 386 109 |
| Canada | 1 | 199 | (1) | 199 |
| Switzerland | 0 | 65 723 | (402) | 65 321 |
| Cyprus | 0 | 4 260 | (269) | 3 991 |
| Czech Republic | 2 | 135 | (3) | 134 |
| Germany | 41 | 41 444 | (20) | 41 465 |
| Denmark | 0 | 386 | (2) | 384 |
| Spain | 0 | 1 313 | (1) | 1 312 |
| France | 1 | 33 598 | (2) | 33 597 |
| United Kingdom | 5 | 37 559 | (28) | 37 536 |
| Croatia | 1 | 294 906 | (24) | 294 883 |
| Hungary | 41 949 | 8 098 656 | (145 300) | 7 995 305 |
| Ireland | 0 | 430 | (2) | 428 |
| Italy | 1 | 1 458 | (9) | 1 450 |
| Japan | 0 | 1 602 | (1) | 1 601 |
| Lithuania | 0 | 6 512 | (1) | 6 511 |
| Luxembourg | 12 | 3 043 | (12) | 3 043 |
| Moldova | 0 | 25 243 | 0 | 25 243 |
| Montenegro | 0 | 111 834 | (23 360) | 88 474 |
| Malta | 0 | 758 494 | (2 694) | 755 800 |
| Netherlands | 1 | 4 972 | (16) | 4 957 |
| Poland | 1 | 16 118 | (6) | 16 113 |
| Romania | 10 | 216 524 | (29 102) | 187 432 |
| Serbia | 3 | 630 366 | (59 810) | 570 559 |
| Russian Federation | 4 | 221 598 | (453) | 221 149 |
| Sweden | 1 | 2 775 | (3) | 2 773 |
| Slovenia | 0 | 182 178 | (31) | 182 147 |
| Slovakia | 21 | 173 412 | (16 206) | 157 227 |
| Turkey | 2 | 360 | (2) | 360 |
| Ukraine | 6 | 315 219 | (208 713) | 106 512 |
| United States | 12 | 24 253 | (27) | 24 238 |
| Other | 14 | 4 100 | (21) | 4 093 |

### Chart 81: Overview of CRM techniques

| (in HUF million) | Exposures unsecured - Carrying amount | Exposures to be secured | Exposures secured by collateral | Exposures secured by financial guarantees | Exposures secured by credit derivatives |
|---|---|---|---|---|---|
| Total loans | 11 868 979 | 623 627 | 128 955 | 494 672 | 0 |
| Total debt securities | 0 | 0 | 0 | 0 | 0 |
| **Total exposures** | **11 868 979** | **623 627** | **128 955** | **494 672** | **0** |
| Of which defaulted | 26 363 | 4 199 | 563 | 3 636 | 0 |

Note: The table contains exposures secured by financial collaterals and guarantees. Exposures secured by mortgage collaterals are included in "Exposures unsecured" column.

## II.5. Use of External Credit Assessment Institutions

### Chart 82: Exposures broken down by credit quality steps (CQS) of obligors

| | Risk weight | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (in HUF million) | 0% | 4% | 10% | 20% | 35% | 50% | 75% | 100% | 150% | 250% | Total | Of which unrated |
| Exposures to central governments or central banks | 2 879 579 | 16 043 | 6 511 | 37 217 | 0 | 118 477 | 0 | 16 888 | 0 | 0 | 3 074 715 | 3 074 715 |
| Exposures to regional governments or local authorities | 0 | 0 | 67 686 | 0 | 0 | 0 | 0 | 485 | 0 | 0 | 68 171 | 68 171 |
| Exposures to public sector entities | 28 373 | 0 | 0 | 0 | 0 | 0 | 0 | 23 070 | 0 | 0 | 51 443 | 51 443 |
| Exposures to multilateral development banks | 4 688 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4 688 | 0 |
| Exposures to international organisation | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exposures to institutions | 1 620 113 | 0 | 285 335 | 0 | 0 | 204 692 | 0 | 375 347 | 0 | 0 | 2 485 487 | 2 346 002 |
| Exposures to corporates | 50 910 | 0 | 0 | 0 | 0 | 0 | 0 | 2 148 123 | 4 | 0 | 2 199 037 | 2 134 744 |
| Retail exposures | 0 | 0 | 0 | 0 | 0 | 0 | 547 853 | 0 | 0 | 0 | 547 853 | 547 853 |
| Exposures secured by mortgages on immovable property | 0 | 0 | 0 | 0 | 93 862 | 91 099 | 21 108 | 348 011 | 0 | 0 | 554 080 | 554 079 |
| Exposures in default | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 21 384 | 4 411 | 0 | 25 795 | 25 794 |
| Exposures associated with particularly high risk | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 536 731 | 0 | 1 536 731 | 1 536 731 |
| Exposures in the form of covered bonds | 135 765 | 0 | 0 | 0 | 0 | 84 311 | 0 | 0 | 0 | 0 | 220 076 | 220 076 |
| Exposures to institutions and corporates with a short-term credit assessment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exposures in the form of units or shares in collective investment undertakings ('CIUs') | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 17 100 | 0 | 0 | 17 100 | 17 100 |
| Equity exposures | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 50 794 | 0 | 33 364 | 84 158 | 84 158 |
| Other items | 196 795 | 0 | 85 | 0 | 0 | 0 | 0 | 109 778 | 0 | 209 | 306 867 | 306 867 |
| **Total** | **4 916 223** | **16 043** | **359 617** | **37 217** | **93 862** | **498 579** | **568 961** | **3 110 980** | **1 541 146** | **33 573** | **11 176 201** | **10 967 733** |

Note: „Of which unrated" column contains the expousres which do not have external credit ratings

## II.6. Capital requirement for operational risks

Capital requirement for operational risk of OTP Bank amounted to HUF 31,569 million on 31st December 2019, which was determined by advanced measurement approaches.

**Chart 83: Capital requirement for operational risks on 31st December 2019:**

| Operational risk capital requirement's breakdown based on methods (in HUF million) | |
|---|---|
| Basic Indicator Approach | 0 |
| Standardised Approach | 0 |
| Alternative Standardised Approach | 0 |
| Advanced Measurement Approach | 31 569 |
| **Total** | **31 569** |

## II.7. Equity exposures not included in the trading book on 31 December 2019

**Chart 84: Equity exposures not included in the trading book accordint to IFRS on 31 December 2019**

| Num-ber | Entity | Balance sheet value (in HUF million) | Listed (Exchanged-traded) |
|---|---|---|---|
| 1 | ABE Clearing SAS | 0 | No |
| 2 | Air-Invest Ltd. | 11 257 | No |
| 3 | BALANSZ Real Estate Institute Fund | 29 150 | No |
| 4 | BANK CENTER No. 1. Ltd. | 26 063 | No |
| 5 | Banka OTP Albania SHA | 11 865 | No |
| 6 | Budapest Stock Exchange Ltd. | 123 | No |
| 7 | CIL Babér Ltd. | 6 824 | No |
| 8 | Crnogorska Komercijalna Banka a.d. | 49 460 | No |
| 9 | DSK Bank EAD | 280 692 | No |
| 10 | Financial Research Corporation | 0 | No |
| 11 | Garantiqa Credit Guarantee Closed Co. Ltd. | 270 | No |
| 12 | HAGE Ltd. | 135 | No |
| 13 | INGA KETTŐ Ltd. | 17 892 | No |
| 14 | JSC "OTP Bank" (Russia) | 74 335 | No |
| 15 | KÖZVIL Ltd. | 0 | No |
| 16 | LLC AllianceReserve | 50 074 | No |
| 17 | Mátrai Pow er Plant Closed Company Limited by Share | 0 | No |
| 18 | Merkantil Bill and Property Investments Bank Ltd. | 23 663 | No |
| 19 | Mobiasbanca - OTP Group S.A. | 24 159 | No |
| 20 | MONICOMP Ltd. | 9 065 | No |
| 21 | OTP Bank JSC (Ukraine) | 103 994 | No |
| 22 | OTP Bank Romania S.A. | 105 412 | No |
| 23 | OTP Banka Hrvatska d.d. | 205 349 | No |
| 24 | OTP Banka Slovensko a.s. | 16 485 | Yes |
| 25 | OTP Banka Srbija AD. Beograd | 127 140 | No |
| 26 | OTP Building Society Ltd. | 1 266 | No |
| 27 | OTP Card Factory Ltd. | 450 | No |
| 28 | OTP Close Building Society | 1 950 | No |
| 29 | OTP Digitális Fund | 2 997 | No |
| 30 | OTP-DayOne Magvető Fund | 290 | No |
| 31 | OTP Factoring Ltd. | 25 411 | No |
| 32 | OTP Financing Cyprus Company Limited | 301 | No |
| 33 | OTP Financing Malta Ltd. | 31 | No |
| 34 | OTP Financing Netherlands B.V. | 481 | No |
| 35 | OTP Fund Management Ltd. | 1 653 | No |
| 36 | OTP Funds Servicing and Consulting Company Ltd. | 2 469 | No |
| 37 | OTP Holding Ltd. | 2 000 | No |
| 38 | OTP Holding Malta Ltd. | 32 359 | No |
| 39 | OTP Hungaro-Project Ltd. | 1 929 | No |
| 40 | OTP Ingatlanüzemeltető Ltd. | 15 | No |
| 41 | OTP Kockázati Fund | 525 | No |
| 42 | OTP Life Annuity Real Estate Investment Ltd. | 4 331 | No |
| 43 | OTP Osiguranje A.D.O. Beograd | 701 | No |
| 44 | OTP Mortgage Bank Ltd. | 89 198 | No |
| 45 | OTP Real Estate Investment Fund Management Ltd. | 1 352 | No |
| 46 | OTP Real Estate Ltd. | 4 466 | No |
| 47 | Overdose Vagyonkezelő Ltd. "u.v.l." | 0 | No |
| 48 | PortfoLion Venture Capital Fund Management Ltd. | 3 513 | No |
| 49 | Portfolion Regionális Fund | 5 008 | No |
| 50 | Portfolion Zöld Fund | 821 | No |
| 51 | R.E. Four d.o.o., Novi Sad | 594 | No |
| 52 | SC Cefin Real Estate Kappa SRL | 0 | No |
| 53 | SKB Banka d.d. Ljubljana | 107 372 | No |
| 54 | S.W.I.F.T. SCRL | 0 | No |
| 55 | VISA Incorporated | 4 735 | No |
| 56 | Vojvodjanska Banka a.d. Novi Sad | 77 782 | No |

OTP Bank’s individual gains arising from sales and liquidations relating to exposures in equities not included in the trading book for the year ended 31 December 2019 were 8,607 million HUF.

## II.8. Exposure to interest rate risk on positions not included in the trading book

Asset-Liability Directorate measures banking book interest rate risk exposure monthly, and also presents it as part of the consolidated exposure to the management with the same frequency.

The size and direction of the exposure is determined based on sensitivity analysis mainly.

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 analysis were prepared by assuming only the adversing interest rate changes. The main assumptions were as follows:

- Floating-rate assets and liabilities were repriced to the modeled 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.
- The assets and liabilities with interest rate lower than 0.3% assumed to be unchanged during the whole period.

The sensitivity of interest income to changes in BUBOR was analyzed assuming two interest rate path scenarios:

- HUF base rate stays unchanged and BUBOR decreases gradually to 0.0% (scenario 1)
- HUF base rate stays unchanged and BUBOR decreases gradually by 50 bps over the next year (scenario 2)

The net interest income in a one year period after January 1, 2020 would be decreased by HUF 1 261 million (scenario 1) and HUF 3 256 million (scenario 2) as a result of these simulation. This effect is counterbalanced by capital gains (HUF 223 million for scenario 1, HUF 2 670 million for scenario 2) on the government bond portfolio held for hedging.

Furthermore, the effects of an instant 10 bp parallel shift of the HUF, EUR and USD yield-curves on net interest income over a one-year period and on the market value of the hedge government bond portfolio booked against capital was analyzed. The results can be summarized as follows (HUF million):

**Chart 85: The effects of an instant 10 bp parallel shift of the HUF, EUR and USD yield-curves on net interest income over a one-year period and on the market value of the hedge government bond portfolio booked against capital**

| Description (in HUF million) | Effects to the net interest income (1Year period) | (Price change of AFS government bonds) |
|---|---|---|
| HUF -0.1% parallel shift | (1 793) | 558 |
| EUR -0.1% parallel shift | (673) | 0 |
| USD -0.1% parallel shift | (104) | 0 |
| **Total** | **(2 570)** | **558** |

## II.9. Disclosure of encumbered and unencumbered assets

### Chart 86: The encumbered and unencumbered assets in carrying and fair value amounts by broad categories of asset type

| (in HUF million) | Carrying amount of encumbered assets | Fair value of encumbered assets | Carrying amount of unencumbered assets | Fair value of unencumbered assets |
|---|---|---|---|---|
| **Assets of the reporting institution** | **820 081** | | **9 013 241** | |
| Equity instruments | 0 | 0 | 45 527 | 45 526 |
| Debt securities | 720 327 | 760 881 | 2 264 415 | 2 296 603 |
| Other assets | 0 | | 1 916 797 | |

### Chart 87: Collateral received, by broad categories of product type

| (in HUF million) | Fair value of encumbered collateral received or own debt securities issued | Fair value of collateral received or own debt securities issued available for encumbrance |
|---|---|---|
| **Collateral received by the reporting institution** | **0** | **87 979** |
| Equity instruments | 0 | 0 |
| Debt securities | 0 | 40 044 |
| Other collateral received | 0 | 47 935 |
| **Own debt securities issued other than own covered bonds or ABSs** | **0** | **0** |

### Chart 88: Encumbered assets/collateral received and associated liabilities

| (in HUF million) | Matching liabilities, contingent liabilities or securities lent | Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered |
|---|---|---|
| **Carrying amount of selected financial liabilities** | **815 624** | **810 019** |

### Information on importance of encumbrance

The encumbrances of OTP Bank's assets and collaterals received mostly arise from the derivatives, repurchase agreements, and from the funds granted by the MNB's Funding for Growth Scheme and covered loans provided by the MNB. Typically, the collateral for repo transactions is HUF-denominated government bonds issued by the Hungarian government while the covered loan provided by the MNB is secured by mortgage bonds. The collateral for the central bank funding (the MNB's Funding for Growth Scheme) is partly the loans refinanced by the funds, and in part the mortgage bonds issued by OTP Mortgage Bank, which are in OTP Bank's books. The encumbrances caused by derivative deals largely arise from CIRS transactions, the market value of which may fluctuate depending on the foreign exchange rate (however, this exposure has greatly decreased after the conversion of foreign currency mortgage loans into HUF-loans). The value of other encumbrances (e.g. collaterals from securities lending, and collaterals for VISA/MasterCard) is insignificant compared to the Bank's securities portfolio.

The Bank's repo stock significantly increased in 2019 (from HUF 280 billion to HUF 463 billion) and there was HUF 130 billion of covered loans provided by the MNB. On the other hand, the value of encumbrances coming from the Funding for Growth Scheme's funds has decreased by HUF 28 billion.

At the end of the year there was not significant over-collateralization in any case of instruments.

The ISDA/CSA agreement regulates how to define the value of the collateral behind derivative transactions for all major partners. In the case of derivative transactions, if the total current market value of the derivative transactions with a partner, as calculated by the calculation agent, is negative, then the value that corresponds to the negative NPV shall be placed on the partner's margin account.

In respect of the items recognized under other assets in the balance sheet, OTP Bank does not consider its cash balance, intangible assets, tangible assets, or inventories subject to encumbrance.

## II.10. Liquidity risk

### Chart 89: Liquidity coverage ratio

| | Description | Total unweighted value (average) | Total weighted value (average) |
|---|---|---|---|
| (in HUF million) | | 31.12.2019 | 31.12.2019 |
| **Number of data points used in the calculation of averages** | | 12 | 12 |
| **HIGH-QUALITY LIQUID ASSETS** | | | |
| 1. | Total high-quality liquid assets (HQLA) | | 2 586 751 |
| **CASH – OUTFLOWS** | | | |
| 2. | Retail deposits and deposits from small business customers, of which: | 3 642 291 | 220 444 |
| 3. | *Stable deposits* | 3 114 490 | 155 724 |
| 4. | *Less stable deposits* | 527 801 | 64 720 |
| 5. | Unsecured wholesale funding | 2 381 903 | 1 347 365 |
| 6. | *Operational deposits (all counterparties) and deposits in networks of cooperative banks* | 5 | 1 |
| 7. | *Non-operational deposits (all counterparties)* | 2 379 670 | 1 345 136 |
| 8. | *Unsecured debt* | 2 228 | 2 228 |
| 9. | Secured wholesale funding | | 0 |
| 10. | Additional requirements | 1 325 659 | 300 438 |
| 11. | *Outflows related to derivative exposures and other collateral requirements* | 21 270 | 21 270 |
| 12. | *Outflows related to loss of funding on debt products* | 0 | 0 |
| 13. | Credit and liquidity facilities | 1 304 389 | 279 168 |
| 14. | Other contractual funding obligations | 76 684 | 55 121 |
| 15. | Other contingent funding obligations | 1 102 294 | 27 061 |
| 16. | TOTAL CASH OUTFLOWS | 8 528 831 | 1 950 429 |
| **CASH – INFLOWS** | | | |
| 17. | *Secured lending (e.g. reverse repos)* | 63 994 | 184 |
| 18. | *Inflows from fully performing exposures* | 450 817 | 409 216 |
| 19. | *Other cash inflows* | 9 793 | 9 793 |
| EU-19a | *{Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies}* | | 0 |
| EU-19b | *{Excess inflows from a related specialised credit institution}* | | 0 |
| 20. | **TOTAL CASH INFLOWS** | 524 603 | 419 193 |
| EU-20a | ***Fully exempt inflows*** | 0 | 0 |
| EU-20b | ***Inflows subject to 90% cap*** | 0 | 0 |
| EU-20c | ***Inflows subject to 75% cap*** | 524 603 | 419 193 |
| | | | **TOTAL ADJUSTED VALUE** |
| 21. | **LIQUIDITY BUFFER** | | 2 586 751 |
| 22. | **TOTAL NET CASH OUTFLOWS** | | 1 531 236 |
| 23. | **LIQUIDITY COVERAGE RATIO (%)** | | 170% |

## II.11. Regional distribution of the Bank's activity, return on assets ratio

**Chart 90: Regional distribution of the Bank's activity, return on assets ratio**

| Description<br>(in HUF million) | OTP Total<br>year 2019 | Branch (Germany)<br>year 2019 | Without Branch (Hungary)<br>year 2019 |
|---|---|---|---|
| Turnover | 508 682 | 5 | 508 677 |
| Profit or loss before tax | 203 194 | 7 | 203 187 |
| Tax on profit or loss | 179 371 | 6 | 179 365 |
| Public subsidies received | 0 | 0 | 0 |
| Number of employees on a full time basis | 8 441 | 1 | 8 440 |
| Return on assets | 2.07% | | |

## II.12. Shareholders with significant investment in OTP Bank

The OTP Bank had no shareholders with significant investment on 31st December 2019.

# III. OTP Mortgage Bank

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

## III.1. Corporate governance

### Chart 91: The number of directorships of OTP Mortgage Bank's chief executives*

| Members of the Board of Directors | Number of directorship (according to CRR Art. 435. paragraph (2)) outside OTP Group | in OTP Group* |
|---|---|---|
| Antal György KOVÁCS | - | 5 |
| András BECSEI | 1 | 1 |
| Attila KOVÁCS | - | 2 |
| Zoltán ROSKÓ | - | - |
| Csaba NAGY | - | 3 |
| Ákos Ferenc FISCHL | - | 1 |
| Anna FLOROVA | - | 4 |

*with the exception of directorships held at OTP Mortgage Bank

| Members of the Supervisory Board | Number of directorship (according to CRR Art. 435. paragraph (2)) outside OTP Group | in OTP Group* |
|---|---|---|
| Győző NYITRAI | 1 | 4 |
| Ágota SELYMESI | - | - |
| Zoltán KORMOS | - | 3 |

*with the exception of directorships held at OTP Mortgage Bank

*The number of directorships includes the membership of Board of Directors and the Supervisorry Bouard as well

### Chart 92: Board members' education data

| Board of Directors | |
|---|---|
| **Antal György KOVÁCS** | |
| University of Economics, Budapest | MSc in Economics (1985) |
| **András BECSEI** | |
| University of Economics, Budapest | MSc in Economics (2001) |
| **Attila KOVÁCS** | |
| University of Economics, Budapest | MSc in Economics (2001) |
| **Zoltán ROSKÓ** | |
| University of Economics, Budapest | Economics, Law (1995) |
| **Csaba NAGY** | |
| College of Finance and Accounting | BSc in Economics (1993) |
| **Ákos Ferenc FISCHL** | |
| Szent István University | MSc in Agricultural Engineering (2002) |
| University of Technology and Economics, Budapest | MSc in Real Estate (2006) |
| University of Technology and Economics, Budapest | MSc in Construction Industry Judicial Expertise (2009) |
| **Anna FLOROVA MITKOVA** | |
| G.V. Plehanov University of Economics, Moscow | MSc in Economics (1989) |
| University of Economics, Postgradual Department, Budapest | MSc in Economics with bank management specilization (1996) |

| Supervisory Board | |
|---|---|
| **Győző NYITRAI** | |
| University of Economics, Budapest | MSc in Economics – finance specialization (1997) |
| | State broker exam (1996) |
| European Federation of Financial Analyst Societies | Investment Analyst Diploma (2000) |
| **Ágota SELYMESI** | |
| College of Finance and Accounting | BSc in Finance (1973) |
| Ministry of Finance, Budapest | Tax advisor (1989) |
| | Chartered accountant (1995) |
| Penta Unió Education Centre | Certified Tax expert (International Taxation) (2004) |
| **Kormos Zoltán** | |
| University of Economics, Budapest | MSc in Economics (2002) |
| Controll Training Továbbképző Központ Kft. | IT sytem specialist (2004) |

## III.2. Regulatory capital and capital requirements

### III.2.1. Capital adequacy of OTP Mortgage Bank

The capital requirement calculation of OTP Mortgage Bank for the end of 2019 is based on IFRS and audited data.

OTP Mortgage Bank applied standardized capital calculation method regarding credit and market risk, advanced measurement approach (AMA) regarding the operational risk. OTP Mortgage Bank regulatory capital requirement as of end of December 2019 was HUF 43,895 million, the amount of regulatory capital was HUF 90,897 million. The capital adequacy ratio calculated in line with article 92 of CRR stood at 16.6%.

**Chart 93: OTP Mortgage Bank's overview of RWAs**

| | RWAs | Minimum capital requirements |
|---|---|---|
| **(in HUF million)** | **31.12.2019** | **31.12.2019** |
| **Credit risk (excluding CCR)** | **525 344** | **42 028** |
| Of which the standardised approach | 525 344 | 42 028 |
| **CCR** | **0** | **0** |
| Of which mark to market | 0 | 0 |
| Of which CVA | 0 | 0 |
| **Market risk** | **0** | **0** |
| Of which the standardised approach | 0 | 0 |
| **Operational risk** | **23 340** | **1 867** |
| Of which basic indicator approach | 0 | 0 |
| Of which advances measurement approach | 23 340 | 1 867 |
| **Total** | **548 684** | **43 895** |

Note: The credit risk RWA is calculated according to 2017/2395 EU regulation, including the effect of transitional arrangements for mitigating the impact of the introduction of IFRS 9 and the correction in accordance with the Article 1. (7) paragraph b) point

**Chart 94: Credit risk exposure and CRM effects on 31st December 2019**

| (in HUF million) | Exposures before CCF and CRM | | Exposures post CCF and CRM | | RWAs and RWA density | |
|---|---|---|---|---|---|---|
| | On-balance sheet amount | Off-balance sheet amount | On-balance sheet amount | Off-balance sheet amount | RWAs | RWA density |
| Exposures to central governments or central banks | 5 099 | 0 | 29 575 | 0 | 0 | 0.00% |
| Exposures to regional governments or local authorities | 0 | 0 | 0 | 0 | 0 | 0.00% |
| Exposures to public sector entities | 18 921 | 0 | 18 921 | 0 | 0 | 0.00% |
| Exposures to multilateral development banks | 0 | 0 | 0 | 0 | 0 | 0.00% |
| Exposures to international organisation | 0 | 0 | 0 | 0 | 0 | 0.00% |
| Exposures to institutions | 31 809 | 2 473 | 31 809 | 494 | 395 | 1.22% |
| Exposures to corporates | 2 259 | 0 | 2 259 | 0 | 1 844 | 81.63% |
| Retail exposures | 25 831 | 32 837 | 2 101 | 16 419 | 13 482 | 72.80% |
| Exposures secured by mortgages on immovable property | 1 239 278 | 12 380 | 1 239 279 | 6 190 | 491 001 | 39.42% |
| Exposures in default | 15 067 | 318 | 14 320 | 159 | 15 800 | 109.12% |
| Exposures associated w ith particularly high risk | 420 | 0 | 420 | 0 | 630 | 150.00% |
| Exposures in the form of covered bonds | 0 | 0 | 0 | 0 | 0 | 0.00% |
| Exposures to institutions and corporates w ith a short-term credit assessment | 0 | 0 | 0 | 0 | 0 | 0.00% |
| Exposures in the form of units or shares in collective investment undertakings ('CIUs') | 0 | 0 | 0 | 0 | 0 | 0.00% |
| Equity exposures | 1 577 | 0 | 1 577 | 0 | 1 577 | 100.00% |
| Other items | 615 | 0 | 615 | 0 | 615 | 100.00% |
| **Total** | **1 340 876** | **48 008** | **1 340 876** | **23 262** | **525 344** | **38.51%** |

In calculating credit risk capital requirement OTP Mortgage Bank took into consideration the guarantees of Hungarian central government as credit risk mitigation at the end of 2019.

## III.2.2. Information about disclosure requirements related to the regulatory capital in line with Commission Implementing Regulation (EU) No. 1423/2013

### Chart 95: Mapping of financial statement categories with regulatory categories

| Description (in HUF million) | Carrying values as reported in published financial statements | Carrying values of items: Subject to the credit risk framework | Subject to the CCR framework | Subject to the securitisation framework | Subject to the market risk framework | Not subject to capital requirements or subject to deduction from capital |
|---|---|---|---|---|---|---|
| Cash, amounts due from banks and balances with the National Banks | 2 111 | 2 111 | 0 | 0 | 0 | 0 |
| Placements with other banks, net of allowance for placement losses | 135 963 | 135 963 | 0 | 0 | 0 | 0 |
| Repo receivables | 0 | 0 | 0 | 0 | 0 | 0 |
| Financial assets at fair value through profit or loss | 0 | 0 | 0 | 0 | 0 | 0 |
| Financial assets at fair value through other comprehensive income | 18 922 | 18 922 | 0 | 0 | 0 | 19 |
| Loans | 1 179 515 | 1 179 515 | 0 | 0 | 0 | 0 |
| Securities at amortised cost | 0 | 0 | 0 | 0 | 0 | 0 |
| Investment properties | 0 | 0 | 0 | 0 | 0 | 0 |
| Investments in subsidiaries | 1 997 | 1 997 | 0 | 0 | 0 | 0 |
| Intangible assets | 184 | 0 | 0 | 0 | 0 | 184 |
| Property and equipment | 22 | 22 | 0 | 0 | 0 | 0 |
| Right-of-use assets | 276 | 276 | 0 | 0 | 0 | 0 |
| Derivative financial assets designated as hedge accounting relationships | 229 | 0 | 0 | 0 | 229 | 0 |
| Deferred tax assets | 0 | 0 | 0 | 0 | 0 | 0 |
| Other assets | 2 070 | 2 070 | 0 | 0 | 0 | 0 |
| **TOTAL ASSETS** | **1 341 289** | **1 340 876** | **0** | **0** | **229** | **203** |
| Amounts due to banks, the National Governments, deposits from the National Banks and other banks | 676 962 | 0 | 0 | 0 | 0 | 676 962 |
| Deposits from customers | 0 | 0 | 0 | 0 | 0 | 0 |
| Repo liabilities | 0 | 0 | 0 | 0 | 0 | 0 |
| Liabilities from issued securities | 569 344 | 0 | 0 | 0 | 0 | 569 344 |
| Subordinated bonds and loans | 0 | 0 | 0 | 0 | 0 | 0 |
| Financial liabilities at fair value through profit or loss | 0 | 0 | 0 | 0 | 0 | 0 |
| Held for trading derivative financial liabilities | 0 | 0 | 0 | 0 | 0 | 0 |
| Derivative financial liabilities designated as hedge accounting relationships | 822 | 0 | 0 | 0 | 0 | 822 |
| Deferred tax liabilities | 108 | 0 | 0 | 0 | 0 | 108 |
| Leasing liabilities | 280 | 0 | 0 | 0 | 0 | 280 |
| Other liabilities | 9 412 | 0 | 0 | 0 | 0 | 9 412 |
| **TOTAL LIABILITIES** | **1 256 928** | **0** | **0** | **0** | **0** | **1 256 928** |

### Chart 96: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

| Description (in HUF million) | Total | Items subject to: Credit risk framework | CCR framework | Securitisation framework | Market risk framework |
|---|---|---|---|---|---|
| **Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)** | 1 341 289 | 1 340 876 | 0 | 0 | 229 |
| Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1) | 1 256 928 | 0 | 0 | 0 | 0 |
| Total net amount under the regulatory scope of condsolidation | 84 361 | 0 | 0 | 0 | 0 |
| Off-balance sheet amounts | 48 008 | 23 262 | 0 | 0 | 0 |
| Non deducted from regulatory capital, capital requirement increase elements | 0 | 0 | 0 | 0 | 0 |
| Differences because the transitional arrangements related to IFRS 9 or analogous ECLs* | 0 | 0 | 0 | 0 | 0 |
| **Exposure amounts considered for regulatory purposes** | 1 364 367 | 1 364 138 | 0 | 0 | 229 |

* Calculated according to 2017/2395 EU regulation

Due to the COVID 19 pandemia, in order to strengthen the banking system, Hungarian National Bank requests banks to make sure that dividends are neither approved, nor paid until the 30.09.2020. In this document the regulatory capital is presented In line with the request of the National Bank and dividend payment is not taken into account in the regulatory capital[3].

**Chart 97: OTP Mortgage Bank's regulatory capital on 31st December 2019**

| **Total regulatory capital**<br>**(in HUF million)** | **31.12.2019** | **Cross reference to rows of transitional own funds disclosure template** |
|---|---|---|
| Share capital | 37 000 | (1) |
| Retained earnings | 22 157 | (2) |
| Accumulated other comprehensive income and other reserves | (1 968) | (3) |
| Balance sheet profit or loss | 27 172 | (2) |
| Intangible assets (-) | (184) | (8) |
| Prudential filters | (20) | (7) |
| Deferred tax assets | 0 | (10) |
| Other transitional adjusments (1) | 6 740 | (26) |
| **Common Equity Tier 1 capital** | **90 897** | (29) |
| **Total Tier 1 capital** | **90 897** | (45) |
| Subordinated debt | 0 | |
| **Total Tier 2 capital** | **0** | (58) |
| **Total regulatory capital** | **90 897** | (59) |

(1) Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds according to 2017/2395 EU regulation.

[3] https://www.mnb.hu/en/pressroom/press-releases/press-releases-2020/the-mnb-takes-several-measures-to-support-the-operation-of-banks (21.04.2020)

## Chart 98: Breakdown of regulatory capital including transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds in accordance with 2017/2395 EU regulation

| | Common Equity Tier 1 capital: instruments and reserves (in HUF million) | (A) 31.12.2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 1 | Capital instruments and the related share premium accounts | 37 000 | 26 (1), 27, 28, 29, EBA list 26 (3) | |
| | of which: share | 37 000 | EBA list 26 (3) | |
| 2 | Retained earnings (1) | 49 329 | 26 (1) (c) | |
| 3 | Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards) | (1 968) | 26 (1) | |
| 3a | Funds for general banking risk | 0 | 26 (1) (f) | |
| 4 | Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1 | 0 | 486 (2) | |
| 5 | Minority interests (amount allowed in consolidated CET1) | 0 | 84, 479, 480 | |
| 5a | Independently reviewed interim profits net of any foreseeable charge or dividend | 0 | 26 (2) | |
| **6** | **Common Equity Tier 1 (CET1) capital before regulatory adjustments** | **84 360** | | |

| | Common Equity Tier 1 (CET1) capital: regulatory adjustments (in HUF million) | (A) 31.12.2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 7 | Additional value adjustments (negative amount) | (20) | 34, 105 | |
| 8 | Intangible assets (net of related tax liability) (negative amount) | (184) | 36 (1) (b), 37, 472 (4) | |
| 10 | Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount) | 0 | 36 (1) (c), 38, 472 (5) | |
| 11 | Fair value reserves related to gains or losses on cash flow hedges | | 33 (1) (a) | |
| 12 | Negative amounts resulting from the calculation of expected loss amounts | | 36 (1) (d), 40, 159, 472 (6) | |
| 13 | Any increase in equity that results from securitised assets (negative amount) | | 32 (1) | |
| 14 | Gains or losses on liabilities valued at fair value resulting from changes in own credit standing | | 33 (1) (b) | |
| 15 | Defined-benefit pension fund assets (negative amount) | | 36 (1) (e), 41, 472 (7) | |
| 16 | Direct and indirect holdings by an institution of own CET1 instruments (negative amount) | | 36 (1) (f), 42, 472 (8) | |
| 17 | Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negatvie amount) | | 36 (1) (g), 44, 472 (9) | |
| 18 | Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | | 36 (1) (h), 43, 45, 46, 49 (1)-(3), 79, 472 (10) | |
| 19 | Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | | 36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1)-(3), 79, 470, 472 (11) | |

| | **Common Equity Tier 1 (CET1) capital: regulatory adjustments (in HUF million) (continuation)** | **(A) 31.12.2019** | **(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE** | **(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013** |
|---|---|---|---|---|
| 20a | Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative | | 36 (1) (k) | |
| 20b | of which: qualifying holdings outside the financial sector (negative amount) | | 36 (1) (k) (i), 89 to 91 | |
| 20c | of which: securitisation positions (negative amount) | | 36 (1) (k) (ii)<br>243 (1) (b)<br>244 (1) (b)<br>258 | |
| 20d | of which: free deliveries (negative amount) | | 36 (1) (k) (iii), 379 (3) | |
| 21 | Deferred tax assets arising from temporary difference (amount above 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met) (negative amount) | | 36 (1) (c), 38, 48 (1) (a), 470, 472 (5) | |
| 22 | Amount exceeding the 15% threshold (negative amount) | | 48 (1) | |
| 23 | of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities | | 36 (1) (i), 48 (1) (b), 470, 472 (11) | |
| 25 | of which: deferred tax assets arising from temporary difference | | 36 (1) (c), 38, 48 (1) (a), 470, 472 (5) | |
| 25a | Losses for the current financial year (negative amount) | | 36 (1) (a), 472 (3) | |
| 25b | Foreseeable tax charges relating to CET1 items (negative amount) | | 36 (1) (l) | |
| 26 | Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment (2) | 6 740 | | |
| 27 | Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount) | | 36 (1) (j) | |
| 28 | Total regulatory adjustments to Common Equity Tier 1 (CET1) | 6 536 | | |
| 29 | **Common Equity Tier 1 (CET1) capital** | **90 897** | | |

| | **Additional Tier 1 (AT1) capital: instruments (in HUF million)** | **(A) 31.12.2019** | **(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE** | **(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013** |
|---|---|---|---|---|
| 30 | Capital instruments and the related share premium accounts | | 51, 52 | |
| 31 | of which: classified as equity under applicable accounting standards | | | |
| 32 | of which: classified as liabilities under applicable accounting standards | | | |
| 33 | Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1 | | 486 (3) | |
| 34 | Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties | | 85, 86, 480 | |
| 35 | of which: instruments issued by subsidiaries subject to phase-out | | 486 (3) | |
| 36 | **Additional Tier 1 (AT1) capital before regulatory adjustments** | **0** | | |

| | Additional Tier 1 (AT1) capital: regulatory adjustments (in HUF million) | (A) 31.12.2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 37 | Direct and indirect holdings by an institution of own AT1 instruments (negative amount) | | 52 (1) (b), 56 (a), 57, 475 (2) | |
| 38 | Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | | 56 (b), 58, 475 (3) | |
| 39 | Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | | 56 (c), 59, 60, 79, 475 (4) | |
| 40 | Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | | 56 (d), 59, 79, 475 (4) | |
| 42 | Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount) | | 56 (e) | |
| 43 | **Total regulatory adjustments to Additional Tier 1 (AT1) capital** | **0** | | |
| 44 | **Additional Tier 1 (AT1) capital** | **0** | | |
| 45 | **Tier 1 capital (T1 = CET1 + AT1)** | **90 897** | | |

| | Tier 2 (T2) capital: instruments and provisions (in HUF million) | (A) 31.12.2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 46 | Capital instruments and the related share premium accounts | 0 | 62, 63 | |
| 47 | Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2 | | 486 (4) | |
| 48 | Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party | | 87, 88, 480 | |
| 49 | of which: instruments issued by subsidiaries subject to phase-out | | 486 (4) | |
| 50 | Credit risk adjustments | | 62 (c) & (d) | |
| 51 | **Tier 2 (T2) capital before regulatory adjustment** | **0** | | |

| | Tier 2 (T2) capital: regulatory adjustments (in HUF million) | (A) 31.12.2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 52 | Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount) | | 63 (b) (i), 66 (a), 67, 477 (2) | |
| 53 | Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount) | | 66 (b), 68, 477 (3) | |
| 54 | Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount) | | 66 (c), 69, 70, 79, 477 (4) | |
| 55 | Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts) | | 66 (d), 69, 79, 477 (4) | |
| 57 | **Total regulatory adjustments to Tier 2 (T2) capital** | **0** | | |
| 58 | **Tier 2 (T2) capital** | **0** | | |
| 59 | **Total capital (TC = T1 + T2)** | **90 897** | | |
| 59a | Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amount) | | 472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b), 475, 475 (2) (b), 475 (2) (c), 475 (4) (b), 477, 477 (2) (b), 477 (2) (c), 477 (4) (b) | |
| 60 | **Total risk weighted assets** | **548 684** | | |

| | Capital ratios and buffers (in HUF million) | (A) 31.12.2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 61 | **Common Equity Tier 1 (as a percentage of total risk exposure amount)** | **16.57%** | 92 (2) (a), 465 | |
| 62 | **Tier 1 (as a percentage of total risk exposure amount)** | **16.57%** | 92 (2) (b), 465 | |
| 63 | **Total capital (as a percentage of total risk exposure amount)** | **16.57%** | 92 (2) (c) | |
| 64 | Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of total risk exposure amount) | 7.000% | CRD 128, 129, 130, 131 and 133 | |
| 65 | of which: capital conservation buffer requirement | 2.500% | | |
| 66 | of which: countercyclical buffer requirement (3) | | | |
| 67 | of which: systemic risk buffer requirement (3) | | | |
| 67a | of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer (4) | | CRD 131 | |
| 68 | Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount) | 8.57% | CRD 128 | |

| | **Amounts below the thresholds for deduction (before risk-weighting) (in HUF million)** | **(A) 31.12.2019** | **(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE** | **(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013** |
|---|---|---|---|---|
| 72 | Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | | 36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4) | |
| 73 | Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | | 36 (1) (i), 45, 48, 470, 472 (11) | |
| 75 | Deferred tax assets arising from temporary difference (amount below 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met) | | 36 (1) (c), 38, 48, 470, 472 (5) | |

| | **Applicable caps on the inclusion of provisions in Tier 2 (in HUF million)** | **(A) 31.12.2019** | **(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE** | **(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013** |
|---|---|---|---|---|
| 76 | Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap) | | 62 | |
| 77 | Cap on inclusion of credit risk adjustments in T2 under standardised approach | | 62 | |
| 78 | Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap) | | 62 | |
| 79 | Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach | | 62 | |

| | **Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022) (in HUF million)** | **(A) 31.12.2019** | **(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE** | **(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013** |
|---|---|---|---|---|
| 80 | Current cap on CET1 instruments subject to phaseout arrangements | | 484 (3), 486 (2) & (5) | |
| 81 | Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities) | | 484 (3), 486 (2) & (5) | |
| 82 | Current cap on AT1 instruments subject to phaseout arrangements | | 484 (4), 486 (3) & (5) | |
| 83 | Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) | | 484 (4), 486 (3) & (5) | |
| 84 | Current cap on T2 instruments subject to phaseout arrangements | | 484 (5), 486 (4) & (5) | |
| 85 | Amount excluded from T2 due to cap (excess over cap after redemptions and maturities) | | 484 (5), 486 (4) & (5) | |

(1) Profit for financial year 2019 is included in retained earnings.
(2) Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds according to 2017/2395 EU regulation.
(3) Capital buffer is not implemented
(4) Not relevant capital buffer

**Chart 99: The effect of the transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds in accordance with 2017/2395 EU regulation**

| IFRS 9 effect | | |
|---|---|---|
| **(in HUF million)** | | **31.12.2019** |
| **Regulatory capital** | | |
| 1 | Common Equity Tier 1 (CET1) capital | 90 897 |
| 2 | Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 84 157 |
| 3 | Tier 1 capital | 90 897 |
| 4 | Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 84 157 |
| 5 | Total capital | 90 897 |
| 6 | Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 84 157 |
| **Total risk weighted assets** | | |
| 7 | Total risk w eighted assets | 548 684 |
| 8 | Total risk-w eighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 548 684 |
| **Capital ratios** | | |
| 9 | Common Equity Tier 1 (as a percentage of total risk exposure amount) | 16.57% |
| 10 | Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 15.34% |
| 11 | Tier 1 (as a percentage of total risk exposure amount) | 16.57% |
| 12 | Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 15.34% |
| 13 | Total capital (as a percentage of total risk exposure amount) | 16.57% |
| 14 | Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 15.34% |
| **Leverage ratio** | | |
| 15 | Total exposure | 1 364 310 |
| 16 | Leverage ratio | 6.66% |
| 17 | Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 6.17% |

## III.3. Trading book market and counterparty risks (capital requirements)

**Chart 100: Trading book positions capital requirement**

| Description (in HUF million) | RWAs | Capital requirements |
|---|---|---|
| Interest rate risk (general and specific) | 0 | 0 |
| Equity risk (general and specific) | 0 | 0 |
| Foreign exchange risk | 0 | 0 |
| Commodity risk | 0 | 0 |
| Options | | |
| Simplified approach | 0 | 0 |
| Delta-plus method | 0 | 0 |
| Scenario approach | 0 | 0 |
| Securitisation (specific riks) | 0 | 0 |
| **Total** | **0** | **0** |

## III.4. Leverage

**Chart 101: Net exposure value to leverage ratio**

| | in HUF million | Applicable Amount |
|---|---|---|
| 1 | Total assets as per published financial statements | 1 341 289 |
| 2 | Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation | 0 |
| 3 | (Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013) | 0 |
| 4 | Adjustments for derivative financial instruments | 0 |
| 5 | Adjustment for securities financing transactions (SFTs) | 0 |
| 6 | Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures) | 23 262 |
| EU-6a | (Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013) | 0 |
| EU-6b | (Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013) | 0 |
| 7 | Other adjustments | (241) |
| **8** | **Leverage ratio total exposure measure** | **1 364 310** |

## Chart 102: Leverage ratio

| | in HUF million | CRR leverage ratio exposures |
|---|---|---|
| **On-balance sheet exposures (excluding derivatives and SFTs)** | | |
| 1 | On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral) | 1 340 651 |
| 2 | (Asset amounts deducted in determining Tier 1 capital) | (203) |
| **3** | **Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)** | **1 340 448** |
| **Derivative exposures** | | |
| 4 | Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin) | 118 |
| 5 | Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method) | 481 |
| EU-5a | Exposure determined under Original Exposure Method | 0 |
| 6 | Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework | 0 |
| 7 | (Deductions of receivables assets for cash variation margin provided in derivatives transactions) | 0 |
| 8 | (Exempted CCP leg of client-cleared trade exposures) | 0 |
| 9 | Adjusted effective notional amount of written credit derivatives | 0 |
| 10 | (Adjusted effective notional offsets and add-on deductions for written credit derivatives) | 0 |
| **11** | **Total derivatives exposures (sum of lines 4 to 10)** | **599** |
| **SFT exposures** | | |
| 12 | Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions | 0 |
| 13 | (Net amounts of cash payables and cash receivables of gross SFT assets) | 0 |
| 14 | Counterparty credit risk exposure for SFT assets | 0 |
| EU-14a | Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013 | 0 |
| 15 | Agent transaction exposures | 0 |
| EU-15a | (Exempted CCP leg of client-cleared SFT exposure) | 0 |
| **16** | **Total securities financing transaction exposures (sum of lines 12 to 15a)** | **0** |
| **Other off-balance sheet exposures** | | |
| 17 | Off-balance sheet exposures at gross notional amount | 48 008 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | (24 746) |
| **19** | **Other off-balance sheet exposures (sum of lines 17 and 18)** | **23 262** |
| **Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)** | | |
| EU-19a | (Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet)) | 0 |
| EU-19b | (Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet)) | 0 |
| **Capital and total exposure mesure** | | |
| 20 | Tier 1 capital | 90 897 |
| 21 | Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b) | 1 364 310 |
| **Leverage ratio** | | |
| **22** | **Leverage ratio** | **6.66%** |
| **Choice on transitional arrangements and amount of derecognised fiduciary items** | | |
| EU-23 | Choice on transitional arrangements for the definition of the capital measure | Fully phased in |
| EU-24 | Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013 | 0 |

Note: The exposures are calculated according to 2017/2395 EU regulation, including the effect of transitional arrangements for mitigating the impact of the introduction of IFRS 9 and the correction in accordance with the Article 1. (7) paragraph b) point.

There was no material change in the value of leverage ratio in 2019.

# III.5. Credit risk adjustments

## III.5.1. Methodology of valuation and provisions

The financial reports of the OTP Mortgage Bank are based on IFRS regulation. Measurement and provision allocation of assets, investments and off-balance sheet liabilities are realized according to frameworks of relevant IFRS/IAS standards.
In its regulations entitled "International Financing Reporting Standards (IFRS) valuation requirements" OTP Mortgage Bank provides detailed regulations pertaining to the measurement and provision recognition of outstanding debts, investments and off-balance sheet liabilities.

The recognized provision level reflects to the foreseeable risks and potential losses. The amount of the recognized impairment is the difference between the book value of the outstanding debt and the expected amount of the recovered debt. OTP Mortgage Bank recognizes risk provision for off-balance sheet (pending, future) liabilities on the basis of their assessment. If the measurement process reveals that the amount of the risk provision exceeds the amount required on the basis of the assessment, the excess amount of the risk provision is released.
At initial recognition the financial assets must be tested based on the business model and the contracted cash flow characteristics, based on which it can be determined according to which measurement method, specified in the IFRS 9 standard, the given asset is to be managed and valued. The assets can be allocated to the following three categories:

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

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

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

In case of the Stage 1 deals 12-month credit losses must be calculated by the expectations of the default probability, for Stage 2 and Stage 3 deals lifetime expected losses must be calculated as impairment.
Depending on the item, assessment based on the following aspects:

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

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

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

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

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

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

A credit risk exposure shall be considered as restructured:

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

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

**Portfolio (collective) assessment**

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

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

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

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

**Individual assessment**

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

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

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

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

**Chart 103: Qualified exposures and impairment**

| (in HUF million) | Accumulated specific / general credit risk adjustment |
|---|---|
| **Opening balance** | **9 604** |
| Increases due to amounts set aside for estimated loan losses during the period | 649 |
| Decreases due to amounts reversed for estimated loan losses during the period | 0 |
| Decreases due to amounts taken against accumulated credit risk adjustments | (427) |
| Transfers betw een credit risk adjustments | (4 018) |
| Impact of exchange rate differences | 0 |
| Cured from default or non-impaired | 0 |
| Other adjustments | 0 |
| **Closing balance** | **5 808** |
| Recoveries on credit risk adjustments recorded directly to the statement of profit or loss | 0 |
| Specific credit risk adjustments directly recorded to the statement of profit or loss | (25) |

**Chart 104: Changes of non-performing loan exposures**

| | (in HUF million) | Gross carrying value defaulted exposures |
|---|---|---|
| **1** | **Opening balance - 31.12.2018** | **15 259** |
| 2 | Loans and debt securities that have defaulted since the last reporting period | 3 420 |
| 3 | Returned to non-defaulted status | 3 101 |
| 4 | Amounts written-off | 0 |
| 5 | Other changes* | 1 488 |
| **6** | **Closing balance - 31.12.2019 (6 =1 + 2 - 3 - 4 + 5)** | **17 065** |

* Contains the IFRS 9 transitional difference

## III.5.2. Exposures to credit risk

The presented RWAs and exposures in this chapter are calculated according to 2017/2395 EU regulation, including the effect of transitional arrangements for mitigating the impact of the introduction of IFRS 9 and the correction in accordance with the Article 1. (7) paragraph b) point.

**Chart 105: Net exposures broken down by net exposure classes (before credit risk mitigation)**

| Exposures (in HUF million) | 31.12.2019 | 2019 Average |
|---|---|---|
| Exposures to central governments or central banks | 29 575 | 30 767 |
| Exposures to regional governments or local authorities | 0 | 118 |
| Exposures to public sector entities | 18 921 | 21 294 |
| Exposures to multilateral development banks | 0 | 0 |
| Exposures to international organisation | 0 | 0 |
| Exposures to institutions | 32 303 | 39 286 |
| Exposures to corporates | 2 259 | 909 |
| Retail exposures | 18 520 | 15 214 |
| Exposures secured by mortgages on immovable property | 1 245 469 | 1 178 469 |
| Exposures in default | 14 479 | 15 050 |
| Exposures associated w ith particularly high risk | 420 | 130 |
| Exposures in the form of covered bonds | 0 | 0 |
| Exposures to institutions and corporates w ith a short-term credit assessment | 0 | 0 |
| Exposures in the form of units or shares in collective investment undertakings ('CIUs') | 0 | 0 |
| Equity exposures | 1 577 | 1 622 |
| Other items | 615 | 611 |
| **Total** | **1 364 138** | **1 303 471** |

**Chart 106: Exposures broken down by geographical areas (by the country of obligors) on 31st December 2019**

| (in HUF million) | Exposures to central governments or central banks | Exposures to regional governments or local authorities | Exposures to public sector entities | Exposures to multilateral development banks | Exposures to international organisation | Exposures to institutions | Exposures to corporates | Retail exposures | Exposures secured by mortgages on immovable property | Exposures in default | Exposures associated with particularly high risk | Exposures in the form of covered bonds | Exposures to institutions and corporates with a short-term credit assessment | Exposures in the form of units or shares in collective investment undertakings ('CIUs') | Equity exposures | Other items | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total** | **29 575** | **0** | **18 921** | **0** | **0** | **32 303** | **2 259** | **18 520** | **1 245 469** | **14 479** | **420** | **0** | **0** | **0** | **1 577** | **615** | **1 364 138** |
| Hungary | 29 568 | 0 | 18 921 | 0 | 0 | 32 303 | 2 259 | 18 520 | 1 245 383 | 14 479 | 420 | 0 | 0 | 0 | 1 577 | 615 | 1 364 045 |
| Other country | 7 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 86 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 93 |

## Chart 107: Exposure classes broken down by counterparty type on 31st December 2019

| (in HUF million) | Exposures to central governments or central banks | Exposures to regional governments or local authorities | Exposures to public sector entities | Exposures to multilateral development banks | Exposures to international organisation | Exposures to institutions | Exposures to corporates | Retail exposures | Exposures secured by mortgages on immovable property | Exposures in default | Exposures associated with particularly high risk | Exposures in the form of covered bonds | Exposures to institutions and corporates with a short-term credit assessment | Exposures in the form of units or shares in collective investment undertakings ('CIUs') | Equity exposures | Other items | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total** | **29 575** | **0** | **18 921** | **0** | **0** | **32 303** | **2 259** | **18 520** | **1 245 469** | **14 479** | **420** | **0** | **0** | **0** | **1 577** | **615** | **1 364 138** |
| Governments | 5 099 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5 099 |
| Municipal | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Public sector entities | 0 | 0 | 18 921 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 18 921 |
| Institutions | 0 | 0 | 0 | 0 | 0 | 32 303 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 151 | 32 454 |
| Coporate | 0 | 0 | 0 | 0 | 0 | 0 | 546 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 277 | 823 |
| Corpoarte SME | 0 | 0 | 0 | 0 | 0 | 0 | 1 713 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 713 |
| Retail | 24 476 | 0 | 0 | 0 | 0 | 0 | 0 | 16 227 | 1 245 469 | 14 460 | 0 | 0 | 0 | 0 | 0 | 0 | 1 300 632 |
| Retail SME | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 293 | 0 | 19 | 0 | 0 | 0 | 0 | 0 | 0 | 2 312 |
| Equity | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 420 | 0 | 0 | 0 | 1 577 | 0 | 1 997 |
| Other* | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 187 | 187 |

* Other, not mentioned items (e. g tangible assets)

## Chart 108: Exposure classes broken down by residual maturity on 31st December 2019

| (in HUF million) | On demand | < = 1 year | > 1 year < = 5 year | > 5 year | No stated maturity | Total |
|---|---|---|---|---|---|---|
| **Total** | **0** | **37 469** | **187 618** | **1 136 715** | **2 336** | **1 364 138** |
| Exposures to central governments or central banks | 0 | 3 239 | 4 428 | 21 908 | 0 | 29 575 |
| Exposures to regional governments or local authorities | 0 | 0 | 0 | 0 | 0 | 0 |
| Exposures to public sector entities | 0 | 0 | 3 | 18 918 | 0 | 18 921 |
| Exposures to multilateral development banks | 0 | 0 | 0 | 0 | 0 | 0 |
| Exposures to international organisation | 0 | 0 | 0 | 0 | 0 | 0 |
| Exposures to institutions | 0 | 31 781 | 495 | 27 | 0 | 32 303 |
| Exposures to corporates | 0 | 353 | 73 | 1 833 | 0 | 2 259 |
| Retail exposures | 0 | 22 | 0 | 18 498 | 0 | 18 520 |
| Exposures secured by mortgages on immovable property | 0 | 2 031 | 181 422 | 1 062 016 | 0 | 1 245 469 |
| Exposures in default | 0 | 43 | 921 | 13 515 | 0 | 14 479 |
| Exposures associated w ith particularly high risk | 0 | 0 | 0 | 0 | 420 | 420 |
| Exposures in the form of covered bonds | 0 | 0 | 0 | 0 | 0 | 0 |
| Exposures to institutions and corporates w ith a short-term credit assessment | 0 | 0 | 0 | 0 | 0 | 0 |
| Exposures in the form of units or shares in collective investment undertakings ('CIUs') | 0 | 0 | 0 | 0 | 0 | 0 |
| Equity exposures | 0 | 0 | 0 | 0 | 1 577 | 1 577 |
| Other items | 0 | 0 | 276 | 0 | 339 | 615 |

## Chart 109: Aging of past-due exposures

| | Gross carrying values | | | | | |
|---|---|---|---|---|---|---|
| (in HUF million) | ≤ 30 days | > 30 days ≤ 60 days | > 60 days ≤ 90 days | > 90 days ≤ 180 days | > 180 days ≤ 1 year | > 1 year |
| Loans | 1 273 465 | 5 573 | 2 513 | 5 298 | 1 969 | 669 |
| Debt securities | 18 941 | | | | | |
| **Total exposures** | 1 292 406 | 5 573 | 2 513 | 5 298 | 1 969 | 669 |

## Chart 110: Non-performing and forborne exposures

| (in HUF million) | Gross carrying amount of performing and non-performing exposures | | | | | | | Accumulated impairment and provisions and negative fair value adjustments due to credit risk | | | | Collaterals and financial guarantees recieved | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Of which performing but past due > 30 days and <=90 days | Of which performing forborne | Of which non-performing | | | | On performing exposures | | On non-performing exposures | | On non-performing exposures | Of which forborne exposures |
| | | | | | Of which defaulted | Of which impaired | Of which forborne | | Of which forborne | | Of which forborne | | |
| Debt securities | 18 941 | | | | | | | (18) | | | | | |
| Loand and advances | 1 289 487 | 5 088 | 13 | 16 874 | 16 874 | 16 874 | 7 534 | (3 983) | (169) | (1 807) | (508) | 14 851 | 6 952 |
| Off-balance -sheet exposures | 48 526 | | 2 | 378 | 378 | 378 | 0 | (458) | 0 | -60 | 0 | 263 | 0 |

Note: Exposures according to EBA definition.

## Chart 111: Credit quality of exposures by exposure class and instrument on 31st December 2019

| (in HUF million) | Gross carrying values of | | Specific/General credit risk adjustment | Net values |
|---|---|---|---|---|
| | Defaulted exposures | Non-defaulted exposures | | |
| Exposures to central governments or central banks | 0 | 28 873 | (45) | 28 828 |
| Exposures to regional governments or local authorities | 0 | 0 | 0 | 0 |
| Exposures to public sector entities | 0 | 18 922 | (1) | 18 921 |
| Exposures to multilateral development banks | 0 | 0 | 0 | 0 |
| Exposures to international organisation | 0 | 0 | 0 | 0 |
| Exposures to institutions | 0 | 32 303 | 0 | 32 303 |
| Exposures to corporates | 3 | 2 278 | (22) | 2 259 |
| Retail exposures | 17 032 | 18 616 | (1 902) | 33 746 |
| Exposures secured by mortgages on immovable property | 0 | 1 249 306 | (3 837) | 1 245 469 |
| Exposures in default | 0 | 0 | 0 | 0 |
| Exposures associated w ith particularly high risk | 0 | 420 | 0 | 420 |
| Exposures in the form of covered bonds | 0 | 0 | 0 | 0 |
| Exposures to institutions and corporates w ith a short-term credit assessment | 0 | 0 | 0 | 0 |
| Exposures in the form of units or shares in collective investment undertakings ('CIUs') | 0 | 0 | 0 | 0 |
| Equity exposures | 0 | 1 577 | 0 | 1 577 |
| Other items | 0 | 615 | 0 | 615 |
| **Total** | **17 035** | **1 352 910** | **(5 807)** | **1 364 138** |

### Chart 112: Credit quality of exposures by counterparty types on 31st December 2019

| (in HUF million) | Gross carrying values of Defaulted exposures | Gross carrying values of Non-defaulted exposures | Specific/General credit risk adjustment | Net values |
|---|---|---|---|---|
| Governments | 0 | 5 100 | (1) | 5 099 |
| Municipal | 0 | 0 | 0 | 0 |
| Public sector entities | 0 | 18 922 | (1) | 18 921 |
| Institutions | 0 | 32 454 | 0 | 32 454 |
| Coporate | 3 | 823 | (3) | 823 |
| Corpoarte SME | 0 | 1 731 | (18) | 1 713 |
| Retail | 16 988 | 1 289 353 | (5 709) | 1 300 632 |
| Retail SME | 44 | 2 343 | (75) | 2 312 |
| Equity | 0 | 1 997 | 0 | 1 997 |
| Other* | 0 | 187 | 0 | 187 |
| **Total** | **17 035** | **1 352 910** | **(5 807)** | **1 364 138** |

* Other, not mentioned items (e. g tangible assets)

### Chart 113: Credit quality of exposures by geography on 31st December 2019

| (in HUF million) | Gross carrying values of Defaulted exposures | Gross carrying values of Non-defaulted exposures | Specific/General credit risk adjustment | Net values |
|---|---|---|---|---|
| **Total** | **17 035** | **1 352 910** | **(5 807)** | **1 364 138** |
| Hungary | 17 035 | 1 352 817 | (5 808) | 1 364 044 |
| Other country | 0 | 93 | 1 | 94 |

### Chart 114: Overview of CRM techniques

| (in HUF million) | Exposures unsecured - Carrying amount | Exposures to be secured | Exposures secured by collateral | Exposures secured by financial guarantees | Exposures secured by credit derivatives |
|---|---|---|---|---|---|
| Total loans | 1 364 408 | 24 476 | 0 | 24 476 | 0 |
| Total debt securities | 0 | 0 | 0 | 0 | 0 |
| **Total exposures** | **1 364 408** | **24 476** | **0** | **24 476** | **0** |
| Of which defaulted | 14 637 | 747 | 0 | 747 | 0 |

Note: The table contains exposures secured by financial collaterals and guarantees. Exposures secured by mortgage collaterals are included in “Exposures unsecured” column.

## III.6. Use of External Credit Assessment Institutions

**Chart 115: Exposures broken down by credit quality steps (CQS) of obligors**

| | Risk weight | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| (in HUF million) | 0% | 20% | 25% | 35% | 50% | 75% | 100% | 150% | Total | Of which unrated |
| Exposures to central governments or central banks | 29 574 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 29 575 | 24 476 |
| Exposures to regional governments or local authorities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exposures to public sector entities | 18 921 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 18 921 | 18 921 |
| Exposures to multilateral development banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exposures to international organisation | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exposures to institutions | 31 809 | 0 | 0 | 0 | 200 | 0 | 294 | 0 | 32 303 | 32 103 |
| Exposures to corporates | 7 | 0 | 0 | 0 | 0 | 0 | 2 252 | 0 | 2 259 | 2 259 |
| Retail exposures | 0 | 0 | 0 | 0 | 0 | 18 520 | 0 | 0 | 18 520 | 18 520 |
| Exposures secured by mortgages on immovable property | 0 | 0 | 0 | 1 082 091 | 41 056 | 122 322 | 0 | 0 | 1 245 469 | 1 197 062 |
| Exposures in default | 0 | 0 | 0 | 0 | 0 | 0 | 11 836 | 2 643 | 14 479 | 14 479 |
| Exposures associated with particularly high risk | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 420 | 420 | 420 |
| Exposures in the form of covered bonds | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exposures to institutions and corporates with a short-term credit assessment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exposures in the form of units or shares in collective investment undertakings ('CIUs') | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Equity exposures | 0 | 0 | 0 | 0 | 0 | 0 | 1 577 | 0 | 1 577 | 1 577 |
| Other items | 0 | 0 | 0 | 0 | 0 | 0 | 615 | 0 | 615 | 615 |
| **Total** | **80 311** | **0** | **1** | **1 082 091** | **41 256** | **140 842** | **16 574** | **3 063** | **1 364 138** | **1 310 432** |

Note: „Of which unrated" column contains the expousres which do not have external credit ratings

## III.7. Capital requirement for operational risk

Capital requirement for operational risk of OTP Mortgage Bank was HUF 1,867 million at the end of 2019, which was determined by advanced measurement approaches.

**Chart 116: Operational risk capital requirements on 31st December 2019:**

| Operational risk capital requirement's breakdown based on methods (in HUF million) | |
|---|---|
| Basic Indicator Approach | 0 |
| Standardised Approach | 0 |
| Alternative Standardised Approach | 0 |
| Advanced Measurement Approach | 1 867 |
| **Total** | **1 867** |

## III.8. Exposures in equities not included in the trading book on 31st December 2019

**Chart 117: Exposures in equities not included in the trading book according to IFRS on 31st December 2019**

| Entity | Balance sheet value (in HUF million) | Listed (Exchanged-traded) |
|---|---|---|
| OTP Ingatlanpont Ltd. | 1 577 | No |
| OTP Pénzügyi Pont Ltd. | 420 | No |

## III.9. Exposure to interest rate risk on positions not included in the trading book

Asset-Liability Directorate measures banking book interest rate risk exposure monthly, and also presents it as part of the consolidated exposure to the management with the same frequency.
The size and direction of the exposure is determined based on sensitivity analysis mainly.
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 analysis were prepared by assuming only the adversing interest rate changes. 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.
- The assets and liabilities with interest rate lower than 0.3% assumed to be unchanged during the whole period.
- The sensitivity of interest income to changes in BUBOR is analyzed.

The simulation were prepared by assuming two scenarios:

- HUF base rate stays unchanged and BUBOR decreases gradually to 0.0% (scenario 1)
- HUF base rate stays unchanged and 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, 2019 would be increased by HUF 141 million (scenario 1) and increased by HUF 477 million (scenario 2) as a result of these simulation.

**Chart 118: The effects of the parallel shifts of the yield-curves to the net interest income on a one-year period**

| Description<br>(in HUF million) | Effects to the net interest income in one year period |
|---|---|
| HUF -0.1% parallel shift | 178 |
| HUF 0.1% parallel shift | (178) |
| EUR -0.1% parallel shift | |
| USD 0.1% parallel shift | |
| **Total** | **(178)** |

## III.10. Disclosure of encumbered and unencumbered assets

**Chart 119: The encumbered and unencumbered assets in carrying and fair value amounts by broad categories of asset type**

| (in HUF million) | Carrying amount of encumbered assets | Fair value of encumbered assets | Carrying amount of unencumbered assets | Fair value of unencumbered assets |
|---|---|---|---|---|
| **Assets of the reporting institution** | **777 881** | | **505 761** | |
| Equity instruments | 0 | | 0 | |
| Debt securities | 2 425 | | 21 673 | |
| Other assets | 0 | | 5 143 | |

**Chart 120: Collateral received, by broad categories of product type**

| (in HUF million) | Fair value of encumbered collateral received or own debt securities issued | Fair value of collateral received or own debt securities issued available for encumbrance |
|---|---|---|
| **Collateral received by the reporting institution** | **0** | **0** |
| Equity instruments | 0 | 0 |
| Debt securities | 0 | 0 |
| Other collateral received | 0 | 0 |
| **Own debt securities issued other than own covered bonds or ABSs** | **0** | **0** |

**Chart 121: Encumbered assets/collateral received and associated liabilities**

| (in HUF million) | Matching liabilities, contingent liabilities or securities lent | Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered |
|---|---|---|
| **Carrying amount of selected financial liabilities** | **572 369** | **777 881** |

**Information on importance of encumbrance**

OTP Mortgage Bank finances its assets mostly (by 66% on 31 December 2019) by issuing mortgage bonds. The collateral for these mortgage bonds is the mortgage portfolio granted from these funds. On 31 December 2019, the carrying amount of the encumbered loan portfolio was HUF 857 billion. The encumbered assets grew by 17,37% in 2019.

In 2018, OTP Mortgage Bank’s receivables that can be accepted as collateral exceeded the issued mortgage bond portfolio by 36% on average (in respect of the carrying amounts).

## III.11. Liquidity risk

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

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

The Board of Directors of OTP Mortgage Bank Ltd. approved the report of the Treasury, Issuance and Refinancing Department on financial risks and risk management with resolution no. 9/2020 (28 February 2020).

**Chart 122: OTP Mortgage Bank's liquidity coverage ratio**

| Description<br>(in HUF million) | 31.12.2019 |
|---|---|
| **Liquidity Buffer** | 18 956 |
| **Total Net Liquidity Outflow** | 1 133 |
| **Liquidity Coverage Ratio (%)** | 1 673% |

Declaration on liquidity risk

The Board of Directors of OTP Mortgage Bank makes the below declaration, in accordance with Article 435 of regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR) and guideline no. 9/2017 (VIII.8.) of the National Bank of Hungary.

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

Definition of liquidity risk management policy and regulation of practices regarding evaluation and management of liquidity risk are laid down in OTP Mortgage Bank Ltd's Regulation on liquidity and interest rate risk. It is approved by the Board of Directors of the company and is reviewed at least annually. Being the subsidiary of OTP Bank Plc. OTP Mortgage Bank is a member of OTP Group. OTP Bank has a group-level regulation on interest- and liquidity risk management. According to this liquidity exposure is monitored and managed on a consolidated basis as well.

The department responsible for liquidity risk management within the company is the Treasury, Issuance and Refinancing Department.

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

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

## III.12. Geographical distribution of the activity, return on assets ratio

**Chart 123: Geographical distribution of the activity, return on assets ratio**

| Description<br>(in HUF million) | Hungary<br>year 2019 |
|---|---|
| Turnover | 30 617 |
| Profit or loss before tax | 27 596 |
| Tax on profit or loss | 4 191 |
| Public subsidies received | 0 |
| Number of employees on a full time basis | 35 |
| Return on assets | 2.13% |

# IV. OTP Building Society

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

## IV.1. Corporate Governance

**Chart 124: The number of directorships of OTP Building Society's chief executives***

| Members of the Board of Directors | Number of directorships (according to CRR Art. 435. paragraph (2)) | |
|---|---|---|
| | outside OTP Group | in OTP Group* |
| Antal György KOVÁCS | - | 5 |
| Attila KOVÁCS | - | 2 |
| Csaba NAGY | - | 3 |
| Anna FLOROVA MITKOVA | - | 4 |
| Árpád SRANKÓ | - | 2 |
| András BECSEI | 1 | 1 |

*with the exception of directorships held at OTP Building Society

| Member of Supervisory Board | Number of directorships (according to CRR Art. 435. paragraph (2)) | |
|---|---|---|
| | outside OTP Group | in OTP Group* |
| Beáta SUKOVICH | - | - |
| Ilona Dr. ÁDÁM ISTVÉNNÉ dr. KÖRNYEI | - | - |
| Dr. Tamás GUDRA | 1 | - |
| József WINDHEIM | 1 | 2 |

*with the exception of directorships held at OTP Building Society

*The number of directorships includes the membership of Board of Directors and the Supervisorry Bouard as well

**Chart 125: Board members' education data**

| Board of Directors | |
|---|---|
| **Antal György KOVÁCS** | |
| University of Economics, Budapest | MSc in Economics (1985) |
| **Attila KOVÁCS** | |
| University of Economics, Budapest | MSc in Economics (2001) |
| **Csaba NAGY** | |
| College of Finance and Accounting, Hungary | BSc in Economics (1993) |
| **Anna FLOROVA MITKOVA** | |
| G.V. Plehanov University of Economics, Moscow | MSc in Economics (1989) |
| University of Economics, Postgradual Department, Budapest | MSc in Economics with bank management specilization (1996) |
| **Árpád SRANKÓ** | |
| University of Economics, Budapest | MSc in Economics (2004) |
| **András BECSEI** | |
| University of Economics, Budapest | MSc in Economics (2001) |

| Supervisory Board | |
|---|---|
| **Beáta SUKOVICH** | |
| University of Miskolc | MSc in Economics (2002) |
| | Economics, Law (2006) |
| **Ilona Dr. ÁDÁM ISTVÉNNÉ dr. KÖRNYEI** | |
| University of Economics, Budapest | MSc in Economics (teacher) (1970) University doctor (1978) |
| **Dr. Tamás GUDRA** | |
| College of Commerce, Catering and Tourism | BSc in Economics (1993) |
| Ministry of Finance, Budapest | Chartered accountant (1997) |
| **József WINDHEIM** | |
| Janus Pannonius University | MSc in Economics (1983) |
| | Economics, Law (1996) |

## IV.2. Regulatory capital and capital requirements

### IV.2.1. Capital adequacy of OTP Building Society

The capital requirement calculation of OTP Building Society is based on IFRS and audited data on 31st December 2019.

OTP Building Society applied standardized capital calculation method regarding credit and market risk and advanced measurement approach (AMA) regarding the operational risk. OTP Building Society regulatory capital requirement was HUF 3,307 million as of end of December 2019 the amount of regulatory capital was HUF 31,316 million. The capital adequacy ratio calculated in line with article 92 of CRR stood at 75.76%.

**Chart 126: OTP Building Society's overview of RWAs**

| | RWAs | Minimum capital requirements |
|---|---|---|
| **(in HUF million)** | **31.12.2019** | **31.12.2019** |
| **Credit risk (excluding CCR)** | **35 717** | **2 857** |
| Of which the standardised approach | 35 717 | 2 857 |
| **CCR** | **0** | **0** |
| Of which mark to market | 0 | 0 |
| Of which CVA | 0 | 0 |
| **Market risk** | **0** | **0** |
| Of which the standardised approach | 0 | 0 |
| **Operational risk** | **5 616** | **449** |
| Of which basic indicator approach | 0 | 0 |
| Of which advances measurement approach | 5 616 | 449 |
| **Total** | **41 333** | **3 307** |

Note: The credit risk RWA is calculated according to 2017/2395 EU regulation, including the effect of transitional arrangements for mitigating the impact of the introduction of IFRS 9 and the correction in accordance with the Article 1. (7) paragraph b) point

## Chart 127: Credit risk exposure and CRM effects on 31st December 2019

| (in HUF million) | Exposures before CCF and CRM | | Exposures post CCF and CRM | | RWAs and RWA density | |
|---|---|---|---|---|---|---|
| | On-balance sheet amount | Off-balance sheet amount | On-balance sheet amount | Off-balance sheet amount | RWAs | RWA density |
| Exposures to central governments or central banks | 270 535 | 0 | 270 535 | 0 | 0 | 0.00% |
| Exposures to regional governments or local authorities | 119 | 0 | 119 | 0 | 24 | 20.17% |
| Exposures to public sector entities | 0 | 0 | 0 | 0 | 0 | 0.00% |
| Exposures to multilateral development banks | 0 | 0 | 0 | 0 | 0 | 0.00% |
| Exposures to international organisation | 0 | 0 | 0 | 0 | 0 | 0.00% |
| Exposures to institutions | 41 383 | 0 | 41 383 | 0 | 0 | 0.00% |
| Exposures to corporates | 825 | 0 | 825 | 0 | 808 | 97.94% |
| Retail exposures | 41 | 242 | 41 | 121 | 121 | 74.69% |
| Exposures secured by mortgages on immovable property | 31 593 | 0 | 31 593 | 0 | 23 700 | 75.02% |
| Exposures in default | 314 | 0 | 314 | 0 | 407 | 129.62% |
| Exposures associated with particularly high risk | 0 | 0 | 0 | 0 | 0 | 0.00% |
| Exposures in the form of covered bonds | 89 986 | 0 | 89 986 | 0 | 10 412 | 11.57% |
| Exposures to institutions and corporates with a short-term credit assessment | 0 | 0 | 0 | 0 | 0 | 0.00% |
| Exposures in the form of units or shares in collective investment undertakings ('CIUs') | 0 | 0 | 0 | 0 | 0 | 0.00% |
| Equity exposures | 0 | 0 | 0 | 0 | 0 | 0.00% |
| Other items | 235 | 10 | 235 | 10 | 245 | 100.00% |
| **Total** | **435 031** | **252** | **435 031** | **131** | **35 717** | **8.21%** |

## IV.2.2. Information about disclosure requirements related to the regulatory capital in line with Commission Implementing Regulation (EU) No. 1423/2013

### Chart 128: Mapping of financial statement categories with regulatory categories

| Description (in HUF million) | Carrying values as reported in published financial statements | Carrying values of items | | | | |
|---|---|---|---|---|---|---|
| | | Subject to the credit risk framework | Subject to the CCR framework | Subject to the securitisation framework | Subject to the market risk framework | Not subject to capital requirements or subject to deduction from capital |
| Cash, amounts due from banks and balances with the National Bank of Hungary | 285 | 285 | 0 | 0 | 0 | 0 |
| Placements with other banks, net of allowance for placement losses | 41 099 | 41 099 | 0 | 0 | 0 | 0 |
| Repo receivables | 0 | 0 | 0 | 0 | 0 | 0 |
| Financial assets at fair value through profit or loss | 0 | 0 | 0 | 0 | 0 | 0 |
| Financial assets at fair value through other comprehensive income | 51 832 | 51 832 | 0 | 0 | 0 | 33 |
| Loans | 32 552 | 32 552 | 0 | 0 | 0 | 0 |
| Securities at amortised cost | 308 500 | 308 500 | 0 | 0 | 0 | 0 |
| Investment properties | 0 | 0 | 0 | 0 | 0 | 0 |
| Investments in subsidiaries | 0 | 0 | 0 | 0 | 0 | 0 |
| Intangible assets | 140 | 0 | 0 | 0 | 0 | 140 |
| Property and equipment | 12 | 12 | 0 | 0 | 0 | 0 |
| Right-of-use assets | 128 | 128 | 0 | 0 | 0 | 0 |
| Derivative financial assets designated as hedge accounting relationships | 0 | 0 | 0 | 0 | 0 | 0 |
| Deferred tax assets | 0 | 0 | 0 | 0 | 0 | 0 |
| Other assets | 348 | 348 | 0 | 0 | 0 | 0 |
| **TOTAL ASSETS** | **434 896** | **434 756** | **0** | **0** | **0** | **173** |
| Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks | 0 | 0 | 0 | 0 | 0 | 0 |
| Deposits from customers | 391 944 | 0 | 0 | 0 | 0 | 391 944 |
| Repo liabilities | 0 | 0 | 0 | 0 | 0 | 0 |
| Liabilities from issued securities | 0 | 0 | 0 | 0 | 0 | 0 |
| Subordinated bonds and loans | 0 | 0 | 0 | 0 | 0 | 0 |
| Financial liabilities at fair value through profit or loss | 0 | 0 | 0 | 0 | 0 | 0 |
| Held for trading derivative financial liabilities | 0 | 0 | 0 | 0 | 0 | 0 |
| Derivative financial liabilities designated as hedge accounting relationships | 0 | 0 | 0 | 0 | 0 | 0 |
| Deferred tax liabilities | 1 530 | 0 | 0 | 0 | 0 | 1 530 |
| Leasing liabilities | 129 | 0 | 0 | 0 | 0 | 129 |
| Other liabilities | 5 611 | 0 | 0 | 0 | 0 | 5 611 |
| **TOTAL LIABILITIES** | **399 214** | **0** | **0** | **0** | **0** | **399 214** |

**Chart 129: Main sources of differences between regulatory exposure amounts and carrying values in financial statements**

| Description<br>(in HUF million) | Total | Items subject to | | | |
|---|---|---|---|---|---|
| | | Credit risk framework | CCR framework | Securitisation framework | Market risk framework |
| **Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)** | 434 896 | 434 756 | 0 | 0 | 0 |
| Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1) | 399 214 | 0 | 0 | 0 | 0 |
| Total net amount under the regulatory scope of condsolidation | 35 682 | 0 | 0 | 0 | 0 |
| Off-balance sheet amounts | 252 | 131 | 0 | 0 | 0 |
| Non deducted from regulatory capital, capital requirement increase elements | 0 | | | | |
| Differences because the transitional arrangements related to IFRS 9 or analogous ECLs* | 275 | 275 | 0 | 0 | 0 |
| **Exposure amounts considered for regulatory purposes** | 435 162 | 435 162 | 0 | 0 | 0 |

* Calculated according to 2017/2395 EU regulation

Due to the COVID 19 pandemia, in order to strengthen the banking system, Hungarian National Bank requests banks to make sure that dividends are neither approved, nor paid until the 30.09.2020. In this document the regulatory capital is presented In line with the request of the National Bank and dividend payment is not taken into account in the regulatory capital[4].

**Chart 130: OTP Building Society's regulatory capital**

| Total regulatory capital<br>(in HUF million) | 31.12.2019 | Cross reference to rows of own funds disclosure template |
|---|---|---|
| Share capital | 2 000 | (1) |
| Retained earnings | 10 102 | (2) |
| Accumulated other comprehensive income and | 15 879 | (3) |
| Balance sheet profit or loss | 3 169 | (2) |
| Intangible assets (-) | (140) | (8) |
| Prudential filters | (33) | (7) |
| Deferred tax assets | 0 | (10) |
| Other transitional adjusments (1) | 338 | (26) |
| **Common Equity Tier 1 capital** | **31 316** | (29) |
| **Total Tier 1 capital** | **31 316** | (45) |
| Subordinated debt | 0 | |
| **Total Tier 2 capital** | **0** | (58) |
| **Total regulatory capital** | **31 316** | (59) |

(1) Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds according to 2017/2395 EU regulation.

4 https://www.mnb.hu/en/pressroom/press-releases/press-releases-2020/the-mnb-takes-several-measures-to-support-the-operation-of-banks (21.04.2020)

## Chart 131: Breakdown of regulatory capital including transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds in accordance with 2017/2395 EU regulation

| | **Common Equity Tier 1 capital: instruments and reserves (in HUF million)** | **(A) 31.12.2019** | **(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE** | **(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013** |
|---|---|---|---|---|
| 1 | Capital instruments and the related share premium accounts | 2 000 | 26 (1), 27, 28, 29, EBA list 26 (3) | |
| | of w hich: share | 2 000 | EBA list 26 (3) | |
| 2 | Retained earnings (1) | 13 270 | 26 (1) (c) | |
| 3 | Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards) | 15 879 | 26 (1) | |
| 3a | Funds for general banking risk | | 26 (1) (f) | |
| 4 | Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1 | | 486 (2) | |
| 5 | Minority interests (amount allow ed in consolidated CET1) | | 84, 479, 480 | |
| 5a | Independently review ed interim profits net of any foreseeable charge or dividend | 0 | 26 (2) | |
| **6** | **Common Equity Tier 1 (CET1) capital before regulatory adjustments** | 31 149 | | |

| | **Common Equity Tier 1 (CET1) capital: regulatory adjustments (in HUF million)** | **(A) 31.12.2019** | **(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE** | **(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013** |
|---|---|---|---|---|
| 7 | Additional value adjustments (negative amount) | (33) | 34, 105 | |
| 8 | Intangible assets (net of related tax liability) (negative amount) | (140) | 36 (1) (b), 37, 472 (4) | |
| 10 | Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability w here the conditions in Article 38 (3) are met) (negative amount) | 0 | 36 (1) (c), 38, 472 (5) | |
| 11 | Fair value reserves related to gains or losses on cash flow hedges | | 33 (1) (a) | |
| 12 | Negative amounts resulting from the calculation of expected loss amounts | | 36 (1) (d), 40, 159, 472 (6) | |
| 13 | Any increase in equity that results from securitised assets (negative amount) | | 32 (1) | |
| 14 | Gains or losses on liabilities valued at fair value resulting from changes in ow n credit standing | | 33 (1) (b) | |
| 15 | Defined-benefit pension fund assets (negative amount) | | 36 (1) (e), 41, 472 (7) | |
| 16 | Direct and indirect holdings by an institution of ow n CET1 instruments (negative amount) | | 36 (1) (f), 42, 472 (8) | |
| 17 | Holdings of the CET1 instruments of financial sector entities w here those entities have reciprocal cross holdings w ith the institution designed to inflate artificially the ow n funds of the institution (negatvie amount) | | 36 (1) (g), 44, 472 (9) | |
| 18 | Direct and indirect holdings of the CET1 instruments of financial sector entities w here the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | | 36 (1) (h), 43, 45, 46, 49 (1)-(3), 79, 472 (10) | |
| 19 | Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities w here the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | | 36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11) | |

| | **Common Equity Tier 1 (CET1) capital: regulatory adjustments (in HUF million) (continuation)** | **(A) 31.12.2019** | **(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE** | **(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013** |
|---|---|---|---|---|
| 20a | Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative | | 36 (1) (k) | |
| 20b | of which: qualifying holdings outside the financial sector (negative amount) | | 36 (1) (k) (i), 89 to 91 | |
| 20c | of which: securitisation positions (negative amount) | | 36 (1) (k) (ii)<br>243 (1) (b)<br>244 (1) (b)<br>258 | |
| 20d | of which: free deliveries (negative amount) | | 36 (1) (k) (iii), 379 (3) | |
| 21 | Deferred tax assets arising from temporary difference (amount above 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met) (negative amount) | | 36 (1) (c), 38, 48 (1) (a), 470, 472 (5) | |
| 22 | Amount exceeding the 15% threshold (negative amount) | | 48 (1) | |
| 23 | of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities | | 36 (1) (i), 48 (1) (b), 470, 472 (11) | |
| 25 | of which: deferred tax assets arising from temporary difference | | 36 (1) (c), 38, 48 (1) (a), 470, 472 (5) | |
| 25a | Losses for the current financial year (negative amount) | | 36 (1) (a), 472 (3) | |
| 25b | Foreseeable tax charges relating to CET1 items (negative amount) | | 36 (1) (l) | |
| 26 | Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment (2) | 338 | | |
| 27 | Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount) | | 36 (1) (j) | |
| 28 | **Total regulatory adjustments to Common Equity Tier 1 (CET1)** | **166** | | |
| 29 | **Common Equity Tier 1 (CET1) capital** | **31 316** | | |

| | **Additional Tier 1 (AT1) capital: instruments (in HUF million)** | **(A) 31.12.2019** | **(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE** | **(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013** |
|---|---|---|---|---|
| 30 | Capital instruments and the related share premium accounts | | 51, 52 | |
| 31 | of which: classified as equity under applicable accounting standards | | | |
| 32 | of which: classified as liabilities under applicable accounting standards | | | |
| 33 | Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1 | | 486 (3) | |
| 34 | Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties | | 85, 86, 480 | |
| 35 | of which: instruments issued by subsidiaries subject to phase-out | | 486 (3) | |
| 36 | **Additional Tier 1 (AT1) capital before regulatory adjustments** | **0** | | |

| | Additional Tier 1 (AT1) capital: regulatory adjustments (in HUF million) | (A) 31.12.2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 37 | Direct and indirect holdings by an institution of own AT1 instruments (negative amount) | | 52 (1) (b), 56 (a), 57, 475 (2) | |
| 38 | Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | | 56 (b), 58, 475 (3) | |
| 39 | Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | | 56 (c), 59, 60, 79, 475 (4) | |
| 40 | Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | | 56 (d), 59, 79, 475 (4) | |
| 42 | Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount) | | 56 (e) | |
| 43 | **Total regulatory adjustments to Additional Tier 1 (AT1) capital** | **0** | | |
| 44 | **Additional Tier 1 (AT1) capital** | **0** | | |
| 45 | **Tier 1 capital (T1 = CET1 + AT1)** | **31 316** | | |

| | Tier 2 (T2) capital: instruments and provisions (in HUF million) | (A) 31.12.2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 46 | Capital instruments and the related share premium accounts | | 62, 63 | |
| 47 | Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2 | | 486 (4) | |
| 48 | Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party | | 87, 88, 480 | |
| 49 | of which: instruments issued by subsidiaries subject to phase-out | | 486 (4) | |
| 50 | Credit risk adjustments | | 62 (c) & (d) | |
| 51 | **Tier 2 (T2) capital before regulatory adjustment** | **0** | | |

| | Tier 2 (T2) capital: regulatory adjustments (in HUF million) | (A) 31.12.2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 52 | Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount) | | 63 (b) (i), 66 (a), 67, 477 (2) | |
| 53 | Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount) | | 66 (b), 68, 477 (3) | |
| 54 | Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount) | | 66 (c), 69, 70, 79, 477 (4) | |
| 55 | Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts) | | 66 (d), 69, 79, 477 (4) | |
| 57 | **Total regulatory adjustments to Tier 2 (T2) capital** | **0** | | |
| 58 | **Tier 2 (T2) capital** | **0** | | |
| 59 | **Total capital (TC = T1 + T2)** | **31 316** | | |
| 60 | **Total risk weighted assets** | **41 333** | | |

| | Capital ratios and buffers (in HUF million) | (A) 31.12.2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 61 | Common Equity Tier 1 (as a percentage of total risk exposure amount) | **75.76%** | 92 (2) (a), 465 | |
| 62 | Tier 1 (as a percentage of total risk exposure amount) | **75.76%** | 92 (2) (b), 465 | |
| 63 | Total capital (as a percentage of total risk exposure amount) | **75.76%** | 92 (2) (c) | |
| 64 | Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of total risk exposure amount) | 6.375% | CRD 128, 129, 130, 131 and 133 | |
| 65 | of which: capital conservation buffer requirement | 2.500% | | |
| 66 | of which: countercyclical buffer requirement (3) | | | |
| 67 | of which: systemic risk buffer requirement (3) | | | |
| 67a | of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer (4) | | CRD 131 | |
| 68 | Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount) | 67.76% | CRD 128 | |

| | Amounts below the thresholds for deduction (before risk-weighting) (in HUF million) | (A) 31.12.2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 72 | Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | | 36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4) | |
| 73 | Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | 55 | 36 (1) (i), 45, 48, 470, 472 (11) | |
| 75 | Deferred tax assets arising from temporary difference (amount below 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met) | | 36 (1) (c), 38, 48, 470, 472 (5) | |

| | Applicable caps on the inclusion of provisions in Tier 2 (in HUF million) | (A) 31.12.2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 76 | Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap) | | 62 | |
| 77 | Cap on inclusion of credit risk adjustments in T2 under standardised approach | | 62 | |
| 78 | Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap) | | 62 | |
| 79 | Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach | | 62 | |

| | Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022) (in HUF million) | (A) 31.12.2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 80 | Current cap on CET1 instruments subject to phase-out arrangements | | 484 (3), 486 (2) & (5) | |
| 81 | Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities) | | 484 (3), 486 (2) & (5) | |
| 82 | Current cap on AT1 instruments subject to phase-out arrangements | | 484 (4), 486 (3) & (5) | |
| 83 | Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) | | 484 (4), 486 (3) & (5) | |
| 84 | Current cap on T2 instruments subject to phase-out arrangements | | 484 (5), 486 (4) & (5) | |
| 85 | Amount excluded from T2 due to cap (excess over cap after redemptions and maturities) | | 484 (5), 486 (4) & (5) | |

(1) Profit for financial year 2019 is included in retained earnings.
(2) Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds according to 2017/2395 EU regulation.
(3) Capital buffer is not implemented
(4) Not relevant capital buffer

**Chart 132: The effect of the transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds in accordance with 2017/2395 EU regulation**

| IFRS 9 effect | | |
|---|---|---|
| **(in HUF million)** | | **31.12.2019** |
| **Regulatory capital** | | |
| 1 | Common Equity Tier 1 (CET1) capital | 31 316 |
| 2 | Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 30 977 |
| 3 | Tier 1 capital | 31 316 |
| 4 | Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 30 977 |
| 5 | Total capital | 31 316 |
| 6 | Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 30 977 |
| **Total risk weighted assets** | | |
| 7 | Total risk weighted assets | 41 333 |
| 8 | Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 41 237 |
| **Capital ratios** | | |
| 9 | Common Equity Tier 1 (as a percentage of total risk exposure amount) | 75.76% |
| 10 | Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 75.12% |
| 11 | Tier 1 (as a percentage of total risk exposure amount) | 75.76% |
| 12 | Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 75.12% |
| 13 | Total capital (as a percentage of total risk exposure amount) | 75.76% |
| 14 | Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 75.12% |
| **Leverage ratio** | | |
| 15 | Total exposure | 435 130 |
| 16 | Leverage ratio | 7.20% |
| 17 | Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 7.12% |

## IV.3. Trading book market and counterparty risks (capital requirements)

**Chart 133: Trading book positions capital requirement**

| Description (in HUF million) | RWAs | Capital requirements |
|---|---|---|
| Interest rate risk (general and specific) | 0 | 0 |
| Equity risk (general and specific) | 0 | 0 |
| Foreign exchange risk | 0 | 0 |
| Commodity risk | 0 | 0 |
| Options | 0 | 0 |
| Simplified approach | 0 | 0 |
| Delta-plus method | 0 | 0 |
| Scenario approach | 0 | 0 |
| Securitisation (specific riks) | 0 | 0 |
| **Total** | **0** | **0** |

## IV.4. Leverage

**Chart 134: Net exposure value to leverage ratio**

| | in HUF million | Applicable Amount |
|---|---|---|
| 1 | Total assets as per published financial statements | 434 896 |
| 2 | Adjustment for entities w hich are consolidated for accounting purposes but are outside the scope of regulatory consolidation | 0 |
| 3 | (Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framew ork but excluded from the leverage ratio total exposure | 0 |
| 4 | Adjustments for derivative financial instruments | 0 |
| 5 | Adjustment for securities financing transactions (SFTs) | 0 |
| 6 | Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures) | 131 |
| EU-6a | (Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance w ith Article 429(7) of Regulation (EU) No 575/2013) | 0 |
| EU-6b | (Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance w ith Article 429(14) of Regulation (EU) No 575/2013) | 0 |
| 7 | Other adjustments | 103 |
| **8** | **Leverage ratio total exposure measure** | **435 130** |

## Chart 135: Leverage ratio

| | in HUF million | CRR leverage ratio exposures |
|---|---|---|
| **On-balance sheet exposures (excluding derivatives and SFTs)** | | |
| 1 | On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral) | 435 171 |
| 2 | (Asset amounts deducted in determining Tier 1 capital) | (172) |
| **3** | **Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)** | **434 999** |
| **Derivative exposures** | | |
| 4 | Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin) | 0 |
| 5 | Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method) | 0 |
| EU-5a | Exposure determined under Original Exposure Method | 0 |
| 6 | Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework | 0 |
| 7 | (Deductions of receivables assets for cash variation margin provided in derivatives transactions) | 0 |
| 8 | (Exempted CCP leg of client-cleared trade exposures) | 0 |
| 9 | Adjusted effective notional amount of written credit derivatives | 0 |
| 10 | (Adjusted effective notional offsets and add-on deductions for written credit derivatives) | 0 |
| **11** | **Total derivatives exposures (sum of lines 4 to 10)** | **0** |
| **SFT exposures** | | |
| 12 | Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions | 0 |
| 13 | (Netted amounts of cash payables and cash receivables of gross SFT assets) | 0 |
| 14 | Counterparty credit risk exposure for SFT assets | 0 |
| EU-14a | Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013 | 0 |
| 15 | Agent transaction exposures | 0 |
| EU-15a | (Exempted CCP leg of client-cleared SFT exposure) | 0 |
| **16** | **Total securities financing transaction exposures (sum of lines 12 to 15a)** | **0** |
| **Other off-balance sheet exposures** | | |
| 17 | Off-balance sheet exposures at gross notional amount | 252 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | (121) |
| **19** | **Other off-balance sheet exposures (sum of lines 17 and 18)** | **131** |
| **Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)** | | |
| EU-19a | (Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet)) | 0 |
| EU-19b | (Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet)) | 0 |
| **Capital and total exposure mesure** | | |
| 20 | Tier 1 capital | 31 316 |
| 21 | Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b) | 435 130 |
| **Leverage ratio** | | |
| **22** | **Leverage ratio** | **7.20%** |
| **Choice on transitional arrangements and amount of derecognised fiduciary items** | | |
| EU-23 | Choice on transitional arrangements for the definition of the capital measure | Fully phased in |
| EU-24 | Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013 | 0 |

Note: The exposures are calculated according to 2017/2395 EU regulation, including the effect of transitional arrangements for mitigating the impact of the introduction of IFRS 9 and the correction in accordance with the Article 1. (7) paragraph b) point.

There was no material change in the value of leverage ratio in 2019.

# IV.5. Credit risk adjustments

## IV.5.1. Methods of valuations and provisions

The financial reports of the OTP Building Society are based on IFRS regulation. Measurement and provision allocation of assets, investments and off-balance sheet liabilities are realized according to frameworks of relevant IFRS/IAS standards.
In its regulations entitled "International Financing Reporting Standards (IFRS) valuation requirements" OTP Building Society provides detailed regulations pertaining to the measurement and provision recognition of outstanding debts, investments and off-balance sheet liabilities.

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

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

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

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

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

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

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

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

Probable future losses on the item are determined on a case-by-case basis, in consideration of the above aspects as applicable. If this amount is lower than the amount recognized on the item earlier, it has to be supplemented by the amount of the difference by recognizing a further amount of impairment, or if it is higher, it has to be reduced by the release of the existing amount of impairment.
Delinquent deal: the client doesn't perform his/her payment obligations.

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

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

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

A credit risk exposure shall be considered as restructured:

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

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

**Portfolio (collective) assessment**

The collective assessment based on the following parameters: probability of defaults, cure rate, loss given default. The condition of applying collective assessment is that the assets should be allocable to groups representing similar credit risk based on major credit risk characteristics and their capability to fulfill contractual obligations. The most important variables of the assessment procedure are payment delay, deal/client rating, the restructuring information and the default status.
Upon estimating the future cash flows related to the group(s) of financial assets, the historic credit loss data of the assets representing similar credit risk, the macroeconomic factors and information on the future of financial instruments must be taken into account.
The OTP Building Society shall measure expected credit losses of a financial asset in a way that reflects:

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

**Individual assessment**

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

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

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

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

**Chart 136: Qualified exposures and impairment**

| (in HUF million) | Accumulated specific / general credit risk adjustment |
|---|---|
| **Opening balance** | **569** |
| Increases due to amounts set aside for estimated loan losses during the period | 41 |
| Decreases due to amounts reversed for estimated loan losses during the period | 0 |
| Decreases due to amounts taken against accumulated credit risk adjustments | (1) |
| Transfers between credit risk adjustments | 3 |
| Impact of exchange rate differences | 0 |
| Cured from default or non-impaired | 0 |
| Other adjustments | 0 |
| **Closing balance** | **612** |
| Recoveries on credit risk adjustments recorded directly to the statement of profit or loss | 0 |
| Specific credit risk adjustments directly recorded to the statement of profit or loss | 0 |

**Chart 137: Changes of non-performing loan exposures**

| | (in HUF million) | Gross carrying value defaulted exposures |
|---|---|---|
| **1** | **Opening balance - 31.12.2018** | **21** |
| 2 | Loans and debt securities that have defaulted since the last reporting period | 37 |
| 3 | Returned to non-defaulted status | 0 |
| 4 | Amounts written-off | 0 |
| 5 | Other changes* | 285 |
| **6** | **Closing balance - 31.12.2019 (6 =1 + 2 - 3 - 4 + 5)** | **343** |

* Contains the IFRS 9 transitional difference

## IV.5.2. Exposures to credit risk

The presented RWAs and exposures in this chapter are calculated according to 2017/2395 EU regulation, including the effect of transitional arrangements for mitigating the impact of the introduction of IFRS 9 and the correction in accordance with the Article 1. (7) paragraph b) point.

**Chart 138: Net exposures broken down by net exposure classes (before credit risk mitigation)**

| Exposures (in HUF million) | 31.12.2019 | 2019 Average |
|---|---|---|
| Exposures to central governments or central banks | 270 535 | 264 573 |
| Exposures to regional governments or local authorities | 119 | 84 |
| Exposures to public sector entities | 0 | 0 |
| Exposures to multilateral development banks | 0 | 0 |
| Exposures to international organisation | 0 | 0 |
| Exposures to institutions | 41 383 | 32 698 |
| Exposures to corporates | 825 | 647 |
| Retail exposures | 162 | 141 |
| Exposures secured by mortgages on immovable property | 31 593 | 31 790 |
| Exposures in default | 314 | 198 |
| Exposures associated with particularly high risk | 0 | 14 |
| Exposures in the form of covered bonds | 89 986 | 83 468 |
| Exposures to institutions and corporates with a short-term credit assessment | 0 | 0 |
| Exposures in the form of units or shares in collective investment undertakings ('CIUs') | 0 | 0 |
| Equity exposures | 0 | 0 |
| Other exposures | 245 | 2 189 |
| **Total** | **435 162** | **415 802** |

**Chart 139: Exposures broken down by geographical areas (by the country of obligors) on 31st December 2019**

| (in HUF million) | Exposures to central governments or central banks | Exposures to regional governments or local authorities | Exposures to public sector entities | Exposures to multilateral development banks | Exposures to international organisation | Exposures to institutions | Exposures to corporates | Retail exposures | Exposures secured by mortgages on immovable property | Exposures in default | Exposures associated with particularly high risk | Exposures in the form of covered bonds | Exposures to institutions and corporates with a short-term credit assessment | Exposures in the form of units or shares in collective investment undertakings ('CIUs') | Equity exposures | Other items | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total** | **270 535** | **119** | **0** | **0** | **0** | **41 383** | **825** | **162** | **31 593** | **314** | **0** | **89 986** | **0** | **0** | **0** | **245** | **435 162** |
| Hungary | 270 535 | 119 | 0 | 0 | 0 | 41 383 | 825 | 162 | 31 593 | 314 | 0 | 89 986 | 0 | 0 | 0 | 245 | 435 162 |

## Chart 140: Exposure classes broken down by counterparty type on 31st December 2019

| (in HUF million) | Exposures to central governments or central banks | Exposures to regional governments or local authorities | Exposures to public sector entities | Exposures to multilateral development banks | Exposures to international organisation | Exposures to institutions | Exposures to corporates | Retail exposures | Exposures secured by mortgages on immovable property | Exposures in default | Exposures associated with particularly high risk | Exposures in the form of covered bonds | Exposures to institutions and corporates with a short-term credit assessment | Exposures in the form of units or shares in collective investment undertakings ('CIUs') | Equity exposures | Other items | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total** | **270 535** | **119** | **0** | **0** | **0** | **41 383** | **825** | **162** | **31 593** | **314** | **0** | **89 986** | **0** | **0** | **0** | **245** | **435 162** |
| Governments | 270 535 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 270 535 |
| Municipal | 0 | 119 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 119 |
| Public sector entities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Institutions | 0 | 0 | 0 | 0 | 0 | 41 383 | 0 | 0 | 0 | 0 | 0 | 89 986 | 0 | 0 | 0 | 0 | 131 369 |
| Coporate | 0 | 0 | 0 | 0 | 0 | 0 | 752 | 0 | 23 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 775 |
| Corpoarte SME | 0 | 0 | 0 | 0 | 0 | 0 | 73 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 73 |
| Retail | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 162 | 31 570 | 314 | 0 | 0 | 0 | 0 | 0 | 0 | 32 046 |
| Retail SME | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Equity | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other* | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 245 | 245 |

* Other, not mentioned items (e. g tangible assets)

## Chart 141: Exposure classes broken down by residual maturity on 31st December 2019

| (in HUF million) | On demand | < = 1 year | > 1 year < = 5 year | > 5 year | No stated maturity | Total |
|---|---|---|---|---|---|---|
| **Total** | **0** | **72 268** | **126 767** | **236 010** | **117** | **435 162** |
| Exposures to central governments or central banks | 0 | 26 821 | 98 221 | 145 493 | 0 | 270 535 |
| Exposures to regional governments or local authorities | 0 | 0 | 0 | 119 | 0 | 119 |
| Exposures to public sector entities | 0 | 0 | 0 | 0 | 0 | 0 |
| Exposures to multilateral development banks | 0 | 0 | 0 | 0 | 0 | 0 |
| Exposures to international organisation | 0 | 0 | 0 | 0 | 0 | 0 |
| Exposures to institutions | 0 | 41 098 | 0 | 285 | 0 | 41 383 |
| Exposures to corporates | 0 | 79 | 369 | 377 | 0 | 825 |
| Retail exposures | 0 | 0 | 128 | 34 | 0 | 162 |
| Exposures secured by mortgages on immovable property | 0 | 1 080 | 11 088 | 19 425 | 0 | 31 593 |
| Exposures in default | 0 | 5 | 71 | 238 | 0 | 314 |
| Exposures associated with particularly high risk | 0 | 0 | 0 | 0 | 0 | 0 |
| Exposures in the form of covered bonds | 0 | 3 185 | 16 762 | 70 039 | 0 | 89 986 |
| Exposures to institutions and corporates with a short-term credit assessment | 0 | 0 | 0 | 0 | 0 | 0 |
| Exposures in the form of units or shares in collective investment undertakings ('CIUs') | 0 | 0 | 0 | 0 | 0 | 0 |
| Equity exposures | 0 | 0 | 0 | 0 | 0 | 0 |
| Other items | 0 | 0 | 128 | 0 | 117 | 245 |

## Chart 142: Aging of past-due exposures

| (in HUF million) | Gross carrying values | | | | | |
|---|---|---|---|---|---|---|
| | ≤ 30 days | > 30 days ≤ 60 days | > 60 days ≤ 90 days | > 90 days ≤ 180 days | > 180 days ≤ 1 year | > 1 year |
| Loans | 32 588 | 76 | 37 | 44 | 15 | 24 |
| Debt securities | 360 712 | 0 | 0 | 0 | 0 | 0 |
| **Total exposures** | 393 300 | 76 | 37 | 44 | 15 | 24 |

## Chart 143: Non-performing and forborne exposures

| (in HUF million) | Gross carrying amount of performing and non-performing exposures | | | | | | | Accumulated impairment and provisions and negative fair value adjustments due to credit risk | | | | Collaterals and financial guarantees recieved | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Of which performing but past due > 30 days and <=90 days | Of which performing forborne | Of which non-performing | | | | On performing exposures | | On non-performing exposures | | On non-performing exposures | Of which forborne exposures |
| | | | | | Of which defaulted | Of which impaired | Of which forborne | | Of which forborne | | Of which forborne | | |
| Debt securities | 360 712 | 0 | 0 | 0 | 0 | 0 | 0 | 379 | 0 | 0 | 0 | 0 | 0 |
| Loand and advances | 32 784 | 84 | 3 | 343 | 343 | 343 | 0 | (159) | 1 | (73) | 0 | 268 | 0 |
| Off-balance -sheet exposures | 252 | | 0 | 0 | 0 | 0 | 0 | (1) | 0 | 0 | 0 | 0 | 0 |

Note: Exposures according to EBA definition.

## Chart 144: Credit quality of exposures by exposure class and instrument on 31st December 2019

| (in HUF million) | Gross carrying values of | | Specific/General credit risk adjustment | Net values |
|---|---|---|---|---|
| | Defaulted exposures | Non-defaulted exposures | | |
| Central governments or central banks | 0 | 270 626 | (91) | 270 535 |
| Regional governments or local authorities | 0 | 119 | 0 | 119 |
| Public sector entities | 0 | 0 | 0 | 0 |
| Multilateral development banks | 0 | 0 | 0 | 0 |
| International organisation | 0 | 0 | 0 | 0 |
| Institutions | 0 | 41 383 | 0 | 41 383 |
| Corporates | 0 | 833 | (8) | 825 |
| Retail | 343 | 163 | (30) | 476 |
| Secured by mortgages on immovable property | 0 | 31 646 | (53) | 31 593 |
| Exposures in default | 0 | 0 | 0 | 0 |
| Items associated w ith particularly high risk | 0 | 0 | 0 | 0 |
| Covered bonds | 0 | 90 085 | (99) | 89 986 |
| Institutions and corporates w ith a short-term credit assessment | 0 | 0 | 0 | 0 |
| Collective investments undertakings | 0 | 0 | 0 | 0 |
| Equity exposures | 0 | 0 | 0 | 0 |
| Other exposures | 0 | 245 | 0 | 245 |
| **Total** | **343** | **435 100** | **(281)** | **435 162** |

### Chart 145: Credit quality of exposures by counterparty types on 31st December 2019

| (in HUF million) | Gross carrying values of Defaulted exposures | Gross carrying values of Non-defaulted exposures | Specific/General credit risk adjustment | Net values |
|---|---|---|---|---|
| Governments | 0 | 270 626 | (91) | 270 535 |
| Municipal | 0 | 119 | 0 | 119 |
| Public sector entities | 0 | 0 | 0 | 0 |
| Institutions | 0 | 131 468 | (99) | 131 369 |
| Coporate | 0 | 782 | (7) | 775 |
| Corpoarte SME | 0 | 73 | 0 | 73 |
| Retail | 343 | 31 787 | (84) | 32 046 |
| Retail SME | 0 | 0 | 0 | 0 |
| Equity | 0 | 0 | 0 | 0 |
| Other* | 0 | 245 | 0 | 245 |
| **Total** | **343** | **435 100** | **(281)** | **435 162** |

* Other, not mentioned items (e. g tangible assets)

### Chart 146: Credit quality of exposures by geography on 31st December 2019

| (in HUF million) | Gross carrying values of Defaulted exposures | Gross carrying values of Non-defaulted exposures | Specific/General credit risk adjustment | Net values |
|---|---|---|---|---|
| **Total** | **343** | **435 100** | **(281)** | **435 162** |
| Hungary | 343 | 435 100 | (281) | 435 162 |

### Chart 147: Overview of CRM techniques

| (in HUF million) | Exposures unsecured - Carrying amount | Exposures to be secured | Exposures secured by collateral | Exposures secured by financial guarantees | Exposures secured by credit derivatives |
|---|---|---|---|---|---|
| Total loans | 435 283 | 0 | 0 | 0 | 0 |
| Total debt securities | 0 | 0 | 0 | 0 | 0 |
| **Total exposures** | **435 283** | **0** | **0** | **0** | **0** |
| Of w hich defaulted | 314 | 0 | 0 | 0 | 0 |

Note: The table is content the exposures secured by financial garantees, collateral. The exposures secured by real estate are in th “Exposures unsecured – Carrying amount” column.

## IV.6. Use of External Credit Assessment Institutions

**Chart 148: Exposures broken down by credit quality steps (CQS) of obligors**

| (in HUF million) | Risk weight | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 0% | 20% | 50% | 75% | 100% | 150% | Total | Of which unrated |
| Exposures to central governments or central banks | 270 535 | 0 | 0 | 0 | 0 | 0 | 270 535 | 0 |
| Exposures to regional governments or local authorities | 0 | 119 | 0 | 0 | 0 | 0 | 119 | 119 |
| Exposures to public sector entities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exposures to multilateral development banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exposures to institutions | 41 383 | 0 | 0 | 0 | 0 | 0 | 41 383 | 41 383 |
| Exposures to corporates | 0 | 0 | 0 | 0 | 825 | 0 | 825 | 825 |
| Retail exposures | 0 | 0 | 0 | 162 | 0 | 0 | 162 | 162 |
| Exposures secured by mortgages on immovable property | 0 | 0 | 0 | 31 571 | 22 | 0 | 31 593 | 31 593 |
| Exposures in default | 0 | 0 | 0 | 0 | 127 | 187 | 314 | 314 |
| Exposures associated w ith particularly high risk | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exposures in the form of covered bonds | 69 162 | 0 | 20 824 | 0 | 0 | 0 | 89 986 | 89 986 |
| Exposures in institutions and corporates w ith a short-term credit assessment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exposures in the form of units or shares in collective investment undertakings ('CIUs') | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Equity exposures | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other items | 0 | 0 | 0 | 0 | 245 | 0 | 245 | 245 |
| **Total** | **381 080** | **119** | **20 824** | **31 733** | **1 219** | **187** | **435 162** | **164 627** |

Note: „Of which unrated" column contains the expousres which do not have external credit ratings

## IV.7. Capital requirement for operational risk

Capital requirement for operational risk of OTP Building Society amounted to HUF 449 million on 31st December 2019, which was determined by advanced measurement approaches.

**Chart 149: Operational risk capital requirements on 31st December 2019**

| Operational risk capital requirement's breakdown based on methods (in HUF million) | |
|---|---|
| Basic Indicator Approach | 0 |
| Standardised Approach | 0 |
| Alternative Standardised Approach | 0 |
| Advanced Measurement Approach | 449 |
| **Total** | **449** |

## IV.8. Exposures in equities not included in the trading book on 31st December 2019

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

## IV.9. Exposure to interest rate risk on positions not included in the trading book

Asset-Liability Directorate measures banking book interest rate risk exposure monthly, and also presents it as part of the consolidated exposure to the management with the same frequency.

The size and direction of the exposure is determined based on sensitivity analysis mainly.

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 analysis were prepared by assuming only the adversing interest rate changes. 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.
- The assets and liabilities with interest rate lower than 0.3% assumed to be unchanged during the whole period.
- The sensitivity of interest income to changes in BUBOR is analyzed.

The simulation was prepared by assuming two scenarios:

- HUF base rate stays unchanged and BUBOR decreases gradually to 0.0% (scenario 1)
- HUF base rate stays unchanged and 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, 2020 would be increased by HUF 35 million (scenario 1) and HUF 113 million (scenario 2) as a result of these simulation.

**Chart 150: The effects of the parallel shifts of the yield-curves to the net interest income on a one-year period**

| Description<br>(in HUF million) | Effects to the net interest income in one year period |
|---|---|
| HUF -0.1% parallel shift | (49) |

## IV.10. Disclosure of encumbered and unencumbered assets

**Chart 151: The encumbered and unencumbered assets in carrying and fair value amounts by broad categories of asset type**

| (in HUF million) | Carrying amount of encumbered assets | Fair value of encumbered assets | Carrying amount of unencumbered assets | Fair value of unencumbered assets |
|---|---|---|---|---|
| **Assets of the reporting institution** | **0** | | **416 510** | |
| Equity instruments | 0 | | 0 | |
| Debt securities | 0 | | 348 037 | |
| Other assets | 0 | | 4 294 | |

**Chart 152: Collateral received, by broad categories of product type**

| (in HUF million) | Fair value of encumbered collateral received or own debt securities issued | Fair value of collateral received or own debt securities issued available for encumbrance |
|---|---|---|
| **Collateral received by the reporting institution** | **0** | **0** |
| Equity instruments | 0 | 0 |
| Debt securities | 0 | 0 |
| Other collateral received | 0 | 0 |
| **Own debt securities issued other than own covered bonds or ABSs** | **0** | **0** |

**Chart 153: Encumbered assets/collateral received and associated liabilities**

| (in HUF million) | Matching liabilities, contingent liabilities or securities lent | Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered |
|---|---|---|
| **Carrying amount of selected financial liabilities** | **0** | **0** |

In addition to its equity capital, OTP Building Society's assets are wholly financed from customer deposits, therefore it does not have encumbered assets.

## IV.11. Liquidity risk

The activity of home savings and loan associations founded and operating in Hungary are in Act CXIII of 1996 on Home Savings and Loan Associations. The principle function of OTP Building Society is to manage deposits and disburse loans pursuant to an agreement in the territory of Hungary. The OTP Building Society defines the following purposes connected with the liquidity risk management.

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

OTP Building Society Ltd's "Regulation on liquidity and interest rate risk" – approved by the Managing Committee - contains the relevant regulations in connection with the liquidity risk management policy, risk valuation and managing of liquidity risk. The department responsible for liquidity risk management within the company is the Finance and Accounting and Risk Management Department. The responsible department reporting directly to the management regarding the company's liquidity risk exposure, the related money and capital market transactions and limit measures.

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

As the OTP Building Society Ltd complied with requirements of the internal regulations regarding to the liquidity limits, thus the Managing Committee declared that the adequacy if liquidity risk management arrangements of the company as it is in accordance with the company's profile and its' liquidity risk management policy.

**Chart 154: OTP Building Society's liquidity coverage ratio**

| Description<br>(in HUF million) | 31.12.2019 |
|---|---|
| **Liquidity Buffer** | 277 080 |
| **Total Net Liquidity Outflow** | 4 232 |
| **Liquidity Coverage Ratio (%)** | 6 547% |

## IV.12. Regional distribution of the activity, return on assets ratio

**Chart 155: Regional distribution of the activity, return on assets ratio**

| Description<br>(in HUF million) | Hungary |
|---|---|
| Turnover | 4 822 |
| Profit or loss before tax | 3 044 |
| Tax on profit or loss | 351 |
| Public subsidies received | 0 |
| Number of employees on a full time basis | 10 |
| Return on assets | 0.77 |

# V. Merkantil Bank

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

## V.1. Corporate Governance

**Chart 156: The number of directorships of Merkantil Bank’s chief executives***

| Members of the Board of Directors | Number of directorships (according to CRR Art. 435. paragraph (2)) | |
|---|---|---|
| | outside OTP Group | in OTP Group* |
| dr. László UTASSY | - | 2 |
| Péter KÖNTÖS | - | 1 |
| Tibor CSONKA | - | 3 |
| Ibolya dr. RAJMONNÉ VERES | - | 1 |
| dr. Bálint CSERE | - | 2 |
| Csaba ELEK | - | - |

*with the exception of directorships held at Merkantil Bank

| Members of the Supervisory Board | Number of directorships (according to CRR Art. 435. paragraph (2)) | |
|---|---|---|
| | outside OTP Group | in OTP Group* |
| dr. Ferenc ECSEDI | - | 3 |
| Ágota SELYMESI | - | 1 |
| Zsuzsanna SZABÓ | - | - |
| dr. Tamás SUCHMAN | - | 1 |
| dr. Ilona TÖRÖK | - | 2 |

*with the exception of directorships held at Merkantil Bank

*The number of directorships includes the membership of Board of Directors and the Supervisorry Bouard as well

**Chart 157: Board members’ education data**

| Board of Directors | |
|---|---|
| **dr. László UTASSY** | |
| ELTE University, Faculty of law, Budapest | MA in Law (1978) |
| | Legal advisor (1980) |
| **Péter KÖNTÖS** | |
| University of Economics, Budapest | MSc in Economics (1979) |
| Post-graduate School of Economics | Complex Company Planning Analyst (1985) |
| **Tibor CSONKA** | |
| Szent István University, Gödöllő | MSc in Agricultural Economics (2002) |
| **dr. Ibolya RAJMONNÉ VERES** | |
| College of Szolnok | BSc in Economics (2001) |
| University of Economics, Budapest | Economist in Project Management (2004) |
| **dr. Bálint CSERE** | |
| ELTE University, Faculty of Law, Budapest | MA in Law (2000) |
| **Csaba ELEK** | |
| College of Finance and Accounting, Budapest | BSc in Finance (1986) |

| Supervisory Board | |
|---|---|
| **dr. Ferenc ECSEDI** | |
| University of Horticulture | MSc in Food Engineering (1970) |
| University of Economics, Budapest | MSc in Economics (1980) |
| | University doctor (economics) (1989) |
| University of Horticulture and Food Industry | University doctor (food science) (1988) |
| University of Szeged, Faculty of Law and Political Sciences | MA in Law (2000) |
| Corvinus University of Budapest | MBA (2008) |
| **Ágota SELYMESI** | |
| College of Finance and Accounting, Budapest | BSc is Finance (1973) |
| Ministry of Finance, Budapest | Tax adviser (1989) |
| | Chartered accountant (1995) |
| Penta Unió Education Centre | International tax adviser (2004) |
| **Zsuzsanna SZABÓ** | |
| University of Economics, Budapest | MSc in Economics (1978) |
| **dr. Tamás SUCHMAN** | |
| Janus Pannonius University, Faculty of Law, Pécs | MA in Law (1981) |
| Budapest Technical University | Urbanist (1986) |
| **dr. Ilona TÖRÖK** | |
| Janus Pannonius University Faculty of Law, Pécs | MA in Law (1999) |

# V.2. Regulatory capital and capital requirements

## V.2.1. Capital adequacy of Merkantil Bank

The capital requirement calculation of Merkantil Bank on 31st December 2019 is based on IFRS and audited data.

Merkantil Bank applied standardized capital calculation method regarding credit and market risk and advanced measurement approach (AMA) regarding the operational risk. Merkantil Bank's regulatory capital requirement was HUF 22,688 million at the end of December 2019, the amount of regulatory capital was HUF 49,656 million. The capital adequacy ratio calculated in line with article 92 of CRR stood at 17.51%.

**Chart 158: Merkantil Bank's overview of RWAs**

| | RWAs | Minimum capital requirements |
|---|---|---|
| (in HUF million) | 31.12.2019 | 31.12.2019 |
| **Credit risk (excluding CCR)** | **267 243** | **21 379** |
| Of which the standardised approach | 267 243 | 21 379 |
| **CCR** | **0** | **0** |
| Of which mark to market | 0 | 0 |
| Of which CVA | 0 | 0 |
| **Market risk** | **2 874** | **230** |
| Of which the standardised approach | 2 874 | 230 |
| **Operational risk** | **13 486** | **1 079** |
| Of which basic indicator approach | 0 | 0 |
| Of which advances measurement approach | 13 486 | 1 079 |
| **Total** | **283 603** | **22 688** |

Note: The credit risk RWA is calculated according to 2017/2395 EU regulation, including the effect of transitional arrangements for mitigating the impact of the introduction of IFRS 9 and the correction in accordance with the Article 1. (7) paragraph b) point

**Chart 159: Credit risk exposure and CRM effects on 31st December 2019**

| | Exposures before CCF and CRM | | Exposures post CCF and CRM | | RWAs and RWA density | |
|---|---|---|---|---|---|---|
| (in HUF million) | On-balance-sheet amount | Off-balance-sheet amount | On-balance-sheet amount | Off-balance-sheet amount | RWAs | RWA density |
| Central governments or central banks | 52 970 | 0 | 52 970 | 0 | 0 | 0.00% |
| Regional government or local authorities | 51 | 0 | 51 | 0 | 10 | 20.00% |
| Public sector entities | 208 | 0 | 208 | 0 | 192 | 92.34% |
| Multilateral development banks | 0 | 0 | 0 | 0 | 0 | |
| International organisations | 0 | 0 | 0 | 0 | 0 | |
| Institutions | 71 434 | 0 | 71 434 | 0 | 1 273 | 1.78% |
| Corporates | 167 191 | 28 106 | 167 191 | 4 847 | 129 954 | 75.54% |
| Retail | 184 817 | 0 | 184 817 | 0 | 119 891 | 64.87% |
| Secured by mortgages on immovable property | 0 | 0 | 0 | 0 | 0 | |
| Exposures in default | 5 262 | 7 | 5 262 | 1 | 6 259 | 118.90% |
| Higher-risk categories | 0 | 0 | 0 | 0 | 0 | |
| Covered bonds | 0 | 0 | 0 | 0 | 0 | |
| Institutions and corporates with a short-term credit assessment | 0 | 0 | 0 | 0 | 0 | |
| Collective investments undertakings | 0 | 0 | 0 | 0 | 0 | |
| Equity | 6 402 | 0 | 6 402 | 0 | 8 616 | 134.59% |
| Other items | 928 | 323 | 928 | 162 | 1 048 | 96.21% |
| **Total** | **489 263** | **28 436** | **489 263** | **5 010** | **267 243** | **54.07%** |

## V.2.2. Information about disclosure requirements related to the regulatory capital in line with Commission Implementing Regulation (EU) No. 1423/2013

**Chart 160: Differences between accounting (IFRS) and regulatory (CRR) scopes of consolidation and the mapping of financial statement categories with regulatory risk categories**

| Description | | Carrying values of items | | | | |
|---|---|---|---|---|---|---|
| (in million HUF) | Carrying values as reported in published financial statements | Subject to the credit risk framework | Subject to the CCR framework | Subject to the securitisation framework | Subject to the market risk framework | Not subject to capital requirements or subject to deduction from capital |
| Cash, amounts due from banks and balances with the National Banks | 40 794 | 40 794 | 0 | 0 | 0 | 0 |
| Placements with other banks, net of allowance for placement losses | 6 000 | 6 000 | 0 | 0 | 0 | 0 |
| Financial assets at fair value through profit or loss | 1 632 | 0 | 1 632 | 0 | 1 632 | 0 |
| Securities available-for-sale | 10 | 10 | 0 | 0 | 0 | 0 |
| Loans, net of allowance for loan losses | 74 853 | 74 853 | 0 | 0 | 0 | 0 |
| Finance lease receivables | 281 138 | 281 138 | 0 | 0 | 0 | 0 |
| Associates and other investments | 6 402 | 6 402 | 0 | 0 | 0 | 0 |
| Securities held-to-maturity | 75 124 | 75 124 | 0 | 0 | 0 | 0 |
| Property and equipment | 92 | 92 | 0 | 0 | 0 | 0 |
| Intangible assets | 1 008 | | 0 | 0 | 0 | 1 008 |
| Right-of-use assets | 146 | 146 | 0 | 0 | 0 | 0 |
| Investment properties | 127 | 127 | 0 | 0 | 0 | 0 |
| Deferred tax | 610 | 610 | 0 | 0 | 0 | 0 |
| Other assets | 3 463 | 3 463 | 0 | 0 | 0 | 0 |
| **TOTAL ASSETS** | **491 399** | **488 759** | **1 632** | **0** | **1 632** | **1 008** |
| | | | | | | |
| Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks | 420 076 | 0 | 0 | 0 | 0 | 420 076 |
| Deposits from customers | 10 425 | 0 | 0 | 0 | 0 | 10 425 |
| Liabilities from issued securities | 404 | 0 | 0 | 0 | 0 | 404 |
| Non held for trading derivative financial liabilities | 112 | 0 | 0 | 0 | 0 | 112 |
| Leasing liabilities | 147 | 0 | 0 | 0 | 0 | 147 |
| Other liabilities | 9 084 | 0 | 0 | 0 | 0 | 9 084 |
| Subordinated bonds and loans | 5 001 | 0 | 0 | 0 | 0 | 5 001 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **445 249** | **0** | **0** | **0** | **0** | **445 249** |

**Chart 161: Main sources of differences between regulatory exposure amounts and carrying values in financial statements**

| Description (in HUF million) | Total | Items subject to | | | |
|---|---|---|---|---|---|
| | | Credit risk framework | CCR framework | Securitisation framework | Market risk framework |
| **Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)** | 491 399 | 488 759 | 1 632 | 0 | 1 632 |
| Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1) | 445 249 | 0 | 0 | 0 | 0 |
| Total net amount under the regulatory scope of | 46 150 | 0 | 0 | 0 | 0 |
| Off-balance-sheet amounts | 28 428 | 5 009 | 0 | 0 | 0 |
| Differences because the transitional arrangements related to IFRS 9 or analogous ECLs* | 506 | 506 | 0 | 0 | 0 |
| **Exposure amounts considered for regulatory purposes** | 495 905 | 494 273 | 1 632 | 0 | 1 632 |

*According to 2017/2395 EU regulation

Due to the COVID 19 pandemia, in order to strengthen the banking system, Hungarian National Bank requests banks to make sure that dividends are neither approved, nor paid until the 30.09.2020. In this document the regulatory capital is presented In line with the request of the National Bank and dividend payment is not taken into account in the regulatory capital[5].

**Chart 162: Merkantil Bank's regulatory capital**

| **Total regulatory capital (in HUF million)** | **31.12.2019** | **Cross reference to raws of transitional own funds disclosure template** |
|---|---|---|
| Share capital | 2 000 | (1) |
| Retained earnings | 32 417 | (2) |
| Accumulated other comprehensive income and other reserves | 3 488 | (3) |
| Balance sheet profit or loss | 8 244 | (2) |
| Intangible assets (-) | (998) | (8) |
| Prudential filters | 0 | (7) |
| Deferred tax assets | 0 | (10) |
| Other transitional adjusments (1) | 504 | (26) |
| **Common Equity Tier 1 capital** | **45 656** | (29) |
| **Total Tier 1 capital** | **45 656** | (45) |
| *Subordinated debt* | **5 000** | |
| Of which: eligible in regulatory capital | 4 000 | |
| **Total Tier 2 capital** | **4 000** | (58) |
| Of which: general provision | 0 | |
| **Total regulatory capital** | **49 656** | (59) |

(1) Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds according to 2017/2395 EU regulation.

5 https://www.mnb.hu/en/pressroom/press-releases/press-releases-2020/the-mnb-takes-several-measures-to-support-the-operation-of-banks (21.04.2020)

**Chart 163: Breakdown of regulatory capital including transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds in accordance with 2017/2395 EU regulation**

| | **Common Equity Tier 1 capital: instruments and reserves (in HUF million)** | **(A) 31.12.2019** | **(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE** | **(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013** |
|---|---|---|---|---|
| 1 | Capital instruments and the related share premium accounts | 2 000 | 26 (1), 27, 28, 29, EBA list 26 (3) | |
| | of which: share | 2 000 | EBA list 26 (3) | |
| 2 | Retained earnings (1) | 40 661 | 26 (1) (c) | |
| 3 | Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards) | 3 488 | 26 (1) | |
| 3a | Funds for general banking risk | | 26 (1) (f) | |
| 4 | Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1 | | 486 (2) | |
| 5 | Minority interests (amount allowed in consolidated CET1) | | 84, 479, 480 | |
| 5a | Independently reviewed interim profits net of any foreseeable charge or dividend | | 26 (2) | |
| **6** | **Common Equity Tier 1 (CET1) capital before regulatory adjustments** | 46 150 | | |

| | **Common Equity Tier 1 (CET1) capital: regulatory adjustments (in HUF million)** | **(A) 31.12.2019** | **(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE** | **(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013** |
|---|---|---|---|---|
| 7 | Additional value adjustments (negative amount) | | 34, 105 | |
| 8 | Intangible assets (net of related tax liability) (negative amount) | (998) | 36 (1) (b), 37, 472 (4) | |
| 10 | Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount) | | 36 (1) (c), 38, 472 (5) | |
| 11 | Fair value reserves related to gains or losses on cash flow hedges | | 33 (a) | |
| 12 | Negative amounts resulting from the calculation of expected loss amounts | | 36 (1) (d), 40, 159, 472 (6) | |
| 13 | Any increase in equity that results from securitised assets (negative amount) | | 32 (1) | |
| 14 | Gains or losses on liabilities valued at fair value resulting from changes in own credit standing | | 33 (1) (b) | |
| 15 | Defined-benefit pension fund assets (negative amount) | | 36 (1) (e), 41, 472 (7) | |
| 16 | Direct and indirect holdings by an institution of own CET1 instruments (negative amount) | | 36 (1) (f), 42, 472 (8) | |
| 17 | Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negatvie amount) | | 36 (1) (g), 44, 472 (9) | |
| 18 | Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | | 36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10) | |
| 19 | Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | | 36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1)-(3), 79, 470, 472 (11) | |

| | **Common Equity Tier 1 (CET1) capital: regulatory adjustments (continuation) (in HUF million)** | **(A) 31.12.2019** | **(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE** | **(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013** |
|---|---|---|---|---|
| 20a | Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative | | 36 (1) (k) | |
| 20b | of which: qualifying holdings outside the financial sector (negative amount) | | 36 (1) (k) (i), 89-91 | |
| 20c | of which: securitisation positions (negative amount) | | 36 (1) (k) (ii)<br>243 (1) (b)<br>244 (1) (b)<br>258 | |
| 20d | of which: free deliveries (negative amount) | | 36 (1) (k) (iii), 379 (3) | |
| 21 | Deferred tax assets arising from temporary difference (amount above 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met) (negative amount) | | 36 (1) (c), 38, 48 (1) (a), 470, 472 (5) | |
| 22 | Amount exceeding the 15% threshold (negative amount) | | 48 (1) | |
| 23 | of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities | | 36 (1) (i), 48 (1) (b), 470, 472 (11) | |
| 25 | of which: deferred tax assets arising from temporary difference | | 36 (1) (c), 38, 48 (1) (a), 470, 472 (5) | |
| 25a | Losses for the current financial year (negative amount) | | 36 (1) (a), 472 (3) | |
| 25b | Foreseeable tax charges relating to CET1 items (negative amount) | | 36 (1) (l) | |
| 26 | Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment (2) | 504 | | |
| 27 | Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount) | | 36 (1) (j) | |
| 28 | **Total regulatory adjustments to Common Equity Tier 1 (CET1)** | (494) | | |
| 29 | **Common Equity Tier 1 (CET1) capital** | 45 656 | | |

| | **Additional Tier 1 (AT1) capital: instruments (in HUF million)** | **(A) 31.12.2019** | **(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE** | **(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013** |
|---|---|---|---|---|
| 30 | Capital instruments and the related share premium accounts | | 51, 52 | |
| 31 | of which: classified as equity under applicable accounting standards | | | |
| 32 | of which: classified as liabilities under applicable accounting standards | | | |
| 33 | Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1 | | 486 (3) | |
| 34 | Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties | | 85, 86, 480 | |
| 35 | of which: instruments issued by subsidiaries subject to phase-out | | 486 (3) | |
| 36 | **Additional Tier 1 (AT1) capital before regulatory adjustments** | 0 | | |

| | Additional Tier 1 (AT1) capital: regulatory adjustments (in HUF million) | (A) 31.12.2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 37 | Direct and indirect holdings by an institution of own AT1 instruments (negative amount) | | 52 (1) (b), 56 (a), 57, 475 (2) | |
| 38 | Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | | 56 (b), 58, 475 (3) | |
| 39 | Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | | 56 (c), 59, 60, 79, 475 (4) | |
| 40 | Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | | 56 (d), 59, 79, 475 (4) | |
| 42 | Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount) | | 56 (e) | |
| 43 | **Total regulatory adjustments to Additional Tier 1 (AT1) capital** | 0 | | |
| 44 | **Additional Tier 1 (AT1) capital** | 0 | | |
| 45 | **Tier 1 capital (T1 = CET1 + AT1)** | 45 656 | | |

| | Tier 2 (T2) capital: instruments and provisions (in HUF million) | (A) 31.12.2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 46 | Capital instruments and the related share premium accounts | 4 000 | 62, 63 | |
| 47 | Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2 | | 486 (4) | |
| 48 | Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party | | 87, 88, 480 | |
| 49 | of which: instruments issued by subsidiaries subject to phase-out | | 486 (4) | |
| 50 | Credit risk adjustments | | 62 (c) & (d) | |
| 51 | **Tier 2 (T2) capital before regulatory adjustment** | 4 000 | | |

| | Tier 2 (T2) capital: regulatory adjustments (in HUF million) | (A) 31.12.2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 52 | Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount) | | 63 (b) (i), 66 (a), 67, 477 (2) | |
| 53 | Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount) | | 66 (b), 68, 477 (3) | |
| 54 | Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount) | | 66 (c), 69, 70, 79, 477 (4) | |
| 55 | Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts) | | 66 (d), 69, 79, 477 (4) | |
| 57 | **Total regulatory adjustments to Tier 2 (T2) capital** | 0 | | |
| 58 | **Tier 2 (T2) capital** | 4 000 | | |
| 59 | **Total capital (TC = T1 + T2)** | 49 656 | | |
| 60 | **Total risk weighted assets** | 283 603 | | |

| | Capital ratios and buffers (in HUF million) | (A) 31.12.2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 61 | Common Equity Tier 1 (as a percentage of total risk exposure amount | 16.10% | 92 (2) (a), 465 | |
| 62 | Tier 1 (as a percentage of total risk exposure amount | 16.10% | 92 (2) (b), 465 | |
| 63 | Total capital (as a percentage of total risk exposure amount | 17.51% | 92 (2) (c) | |
| 64 | Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of total risk exposure amount) | 6.375% | CRD 128, 129, 130 | |
| 65 | of which: capital conservation buffer requirement | 2.500% | | |
| 66 | of which: countercyclical buffer requirement (3) | | | |
| 67 | of which: systemic risk buffer requirement (3) | | | |
| 67a | of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer (4) | | CRD 131 | |
| 68 | Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount) | 8.10% | CRD 128 | |

| | Amounts below the thresholds for deduction (before risk-weighting) (in HUF million) | (A) 31.12.2019 | (B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE | (C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013 |
|---|---|---|---|---|
| 72 | Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions | 10 | 36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4) | |
| 73 | Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions | 1 476 | 36 (1) (i), 45, 48, 470, 472 (11) | |
| 75 | Deferred tax assets arising from temporary difference (amount below 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met) | | 36 (1) (c), 38, 48, 470, 472 (5) | |
| | **Applicable caps on the inclusion of provisions in Tier 2 (in HUF million)** | **(A) 31.12.2019** | **(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE** | **(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013** |
| 76 | Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap) | | 62 | |
| 77 | Cap on inclusion of credit risk adjustments in T2 under standardised approach | | 62 | |
| 78 | Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap) | | 62 | |
| 79 | Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach | | 62 | |
| | **Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022) (in HUF million)** | **(A) 31.12.2019** | **(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE** | **(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013** |
| 80 | Current cap on CET1 instruments subject to phase-out arrangements | | 484 (3), 486 (2) & (5) | |
| 81 | Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities) | | 484 (3), 486 (2) & (5) | |
| 82 | Current cap on AT1 instruments subject to phase-out arrangements | | 484 (4), 486 (3) & (5) | |
| 83 | Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) | | 484 (4), 486 (3) & (5) | |
| 84 | Current cap on T2 instruments subject to phase-out arrangements | | 484 (5), 486 (4) & (5) | |
| 85 | Amount excluded from T2 due to cap (excess over cap after redemptions and maturities) | | 484 (5), 486 (4) & (5) | |

(1) Profit for financial year 2019 is included in retained earnings.
(2) Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds according to 2017/2395 EU regulation.
(3) Capital buffer is not implemented
(4) Not relevant capital buffer

**Chart 164: The effect of the transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds in accordance with 2017/2395 EU regulation**

| IFRS 9 effect | | |
|---|---|---|
| **(in HUF million)** | | **31.12.2019** |
| **Regulatory capital** | | |
| 1 | Common Equity Tier 1 (CET1) capital | 45 656 |
| 2 | Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 45 152 |
| 3 | Tier 1 capital | 45 656 |
| 4 | Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 45 152 |
| 5 | Total capital | 49 656 |
| 6 | Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 49 152 |
| **Total risk weighted assets** | | |
| 7 | Total risk w eighted assets | 283 603 |
| 8 | Total risk-w eighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 283 124 |
| **Capital ratios** | | |
| 9 | Common Equity Tier 1 (as a percentage of total risk exposure amount) | 16.10% |
| 10 | Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 15.95% |
| 11 | Tier 1 (as a percentage of total risk exposure amount) | 16.10% |
| 12 | Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 15.95% |
| 13 | Total capital (as a percentage of total risk exposure amount) | 17.51% |
| 14 | Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 17.36% |
| **Leverage ratio** | | |
| 15 | Total exposure | 497 652 |
| 16 | Leverage ratio | 9.17% |
| 17 | Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied | 9.07% |

## V.3. Trading book market and counterparty risks (capital requirements)

### Chart 165: Trading book positions capital requirement

| Description (in HUF million) | RWAs | Capital requirements |
|---|---|---|
| Interest rate risk (general and specific) | 1 349 | 108 |
| Equity risk (general and specific) | 0 | 0 |
| Foreign exchange risk | 1 524 | 122 |
| Commodity risk | 0 | 0 |
| Options | 0 | 0 |
| Simplified approach | 0 | 0 |
| Delta-plus method | 0 | 0 |
| Scenario approach | 0 | 0 |
| Securitisation (specific riks) | 0 | 0 |
| **Total** | **2 874** | **230** |

### Chart 166: Analysis of CCR exposure by approach

| Description (in HUF million) | Notional | Replacement cost/current market value | Potential future credit exposure | EEPE (Effective Expected Positive | Multiplier | EAD post CRM | RWAs |
|---|---|---|---|---|---|---|---|
| Mark to market | | 1 677 | 564 | | | 2 242 | 0 |
| Original exposure | 0 | | | | | 0 | 0 |
| Standardised approach | | 0 | | | 0 | 0 | 0 |
| IMM (for derivatives and SFTs) | | | | 0 | 0 | 0 | 0 |
| *Of which securities financing transactions* | | | | 0 | 0 | 0 | 0 |
| *Of which derivatives and long settlement transactions* | | | | 0 | 0 | 0 | 0 |
| *Of which from contractual cross-product netting* | | | | 0 | 0 | 0 | 0 |
| Financial collateral simple method (for SFTs) | | | | | | 0 | 0 |
| Financial collateral comprehensive method (for SFTs) | | | | | | 0 | 0 |
| VaR for SFTs | | | | | | 0 | 0 |
| **Total** | | | | | | | **0** |

## Chart 167: CVA capital charge

| Description (in HUF million) | Exposure value | RWAs |
|---|---|---|
| Total portfolios subject to the advanced method | 0 | 0 |
| VaR component (including the 3 x multiplier) | | 0 |
| SVaR component (including the 3 x multiplier) | | 0 |
| All portfolios subject to the standardised method | 0 | 0 |
| Based on the original exposure method | 0 | 0 |
| Total subject to the CVA capital charge | 0 | 0 |

## Chart 168: CCR exposures by regulatory portfolio and risk

| Exposure classes | Risk weight | | | | | | | | | | | Total | Of which unrated |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (in HUF million) | 0% | 2% | 4% | 10% | 20% | 50% | 70% | 75% | 100% | 150% | Egyéb | | |
| Central governments or central banks | 388 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 388 | 0 |
| Regional government or local authorities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Public sector entities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Multilateral development banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| International organisations | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Institutions | 1 853 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 853 | 0 |
| Corporates | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Retail | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Institutions and corporates with a short-term credit assessment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other items | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | **2 242** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **2 242** | **0** |

## V.4. Leverage

**Chart 169: Net exposure value to leverage ratio**

| | in HUF million | Applicable Amount |
|---|---|---|
| 1 | Total assets as per published financial statements | 491 399 |
| 2 | Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation | 0 |
| 3 | (Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013) | 0 |
| 4 | Adjustments for derivative financial instruments | 2 241 |
| 5 | Adjustment for securities financing transactions (SFTs) | 0 |
| 6 | Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures) | 5 010 |
| EU-6a | (Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013) | 0 |
| EU-6b | (Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013) | 0 |
| 7 | Other adjustments | (998) |
| **8** | **Leverage ratio total exposure measure** | **497 652** |

## Chart 170: Leverage ratio

| | in HUF million | CRR leverage ratio exposures |
|---|---|---|
| **On-balance sheet exposures (excluding derivatives and SFTs)** | | |
| 1 | On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral) | 491 399 |
| 2 | (Asset amounts deducted in determining Tier 1 capital) | (998) |
| **3** | **Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)** | **490 401** |
| **Derivative exposures** | | |
| 4 | Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin) | 1 677 |
| 5 | Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method) | 564 |
| EU-5a | Exposure determined under Original Exposure Method | 0 |
| 6 | Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework | 0 |
| 7 | (Deductions of receivables assets for cash variation margin provided in derivatives transactions) | 0 |
| 8 | (Exempted CCP leg of client-cleared trade exposures) | 0 |
| 9 | Adjusted effective notional amount of written credit derivatives | 0 |
| 10 | (Adjusted effective notional offsets and add-on deductions for written credit derivatives) | 0 |
| **11** | **Total derivatives exposures (sum of lines 4 to 10)** | **2 241** |
| **SFT exposures** | | |
| 12 | Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions | 0 |
| 13 | (Netted amounts of cash payables and cash receivables of gross SFT assets) | 0 |
| 14 | Counterparty credit risk exposure for SFT assets | 0 |
| EU-14a | Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013 | 0 |
| 15 | Agent transaction exposures | 0 |
| EU-15a | (Exempted CCP leg of client-cleared SFT exposure) | 0 |
| **16** | **Total securities financing transaction exposures (sum of lines 12 to 15a)** | **0** |
| **Other off-balance sheet exposures** | | |
| 17 | Off-balance sheet exposures at gross notional amount | 28 436 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | (23 426) |
| **19** | **Other off-balance sheet exposures (sum of lines 17 and 18)** | **5 010** |
| **Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)** | | |
| EU-19a | (Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet)) | 0 |
| EU-19b | (Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet)) | 0 |
| **Capital and total exposure mesure** | | |
| 20 | Tier 1 capital | 45 656 |
| 21 | Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b) | 497 652 |
| **Leverage ratio** | | |
| **22** | **Leverage ratio** | **9.17%** |
| **Choice on transitional arrangements and amount of derecognised fiduciary items** | | |
| EU-23 | Choice on transitional arrangements for the definition of the capital measure | 0 |
| EU-24 | Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013 | 0 |

Note: The exposures are calculated according to 2017/2395 EU regulation, including the effect of transitional arrangements for mitigating the impact of the introduction of IFRS 9 and the correction in accordance with the Article 1. (7) paragraph b) point.

# V.5. Credit risk adjustments

## V.5.1. Methods of valuations and provisions

The financial reports of the Merkantil Bank are based on IFRS regulation. Measurement and provision allocation of assets, investments and off-balance sheet liabilities are realized according to frameworks of relevant IFRS/IAS standards.
In its regulations entitled "International Financing Reporting Standards (IFRS) valuation requirements" Merkantil Bank provides detailed regulations pertaining to the measurement and provision recognition of outstanding debts, investments and off-balance sheet liabilities.

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

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

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

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

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

In case of the Stage 1 deals 12-month credit losses must be calculated by the expectations of the default probability, for Stage 2 and Stage 3 deals lifetime expected losses must be calculated as impairment.
Depending on the item, assessment based on the following aspects:

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

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

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

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

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

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

A credit risk exposure shall be considered as restructured:

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

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

**Portfolio (collective) assessment**

The collective assessment based on the following parameters: probability of defaults, cure rate, loss given default. The condition of applying collective assessment is that the assets should be allocable to groups representing similar credit risk based on major credit risk characteristics and their capability to fulfill contractual obligations. The most important variables of the assessment procedure are payment delay, deal/client rating, the restructuring information and the default status.
Upon estimating the future cash flows related to the group(s) of financial assets, the historic credit loss data of the assets representing similar credit risk, the macroeconomic factors and information on the future of financial instruments must be taken into account.
The Merkntil Bank shall measure expected credit losses of a financial asset in a way that reflects:

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

**Individual assessment**

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

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

**Chart 171: Qualified exposures and impairment**

| (in HUF million) | Accumulated specific / general credit risk adjusment |
|---|---|
| **Opening balance** | **13 237** |
| Increases due to amounts set aside for estimated loan losses during the period | 3 008 |
| Decreases due to amounts reversed for estimated loan losses during the period | (3 439) |
| Decreases due to amounts taken against accumulated credit risk adjustments | 0 |
| Transfers between credit risk adjustments | 0 |
| Impact of exchange rate differences | 0 |
| Business combinations, including acquisitions and disposals of subsidiaries | 0 |
| Other adjustments | (2 587) |
| Derecognition of financial instruments (write-offs) | (2 587) |
| **Closing balance** | **10 219** |
| Recoveries on credit risk adjustments recorded directly to the statement of profit or loss | 0 |
| Specific credit risk adjustments directly recorded to the statement of profit or loss | 0 |

**Chart 172: Changes of non-performing loan exposures**

| Description (in HUF million) | Gross carrying value defaulted exposures |
|---|---|
| **Opening balance - 31.12.2018** | **14 171** |
| Loans and debt securities that have defaulted since the last reporting period | 5 221 |
| Returned to non-defaulted status | (2 589) |
| Amounts written-off | (2 559) |
| Other changes* | (974) |
| **Closing balance - 31.12.2019** | **13 270** |

* Contains the IFRS 9 transitional difference

## V.5.2. Exposures to credit risk

The presented RWAs and exposures in this chapter are calculated according to 2017/2395 EU regulation, including the effect of transitional arrangements for mitigating the impact of the introduction of IFRS 9 and the correction in accordance with the Article 1. (7) paragraph b) point.

**Chart 173: Net exposures broken down by net exposure classes (before credit risk mitigation)**

| Exposures (in HUF million) | 31.12.2019 | 2019 Average |
|---|---|---|
| Exposures to central governments or central banks | 52 970 | 33 626 |
| Exposures to regional governments or local authorities | 51 | 69 |
| Exposures to public sector entities | 208 | 230 |
| Exposures to multilateral development banks | 0 | 0 |
| Exposures to institutions | 71 434 | 72 130 |
| Exposures to corporates | 172 038 | 157 790 |
| Retail exposures | 184 817 | 175 850 |
| Exposures secured by mortgages on immovable property | 0 | 6 |
| Exposures in default | 5 264 | 4 388 |
| Exposures associated with particularly high risk | 0 | 0 |
| Exposures in the form of covered bonds | 0 | 0 |
| Exposures in the form of units or shares in collective investment undertakings ('CIUs') | 0 | 0 |
| Equity exposures | 6 402 | 6 222 |
| Other items | 1 090 | 1 107 |
| **Total** | **494 274** | **451 417** |

**Chart 174: Exposures broken down by geographical areas (by the country of obligors) on 31st December 2019**

| (in HUF million) | Exposures to central governments or central banks | Exposures to regional governments or local authorities | Exposures to public sector entities | Exposures to multilateral development banks | Exposures to institutions | Exposures to corporates | Retail exposures | Exposures secured by mortgages on immovable property | Exposures in default | Exposures associated with particularly high risk | Exposures in the form of covered bonds | Exposures in the form of units or shares in collective investment undertakings ('CIUs') | Equity exposures | Other items | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total** | **52 970** | **51** | **208** | **0** | **71 434** | **172 038** | **184 817** | **0** | **5 264** | **0** | **0** | **0** | **6 402** | **1 090** | **494 274** |
| Hungary | 52 970 | 51 | 208 | 0 | 71 434 | 168 091 | 184 817 | 0 | 5 264 | 0 | 0 | 0 | 6 402 | 1 090 | 490 326 |
| Bulgaria | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Croatia | 0 | 0 | 0 | 0 | 0 | 1 645 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 645 |
| Romania | 0 | 0 | 0 | 0 | 0 | 2 303 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 303 |

## Chart 175: Exposure classes broken down by counterparty type on 31st December 2019

| (in HUF million) | Exposures to central governments or central banks | Exposures to regional governments or local authorities | Exposures to public sector entities | Exposures to multilateral development banks | Exposures to institutions | Exposures to corporates | Retail exposures | Exposures secured by mortgages on immovable property | Exposures in default | Exposures associated with particularly high risk | Exposures in the form of covered bonds | Exposures in the form of units or shares in collective investment undertakings ('CIUs') | Equity exposures | Other items | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total** | **52 970** | **51** | **208** | **0** | **71 434** | **172 038** | **184 817** | **0** | **5 264** | **0** | **0** | **0** | **6 402** | **1 090** | **494 274** |
| Governments | 52 970 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 52 970 |
| Municipal | 0 | 51 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 51 |
| Public sector entities | 0 | 0 | 208 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 208 |
| Institutions | 0 | 0 | 0 | 0 | 71 434 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 71 434 |
| Coporate | 0 | 0 | 0 | 0 | 0 | 172 038 | 0 | 0 | 3 329 | 0 | 0 | 0 | 0 | 0 | 175 368 |
| Corpoarte SME | 0 | 0 | 0 | 0 | 0 | 93 992 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 93 992 |
| Retail | 0 | 0 | 0 | 0 | 0 | 0 | 184 817 | 0 | 1 934 | 0 | 0 | 0 | 0 | 0 | 186 752 |
| Retail SME | 0 | 0 | 0 | 0 | 0 | 0 | 104 841 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 104 841 |
| Equity | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 6 402 | 0 | 6 402 |
| Other* | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 090 | 1 090 |

* Other, non-credit risk items; collective, investment funds; high risk items

## Chart 176: Exposure classes broken down by residual maturity on 31st December 2019

| (in HUF million) | On demand | < = 1 year | > 1 year < = 5 year | > 5 year | No stated maturity | Total |
|---|---|---|---|---|---|---|
| **Total** | **0** | **36 072** | **249 136** | **40 247** | **168 818** | **494 274** |
| Central governments or central banks | 0 | 0 | 0 | 0 | 52 970 | 52 970 |
| Regional governments or local authorities | 0 | 1 | 28 | 4 | 17 | 51 |
| Public sector entities | 0 | 12 | 176 | 0 | 20 | 208 |
| Institutions | 0 | 0 | 1 | 0 | 71 433 | 71 434 |
| Corporates | 0 | 25 720 | 98 766 | 11 310 | 36 242 | 172 038 |
| Retail | 0 | 9 168 | 146 915 | 28 584 | 151 | 184 817 |
| Secured by mortgages on immovable property | 0 | 0 | 0 | 0 | 0 | 0 |
| Exposures in default | 0 | 1 171 | 3 250 | 350 | 494 | 5 264 |
| Items associated w ith particularly high risk | 0 | 0 | 0 | 0 | 0 | 0 |
| Covered bonds | 0 | 0 | 0 | 0 | 0 | 0 |
| Equity exposures | 0 | 0 | 0 | 0 | 6 402 | 6 402 |
| Other exposures | 0 | 0 | 0 | 0 | 1 090 | 1 090 |

## Chart 177: Ageing of past-due exposures

| (in HUF million) | Gross carrying values | | | | | |
|---|---|---|---|---|---|---|
| | ≤ 30 days | > 30 days ≤ 60 days | > 60 days ≤ 90 days | > 90 days ≤ 180 days | > 180 days ≤ 1 year | > 1 year |
| Loans | 354 209 | 3 707 | 777 | 696 | 388 | 6 286 |
| Debt securities | | | | | | |
| **Total exposures** | **354 209** | **3 707** | **777** | **696** | **388** | **6 286** |

## Chart 178: Non-performing and forborne exposures

| (in HUF million) | Gross carrying amount of performing and non-performing exposures | | | | | | | Accumulated impairment and provisions and negative fair value adjustments due to credit risk | | | | Collaterals and financial guarantees recieved | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Of which performing but past due > 30 days and <=90 days | Of which performing forborne | Of which non-performing | | | | On performing exposures | | On non-performing exposures | | On non-performing exposures | Of which forborne exposures |
| | | | | | Of which defaulted | Of which impaired | Of which forborne | | Of which forborne | | Of which forborne | | |
| Debt securities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Loand and advances | 366 064 | 3 713 | 43 | 13 270 | 13 270 | 13 270 | 3 919 | 1 647 | 6 | 8 425 | 3 145 | 3 971 | 64 |
| Off-balance -sheet exposures | 0 | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

Note: Exposures according to EBA definition.

## Chart 179: Collateral obtained by taking possession and execution processes

| | (in HUF million) | Collateral obtained by taking possession: Value at initial recognition | Collateral obtained by taking possession: Accumulated negative changes |
|---|---|---|---|
| 1 | Property, plant and equipment (PP&E) | | |
| 2 | Other than PP&E | 295 | (7) |
| *3* | Residential immovable property | | |
| *4* | Commercial immovable property | | |
| *5* | Movable property (auto,shipping, etc) | 295 | (7) |
| *6* | Equity and debt instruments | | |
| *7* | Other | | |
| **8** | **Total** | **295** | **(7)** |

## Chart 180: Credit Quality of exposures by exposure class and instrument 31st December 2019

| (in HUF million) | Gross carrying values of: Defaulted exposures | Gross carrying values of: Non-defaulted exposures | Specific/General credit risk adjustment | Net values |
|---|---|---|---|---|
| Exposures to central governments or central banks | 0 | 52 970 | 0 | 52 970 |
| Exposures to regional governments or local authorities | 0 | 51 | 0 | 51 |
| Exposures to public sector entities | 0 | 209 | 1 | 208 |
| Exposures to multilateral development banks | 0 | 0 | 0 | 0 |
| Exposures to institutions | 0 | 71 434 | 0 | 71 434 |
| Exposures to corporates | 0 | 172 688 | 649 | 172 038 |
| Retail exposures | 0 | 185 814 | 997 | 184 817 |
| Exposures secured by mortgages on immovable property | 0 | 0 | 0 | 0 |
| Exposures in default | 13 270 | 419 | 8 425 | 5 264 |
| Exposures associated with particularly high risk | 0 | 0 | 0 | 0 |
| Exposures in the form of covered bonds | 0 | 0 | 0 | 0 |
| Exposures in the form of units or shares in collective investment undertakings ('CIUs') | 0 | 0 | 0 | 0 |
| Equity exposures | 0 | 6 402 | 0 | 6 402 |
| Other items | 0 | 1 090 | 0 | 1 090 |
| **Total** | **13 270** | **491 076** | **10 072** | **494 274** |

**Chart 181: Credit quality of exposures by counterparty types on 31st December 2019**

| (in HUF million) | Gross carrying values of | | Specific/Geeneral credit risk adjustment | Net values |
|---|---|---|---|---|
| | Defaulted exposures | Non-defaulted exposures | | |
| Governments | 0 | 52 970 | 0 | 52 970 |
| Municipal | 0 | 51 | 0 | 51 |
| Public sector entities | 0 | 209 | 1 | 208 |
| Institutions | 0 | 71 434 | 0 | 71 434 |
| Coporate | 4 162 | 172 733 | 1 527 | 175 368 |
| Corpoarte SME | 3 460 | 91 713 | 1 181 | 93 992 |
| Retail | 9 108 | 186 188 | 8 544 | 186 752 |
| Retail SME | 1 259 | 104 856 | 1 275 | 104 841 |
| Equity | 0 | 6 402 | 0 | 6 402 |
| Other* | 0 | 1 090 | 0 | 1 090 |
| **Total** | **13 270** | **491 076** | **10 072** | **494 273** |

* Other, non-credit risk items; collective, investment funds; high risk items

**Chart 182: Credit quality of exposures by geography on 31st December 2019**

| (in HUF million) | Gross carrying values of | | Specific/General credit risk adjustment | Net values |
|---|---|---|---|---|
| | Defaulted exposures | Non-defaulted exposures | | |
| **Total** | **13 270** | **491 076** | **10 072** | **494 274** |
| Hungary | 13 270 | 487 109 | 10 053 | 490 326 |
| Bulgaria | 0 | 0 | 0 | 0 |
| Croatia | 0 | 1 653 | 8 | 1 645 |
| Romania | 0 | 2 314 | 11 | 2 303 |

**Chart 183: Overview of CRM techniques**

| (in HUF million) | Exposures unsecured - Carrying amount | Exposures to be secured | Exposures secured by collateral | Exposures secured by financial guarantees | Exposures secured by credit derivatives |
|---|---|---|---|---|---|
| Total loans | 28 364 | 337 700 | 337 700 | 0 | 0 |
| Total debt securities | | | | 0 | 0 |
| **Total exposures** | **28 364** | **337 700** | **337 700** | **0** | **0** |
| Of which defaulted | 5 250 | 8 020 | 8 020 | 0 | 0 |

## V.6. Use of External Credit Assessment Institutions

**Chart 184: Exposures broken down by credit quality steps (CQS) of obligors**

| (in HUF million) | Risk weight | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 0% | 20% | 50% | 75% | 100% | 150% | 250% | Total | Of which unrated |
| Exposures to central governments or central banks | 52 970 | 0 | 0 | 0 | 0 | 0 | 0 | 52 970 | 0 |
| Exposures to regional governments or local authorities | 0 | 51 | 0 | 0 | 0 | 0 | 0 | 51 | 0 |
| Exposures to public sector entities | 0 | 20 | 0 | 0 | 188 | 0 | 0 | 208 | 0 |
| Exposures to multilateral development banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exposures to institutions | 70 160 | 0 | 0 | 0 | 1 273 | 0 | 0 | 71 434 | 0 |
| Exposures to corporates | 19 705 | 0 | 0 | 0 | 152 334 | 0 | 0 | 172 038 | 0 |
| Retail exposures | 0 | 0 | 0 | 184 817 | 0 | 0 | 0 | 184 817 | 0 |
| Exposures secured by mortgages on immovable property | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exposures in default | 0 | 0 | 0 | 0 | 3 274 | 1 990 | 0 | 5 264 | 0 |
| Exposures associated with particularly high risk | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exposures in the form of covered bonds | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Exposures in the form of units or shares in collective investment undertakings ('CIUs') | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Equity exposures | 0 | 0 | 0 | 0 | 4 926 | 0 | 1 476 | 6 402 | 0 |
| Other items | 41 | 0 | 0 | 0 | 1 048 | 0 | 0 | 1 090 | 0 |
| **Total** | **142 877** | **71** | **0** | **184 817** | **163 043** | **1 990** | **1 476** | **494 274** | **0** |

## V.7. Capital requirement for operational risk

Capital requirements for operational risk of Merkantil Bank amounted to HUF 1,079 million on 31st December 2019, which was determined by advanced measurement approach.

**Chart 185: Operational risk capital requirements on 31st December 2019:**

| Operational risk capital requirement's breakdown based on methods (in HUF million) | |
|---|---|
| Standardised Approach | 0 |
| Alternative Standardised Approach | 0 |
| Advanced Measurement Approach | 1 079 |
| **Total** | **1 079** |

## V.8. Exposures in equities not included in the trading book on 31st December 2019

**Chart 186: Exposures in equities not included in the trading book according to IFRS on 31st December 2019**

| Number | Entity | Balance sheet value (in HUF million) | Listed (Exchanged-traded) |
|---|---|---|---|
| 1 | DSK Leasing AD | 209 | No |
| 2 | Garantiqa Credit Guarantee Closed Co. Ltd. | 10 | No |
| 3 | Merkantil Lease Service LLC | 625 | No |
| 4 | OTP Property Leasing Ltd. | 50 | No |
| 5 | NIMO 2002 Ltd. | 1 477 | No |
| 6 | OTP Bank Romania S.A. | 0 | No |
| 7 | OTP Leasing d.d. | 116 | No |
| 8 | OTP Leasing Romania IFN S.A. | 596 | No |
| 9 | OTP Travel Ltd. | 2 614 | No |
| 10 | SPLC Property Management Ltd. | 210 | No |
| 11 | OTP Lizing d.o.o. | 505 | No |

## V.9. Exposure to interest rate risk on positions not included in the trading book

Asset-Liability Directorate measures banking book interest rate risk exposure monthly, and also presents it as part of the consolidated exposure to the management with the same frequency.

The size and direction of the exposure is determined based on sensitivity analysis mainly.

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 analysis were prepared by assuming only the adversing interest rate changes. The main assumptions were as follows:

- Floating-rate assets and liabilities were repriced to the modeled 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.
- The assets and liabilities with interest rate lower than 0.3% assumed to be unchanged during the whole period.

The sensitivity of interest income to changes in BUBOR was analyzed assuming two interest rate path scenarios:

- HUF base rate stays unchanged and BUBOR decreases gradually to 0.0% (scenario 1)
- HUF base rate stays unchanged and BUBOR decreases gradually by 50 bps over the next year (scenario 2)

The net interest income in a one year period after January 1, 2020 would be decreased by HUF 22 million (scenario 1) and HUF 84 million (scenario 2) as a result of these simulation.

Furthermore, the effects of an instant 10 bp parallel shift of the HUF, EUR and CHF yield-curves on net interest income over a one-year period and on the market value of the hedge government bond portfolio booked against capital was analyzed. The results can be summarized as follows (HUF million):

**Chart 187: The effects of an instant 10 bp parallel shift of the HUF, EUR and CHF yield-curves on net interest income over a one-year period and on the market value of the hedge government bond portfolio booked against capital**

| Description (in HUF million) | Effects to the net interest income (1Year period) |
|---|---|
| HUF -0.1% parallel shift | (28) |
| EUR -0.1% parallel shift | (1) |
| CHF -0.1% parallel shift | 0 |
| **Total** | **(29)** |

## V.10. Disclosure of encumbered and unencumbered assets

**Chart 188: The encumbered and unencumbered assets in carrying and fair value amounts by broad categories of asset type**

| (in HUF million) | Carrying amount of encumbered assets | Fair value of encumbered assets | Carrying amount of unencumbered assets | Fair value of unencumbered assets |
|---|---|---|---|---|
| **Assets of the reporting institution** | **76 388** | | **415 011** | |
| Equity instruments | 0 | | 0 | 0 |
| Debt securities | 62 867 | 59 457 | 12 257 | 12 637 |
| Other assets | 0 | | 13 521 | |

**Chart 189: Collateral received, by broad categories of product type**

| (in HUF million) | Fair value of encumbered collateral received or own debt securities issued | Fair value of collateral received or own debt securities issued available for encumbrance |
|---|---|---|
| **Collateral received by the reporting institution** | **0** | **59 457** |
| Equity instruments | 0 | 0 |
| Debt securities | 0 | 59 457 |
| Other collateral received | 0 | 0 |
| **Own debt securities issued other than own covered bonds or ABSs** | **0** | **0** |

**Chart 190: Encumbered assets/collateral received and associated liabilities**

| (in HUF million) | Matching liabilities, contingent liabilities or securities lent | Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered |
|---|---|---|
| **Carrying amount of selected financial liabilities** | **58 532** | **76 388** |

The encumbrances of Merkantil Bank Ltd.’s assets and collaterals received mostly arise from the funds granted by the MNB’s Funding for Growth Scheme. The collateral for the central bank funding (the MNB’s Funding for Growth Scheme) is partly the loans refinanced by the funds, and in part the mortgage bonds issued by OTP Mortgage Bank, which are in Merkantil Bank Ltd.’s books. The encumbrances caused by derivative deals largely arise from CIRS transactions, the market value of which may fluctuate depending on the foreign exchange rate.

In respect of the items recognized under other assets in the balance sheet, Merkantil Bank Ltd. does not consider its cash balance, intangible assets, tangible assets, or inventories subject to encumbrance.

## V.11. Liquidity risk

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

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

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

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

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

**Chart 191: Merkantil's liquidity coverage ratio**

| Description<br>(in HUF million) | 31.12.2019 |
|---|---|
| Liquidity Buffer | 94 078 |
| Total Net Liquidity Outflow | 5 532 |
| Liquidity Coverage Ratio (%) | 1 701% |

## V.12. Regional distribution of the activity, return on assets ratio

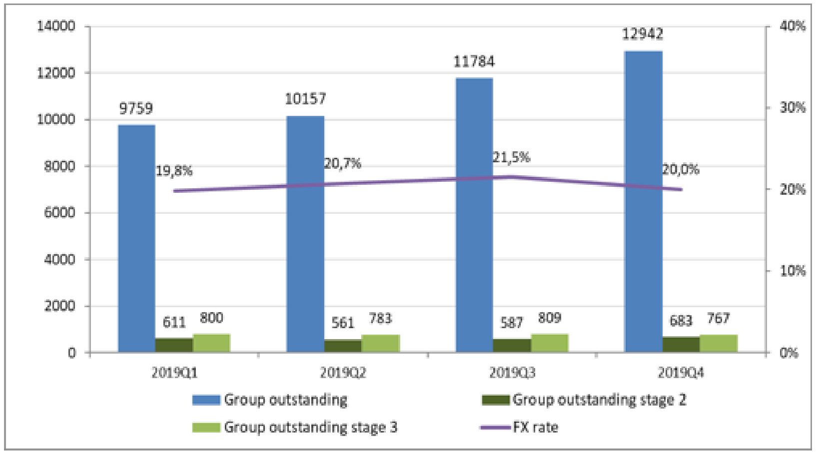
**Chart 192: Regional distribution of the activity, return on assets ratio**

| Description<br>(in HUF million) | Hungary<br>year 2019 |
|---|---|
| Turnover | 20 601 |
| Profit or loss before tax | 8 810 |
| Tax on profit or loss | 950 |
| Public subsidies received | 0 |
| Number of employees on a full time basis | 261 |
| Return on assets | 1.8% |

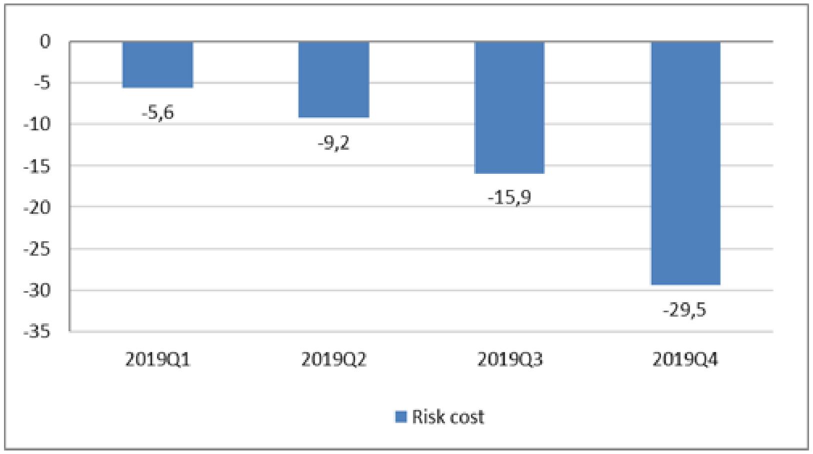
# VI. Appendix

## VI.1. OTP Group's risk profile

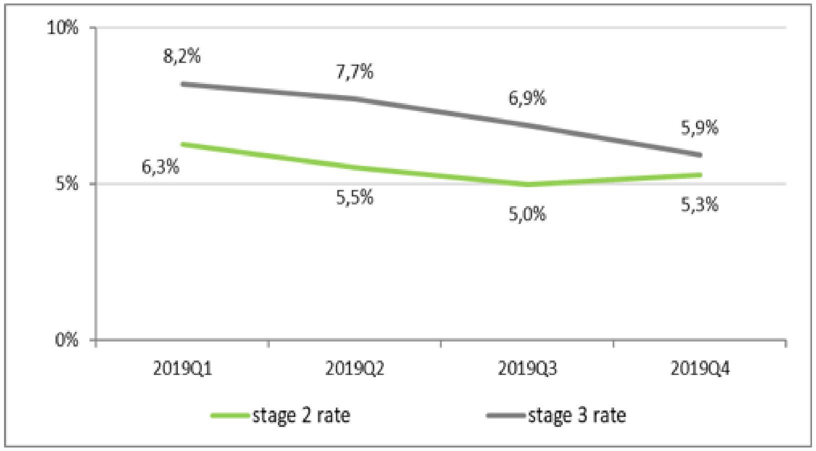
Closing volume (Bn HUF)



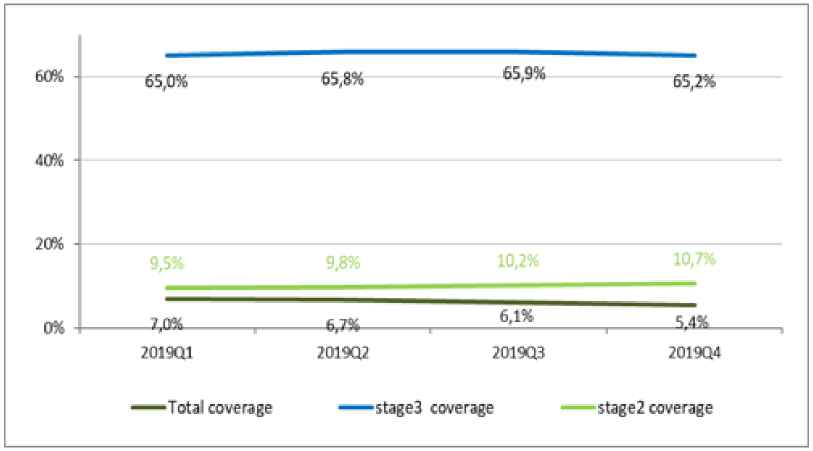

Cumulated risk cost (Bn HUF)




Stage2 and Stage3 rate




Coverage



## VI.2. Declaration about the appropriatenes of risk management

### Declarations

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

   This statement based on the declaration on OTP Bank Group's Strategy for Risk Assumption regarding 2020-2022 made by the Board of Directors on 10th December 2019 (ref. IG 2019/220).

2) Based on the above information OTP Bank Plc. declares – relating to article 435. (1) f) of CRR – that OTP Group's risk profile is consistent with the risk appetite of the group determined by OTP Bank Group's Strategy for Risk Assumption.

   The Board of Directors was informed about the quality of the Group's portfolio (2019Q3) on 10th December 2019.

## VI.3. Declaration of the appropriatenes of the liquidity risk management framework

*The Declaration of the appropriateness of the liquidity risk management framework has been approved by Asset Liability Committee (Decision number: 2019/45/3.)*

# Declaration

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

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

The following table contains the key liquidity risk indicators and their limits as of the end of 2019:

| Risk indicator | 31.12.2019 fact | Limit |
|---|---|---|
| Foreign Currency Equilibrium Ratio (regulatory) | 3.4% | maximum 15% |
| Forign Exchange Funding Adequacy Ratio (regulatory) | 171% | minimum 100% |
| Mortgage Financing Adequacy Ratio (regulatory) | 26.4% | minimum 20% |
| Liquidity Coverage Ratio (regulatory) | 144% | minimum 100% |
| Interbank Funding Ratio (regulatory) | 9.1% | maximum 30% |
| Primary liquidity reserves (internal) | 2 587 Mrd Ft | 969 Mrd Ft |
| Operative liquidity reserves (internal) | 2 449 Mrd Ft | 1 110 Mrd Ft |

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