OTP Bank Plc.
Credit Rating Report—2023

Rating Results

Long-term Issuer Credit Rating[1]: AAA	
Rating Outlook: Stable	

Date of Rating: 28, June, 2023

Credit Rating Methodologies and Models

Item	Version
Commercial Banks Credit Rating Methodology	V4.0.202208
Commercial Banks Credit Rating Model (Scorecard)	V4.0.202208

Note: the methodology and model above have been disclosed on Lianhe Ratings' website

Scorecard Results

Item	Score	Risk factor	Sub-factor	Score
Business risk	A	Business environment	Macro and regional risk	2
			Industry risk	2
		Competitiveness	Corporate governance	1
			Future development	2
			Business operation	1
			Risk management	2
Financial risk	F2	Solvency	Capital adequacy	1
			Asset quality	3
			Profitability	2
		Liquidity		2
Indicative rating				aa+
Standalone profile adjustment:				--
Standalone rating				aa+
External support adjustment: government support				+1
Final rating				AAA

Note: Business risk is divided into 6 levels, ranging from A to F, while each risk factor and sub-factor is divided into 6 levels, ranging from 1 to 6 (1 indicates the best and 6 indicated the worst); Financial risk is divided into 7 levels, ranging from F1 to F7, while each risk factor and sub-factor is divided into 7 levels, ranging from 1 to 7 (1 indicates the best and 7 indicated the worst); Financial indicators are weighted average of the recent three years; Indicative rating is determined by a matrix model

Rationale

The credit rating assigned by China Lianhe Credit Rating Co., Ltd. ("Lianhe Ratings") to OTP Bank Plc. ("OTP Bank" or "the Bank") reflects the Bank's well-established corporate governance and internal control system, sound risk management, strong competitiveness in Hungary, adequate capital and strong profitability. Besides, OTP Bank has subsidiaries in other countries such as Bulgaria, Croatia, Serbia and Slovenia, and these subsidiaries also enjoys strong competitiveness in local market. On the other hand, Lianhe Ratings also factors the possible worsening of asset quality, and the adverse impact of macroeconomic trends on the Bank's credit profile.

Looking forward, OTP Bank will enhance its market position in 12 countries, mainly in Central and Eastern Europe (CEE) while expanding its business presence to other countries, thus to enhance its market share in CEE region and its overall competitiveness in the international market. On the other hand, the impact of economic slowdown in CEE countries and the conflict between Russia and Ukraine on its business operation and asset quality should be paid attention to.

In conclusion, Lianhe Ratings assigned 'AAA' long-term issuer credit rating to the OTP Bank; the rating outlook is stable.

Strengths

1. **Strong competitiveness in Hungary.** OTP Bank enjoys high brand awareness and reputation in CEE countries and has competitive advantages in Hungarian market, maintaining the largest market share in terms of both deposits and loans.
2. **Well-established corporate governance and internal control system.** As a listed company, OTP Bank has a sound corporate governance and internal control system, and its risk management system has been improved continuously.

[1] Long-term Issuer Credit Rating in China (National Scale).

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** The official rating report is in Chinese and the English version is only for reference. In the event of any conflict between the Chinese version and English version, the Chinese version shall prevail.*

3. **Strong profitability.** OTP Bank's net interest margin remained at a relatively high level, while in 2022 net fees and commissions made a larger contribution to net profit compared to 2021.
4. **High capital adequacy levels.** Benefitting from sufficient retained earnings, OTP Bank enjoys high capital adequacy levels.
5. **Possible support from the government.** As OTP Bank has the largest market share in terms of both deposits and loans in Hungary and enjoys systematic importance to the Hungarian financial system, it is possible that it may receive support from the government directly or indirectly when caught in difficulties.

Concerns

1. **Cross-border operations require a higher level of management competence.** OTP Bank has been developing business in many CEE countries by acquiring high-quality local banks, and its cross-border operations place higher demands on its management competence.
2. **Changes in asset quality should be paid attention to.** OTP Bank's impaired loans (stage 3) are relatively large in amount, while it has a certain amount of restructured loans. Considering the current macroeconomic environment and the ongoing conflict between Russia and Ukraine, its asset quality and provision level may be under pressure in the future.
3. **The impact of macroeconomic changes in CEE countries on its future development might be a concern.** The economic slowdown and high inflation in CEE countries may have an adverse impact on OTP Bank's future development.

Major Indicators

Indicator	End-2020	End-2021	End-2022
Total Assets (HUF Bn)	23335.84	27553.38	32804.21
Shareholders' Equity (HUF Bn)	2537.11	3036.77	3322.31
NPL Ratio (%)	3.79	3.22	3.06
Provision Coverage Ratio (%)	153.51	166.32	166.80
Loan Loss Provision Ratio (%)	5.81	5.35	5.11
Net Stable Funding Ratio (%)	139	139	137
Shareholder' Equity/Total Assets (%)	10.87	11.02	10.13
Capital Adequacy Ratio (%)	17.7	19.1	17.5
Tier-1 Capital Adequacy Ratio (%)	15.4	17.5	16.1
Core Tier-1 Capital Adequacy Ratio	15.4	17.5	16.1
Indicator	**2020**	**2021**	**2022**
Net Interest Income (HUF Bn)	782.67	874.31	1091.31
Net Profit (HUF Bn)	254.05	456.31	335.64
Net Interest Margin (%)	3.61	3.51	3.51
Cost to Income Ratio (%)	54.1	49.7	47.6
Average ROA (%)	1.17	1.79	1.11
Average ROE (%)	10.52	16.37	10.56

Note: RMB 100≈HUF 5383.29 by the end of 2022
Source: Annual report of OTP Bank

History of Issuer Rating

Credit rating	Rating outlook	Date of Rating	Analyst	Rating methodologies/models	Rating report
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I. Overview

OTP Bank Plc. ("OTP Bank" or "the Bank") is a Hungarian bank and its predecessor, called National Savings Bank, was established in 1949 as a nation-wide, state-owned, banking entity. OTP Bank's privatization began in 1995. As a result of 3 public offers along with the introduction of the Bank's shares into the Budapest Stock Exchange ("BSE"), the Bank has realized its privatization process. At end-2022, the share capital OTP Bank was HUF 28.0 billion, 81.85% of which was held by domestic and international institution investors, while individual investors (17.43%), employees (0.55%), treasury stock (0.13%) and government-controlled enterprises (0.05%) held the rest, indicating a well-diversified shareholding structure. The entities that own shareholding or voting rights of more than 5% are listed below (Table 1).

Table1 Shareholders with more that 5% of shareholding/voting rights at end-2022

Shareholder	Shareholding
MOL(Hungarian Oil and Gas Company Plc.)	8.57%
Groupama Group	5.09%
Of which: Groupama Gan Vie SA	5.05%
Groupama Biztosító Ltd.	0.04%
Total	**13.66%**

Source: Annual report of OTP Bank

OTP Bank operates in other counties and regions of Central and Eastern Europe (CEE) by acquiring local banks or setting up subsidiaries and branches in the Republic of Slovenia ("Slovenia"), the Republic of Croatia ("Croatia"), the Republic of Serbia ("Serbia"), the Republic of Montenegro ("Montenegro"), the Republic of Albania ("Albania"), the Republic of Bulgaria ("Bulgaria"), Romania, the Republic of Moldova ("Moldova"), and also Ukraine, Russian Federation ("Russia") and Republic of Uzbekistan ("Uzbekistan"). OTP Bank has established 352 branches in Hungary, and the foreign branches totaled 1,040 at end-2022. The foreign subsidiaries include OTP Bank JSC (Ukraine), DSK Bank EAD (Bulgaria), OTP Banka Srbija akcionarsko drustvo Novi Sad (Serbia) and so on.

OTP Bank's registered address: 16, Nádor Street, Budapest 1051, Hungary.

II. Operating Environment

OTP Bank's business operations are mainly concentrated in CEE region. OTP Bank Hungary accounts for around 42% of total consolidated assets and OTP Bank Bulgaria accounts for around 18%, with the latter making a relatively larger contribution to the Bank's operations outside Hungary.

1. Macroeconomic Environment Analysis of the CEE region

In recent years, most CEE countries experienced political volatility, and only a few countries enjoy political stability. The outbreak of the Russia-Ukraine conflict exacerbated geopolitical risks in CEE region.

CEE region lies in the heart of Europe and is a vital link connecting the east and west with great strategic importance. CEE has always been the bridge between Russia and Western Europe, the key area for the US-led NATO expansion, and the target area of China's opening up to the west of Eurasia as well as the Belt and Road Initiative. In recent years, politics in most countries of CEE experienced volatility, and only a few countries enjoy political stability. The party struggles in Bulgaria, Romania, Czech, Estonia and Slovakia are quite fierce, making it hard to form a government or governments changing frequently. On the other hand, a few countries like Hungary and Serbia enjoy continuous political stability, benefitting from the ruling parties' dominance. The outbreak of the Russia-Ukraine conflict in 2022 made CEE the frontier of military confrontation, and the geopolitical risks rose significantly in CEE region.

Impacted by the outbreak of the Russia-Ukraine conflict, intensified sanctions on Russia and the interruption of the global supply chain, the economic growth of CEE region slowed down, while inflation surged since 2022.

The economies of CEE countries are relatively small and their capacities to defend against external shocks are relatively weak. The economic developments among countries are much different, and the economies are mainly supported by trade and investments from the European Union ("EU") and Russia over recent years. Impacted by the outbreak of the Russia-Ukraine conflict, intensified sanctions on Russia and the interruption of the global supply chain, the commodity prices of oil, natural gas, metal, fertilizer and food surged in 2022, while CEE countries rely much on the resources imported from Russia. The cost-driven inflation induced the average inflation level in CEE countries to climb to around 10%. The high inflation pressure made an obvious squeeze effect on the economy of CEE countries, and curbed economic growth from both production and consumption. The economic growth of CEE slowed to 2%-3% in 2022. Under the circumstances of continuous Russia-Ukraine conflict and inflation pressure, the economies of CEE countries are expected to face more downward pressure in 2023.

2. The Overview of Hungarian Macroeconomic Environment and Banking Industry

The Hungarian economy experienced a strong rebound since 2021, while the outbreak of the Russia-Ukraine conflict and high inflation pressure made its economic prospects face some uncertainties.

Hungary is a typical export-oriented economy, benefitting from the implementation of the Hungarian government's "Program for a More Competitive Hungary", "Family Protection Action Plan", "Eastern and Southern Opening" and some other policies, Hungary's economy kept strong growth, with the real GDP growth rate recording at 5.4% and 4.9% in 2018 and 2019, respectively. The interruption of supply chain, the decline in demand and government's restrictive policies and some other factors caused by the COVID-19 pandemic ("the pandemic") weighed on many sectors, and the economy contracted by 4.5% in 2020. As more economic stimulus packages have been introduced and the investors' confidence recovered, the Hungarian economy rebounded and the real GDP growth rate reached 7.1% in 2021.

In 2022, the Hungarian government implemented investment and loans targeting different enterprises and stimulated the growth of the Hungarian economy through the EU's Multiannual Financial Framework ("MFF") and Next Generation EU ("NGEU"). Besides, benefitting from the government's support to the family, propped up incomes and tax exemption, the consumption of goods and services rebounded considerably. On the other hand, the rising prices of energy products and raw materials, strengthened geopolitical risks and interruption of supply chain (chips shortage) weighed on Hungarian's export and economic growth. In 2022, Hungary's GDP reached USD 178.5 billion (HUF 66.6 trillion), with a GDP growth rate of 4.6%, which was 1.1 percentage points ("pp") higher than that of the average of the EU.

To curb the surging inflation and keep prices stable, Magyar Nemzeti Bank ("MNB") launched its rate-rise cycle in 2021, raising the benchmark interest rate, overnight deposit rate and overnight lending rate to 2.4%, 2.4% and 4.4%, respectively, and gradually stopped asset purchases. Due to the surging commodity prices caused by the Russia-Ukraine conflict, the MNB followed many other countries' central banks to raise the benchmark interest rate, overnight deposit rate and overnight lending rate to 13.0%, 12.5% and 15.5%, respectively, in the first 9 months of 2022. Generally, the Hungarian monetary policy indicated a tightening trend. The Hungarian annual average CPI climbed to 14.5% in 2022, increasing by 9.4 pp compared to that of 2021 and 5.3 pp higher than that of the average of the EU. The prices of energy, raw materials, tourism and catering increased considerably, taxes on tobacco products and fuel also compounded the inflation pressure.

In terms of the labor market, as the Hungarian economy reopened and the labor market kept recovering, the Hungarian unemployment rate downed to 3.6% in 2022, one of the lowest among the EU members.

Going into 2023, Hungary still faces high geopolitical risks. The Russia-Ukraine conflict is expected to continue in the short term, and the downward pressure on the economy remains. As Hungary's economic prospect is still under some uncertainties, the GDP growth rate is expected to reach around 1% in 2023, while inflation is expected to decrease below 10% gradually.

Table2 Hungarian Macroeconomic Indicators

Indicator	2018	2019	2020	2021	2022
GDP (HUF Tn)	43.4	47.7	48.4	55.3	66.6
GDP (USD Bn)	160.5	164.0	157.3	182.2	178.5
GDP Growth Rate (%)	5.4	4.9	-4.5	7.2	4.6
CPI (%)	2.8	3.4	3.3	5.1	14.5
Unemployment Rate (%)	3.6	3.3	4.1	4.1	3.6

Source: Hungarian Central Statistical Office, MNB

The Hungarian banking sector maintained sound capital adequacy, with the non-performing loan ("NPL") ratio staying at a relatively low level, the profitability is relatively strong and the quality of assets remained good.

The Hungarian banking sector is under MNB's unified supervision, and the MNB is responsible for the stability, transparency and efficient operation of the financial intermediary system, creating a stable and ordered financial market operating environment through laws and regulations, building safe and competitive financial market development framework according to the EU laws, identifying and preventing risks which may harm individuals, financial institutions and financial sectors' profits by setting out precautionary measures and so on.

Additionally, Hungary sets up Financial Stability Council ("FSC"), taking responsibility for the continuous assessment of the financial market, which strengthens regulation and control of the financial intermediary system and prevents systematic financial risks.

Hungarian banking sector is reliance on foreign capital. Around 40% of the banking assets are held by foreign investors, according to the data from MNB. The parent banks of foreign banks are mainly from Austria and Belgium. The Hungarian banking system may be at risk if foreign banks' parent bank and their Hungarian branches face liquidity issues. To mitigate the risk, Hungary has set up precautionary macro-prudential instruments to improve the resilience of important local banks, and restrain the conducting effect from bankruptcy and liquidity insufficiency. Meanwhile, MNB also supervises important foreign credit institutions and investment companies headquartered in Hungary annually, monitors their operation continuously and requires extra capital buffers if necessary.

To maintain the stability of the financial system, the MNB has taken measures to enhance the regulation of the banking industry, including restraining the ratio of foreign currency loans to residents, raising the liquidity reserve requirements, asking banks to reduce external debts and commercial banks with more than HUF 5 billion bad loans to establish Systematic Risk Buffer.

The MNB has introduced many monitoring and managing measures to reinforce and keep the banking sector's sound operation since 2021. Except for requiring the Net Stable Fund Ratio ("NSFR") must steadily funding credit institutions for 1 year, the MNB also loosed the regulation of foreign currency coverage ratio to realize the monetary policy target and improve the efficiency of monetary policy conduction. Moreover, the MNB decided to loosen the requirements on mortgage loan adequacy from July 1st, 2022, expanding the investment catalogue of mortgage bond investors and broadening channels for banks to absorb long-term and stable financing.

The key indicators of the Hungarian banking sector stayed at healthy levels in 2022. Affected by the increasing downward pressure of the economy and MNB's rate rising cycle, the Hungarian banking's capital adequacy ratio declined to 18.2% at end-2022, down by 1.4 pp to that of end-2021. Due to some families and companies' depleted solvency, the banking's NPL increased by 0.7 pp to 3.9% at end-2022. Under the circumstances of the Hungarian government freezing the mortgage loan rate and the Russia-Ukraine conflict increasing uncertainty, the Hungarian banking sector raised impairment provision, but the profitability recovered soon from it. The return on assets ("ROA") and return on equity ("ROE") reached 1.3% and 11.3%, respectively, in 2022, staying about even compared to those of 2021, which indicated a well-established banking system and strong resilience to external shocks.

Going into 2023, though the Hungarian economic growth faces some uncertainty, and may have some influence on the banking sector's profitability, the quality of assets is expected to remain good and the resilience to risks is expected to maintain strong.

Table3 Key Indicators on Hungarian Banking Sector

Indicator	2018	2019	2020	2021	2022
Capital Adequacy Ratio (%)	19.1	18.4	19.4	19.6	18.2
NPL Ratio (%)	5.4	4.1	3.5	3.2	3.9
ROA (%)	1.5	1.4	0.6	1.2	1.3
ROE (%)	13.4	13.1	6.4	11.4	11.3

Source: IMF, MNB

3. The Overview of Bulgarian Macroeconomic Environment and Banking Industry

Bulgaria experienced turbulent politics in recent years, and the economy kept growing moderately.

Bulgaria held 5 times parliamentary elections since 2021, while all parties or party coalitions qualified for forming a government failed or were removed from office soon after formation. In the latest election held in April 2023, the coalition belonging to the former ruling party Bulgarian Civic Party won 69 votes out of 240 and the qualification of government formation, but they also need more than half votes from the parliamentary to form a government. Bulgaria's future political prospect is still under some uncertainty.

Amid volatile politics, the Bulgarian economy kept growing moderately in recent years. Except for falling into recession in 2020, the Bulgarian economy kept fast growth because of the continuous input of the EU fund. Although the Russia-Ukraine conflict's spillover influenced the Bulgarian economy in 2022, the developed power industry benefited a lot from the surging electricity price in Europe, and the tourism industry recovered as well. The GDP growth rate of Bulgaria recorded at 3.4% in 2022, and the unemployment downed to 4.3%. On the other hand, even Bulgaria searched for substitutes for the importation of oil and natural gas proactively, the rising price of energy products and food pushed the Bulgarian CPI to 13.0% in 2022, reaching a peak over recent years.

Going into 2023, the continuous Russia-Ukraine conflict may lead to uncertainty in the Bulgarian economy, domestic consumption is expected to keep shrinking due to the high inflation, and the weak European demand for exports will also influence Bulgaria's exports, while the investments may maintain resilience supported by continued inflows of the EU fund. Generally, the Bulgarian GDP growth rate is expected to reach around 1.5% in 2023, while its inflation is expected to go below 10% gradually.

Table4 Bulgarian Macroeconomic Indicators

Indicator	2018	2019	2020	2021	2022
GDP (BGN Bn)	110.0	120.4	120.6	139.0	165.4
GDP (USD Bn)	66.4	68.9	70.4	84.1	89.1
GDP Growth Rate (%)	2.7	4.0	-4.0	7.6	3.4
CPI (%)	2.6	2.5	1.2	2.8	13.0
Unemployment Rate (%)	5.3	4.3	5.2	5.3	4.3

Note: RMB 1=BGN 0.26487 by the end of 2022
Source: IMF

The capital adequacy of the Bulgarian banking sector stays at a high level in recent years, and the quality of assets and profitability keep improving. Besides, joining the European Single Supervisory Mechanism ("SSM") also benefits the

banking sector's development.

The Bulgarian banking industry is supervised by the Bulgarian National Bank ("BNB"). Bulgaria joined ERM II in July 2020, and the BNB joined the European Banking Union and SSM as a non-euro-area central bank later. The European Central Bank ("ECB") supervised Bulgarian banks since 1st October 2020 directly. Bulgaria has 24 commercial banks, 17 of which were licensed domestically and the rest are branches of foreign banks. Among them, UniCredit Bulbank, DSK bank (owned by OTP Bank), United Bulgarian Bank are major players.

The overall risks of Bulgarian banking keep moderate in recent years. In terms of the main supervisory indicators, the capital adequacy of Bulgarian banking was 20.9% at end-2022, down by 1.7 pp compared to 2021 while still staying at a high level. The profitability of banking improved, with the total revenue reaching BGN 2.1 billion, up around 50% annually. The ROA and ROE improved to 1.6% and 12.3%, respectively. The NPL ratio of banking industry was 4.6% at end-2022, down by 1.3 pp compared to 2021, indicating better quality of banking assets. Looking forward, although the plan for Bulgaria to join the euro area may be delayed until 2025, the Bulgarian banking industry is still expected to develop steadily under SSM.

Table5 Bulgarian Banking Industry Financial Indicators

Indicator	2018	2019	2020	2021	2022
Capital Adequacy Ratio (%)	20.4	20.2	22.7	22.6	20.9
NPL Ratio (%)	7.8	6.6	5.8	5.9	4.6
ROA (%)	1.6	1.5	0.7	1.2	1.6
ROE (%)	11.8	11.3	5.2	8.5	12.3

Source: IMF, BNB

III. Management and Development

OTP Bank has built well-established corporate governance, internal control and risk management system, with all governing bodies performing their responsibilities well. The structure of shareholding is well diversified and the risks from related transactions are under control. The strategies for development are stable and practical, but the impact of rising complexity of operating environment in CEE region on the implementation of strategies still needs to be concerned.

OTP Bank set up the corporate governance system based on shareholders' meeting, board of directors, supervisory board, and chairman/CEO, according to the Code of Conduct and other requirements. The shareholders' meeting is the ultimate authority, the board of directors, supervisory board and chairman/CEO are responsible for decision-making, supervision and execution, respectively. The responsibilities of governing bodies are clearly divided, which enables them to fulfil their roles in line with established rules and requirements, and the corporate governance runs well. In terms of internal control, OTP Bank built clear corporate governance framework and established Audit Committee and internal audit management framework to enhance the effectiveness of internal audit mechanism. OTP Bank's internal audit department works under the supervisory board's internal audit plans, the audit covers all departments in the headquarter, branches and group members. In addition, OTP Bank keeps improving company's system of operation and management, with the effectiveness and feasibility enhancing constantly.

OTP Bank was listed on BSE in August 1995. There were 2 institutions or enterprises that owns 5% or above shareholding or votes at end-2022, which held 8.57% and 5.09% of total shares, respectively. The largest shareholder is MOL, a leading company operates oil and natural gas business and headquarters in Budapest, Hungary. MOL runs businesses in over 30 countries and has more than 25,000 employees. The capital stock of MOL was HUF 78.2 billion at end-2022. Overall, OTP Bank's shareholding structure is well diversified and there is no ultimate shareholder.

In terms of related transactions, OTP Bank offers fair transaction terms to affiliates and non-affiliates, and reports to special risk management committee, board of directors and supervisory board of the management of related transactions quarterly. OTP Bank's affiliates include members of the board of directors and supervisory board, middle and senior managers and their relatives and related companies. The outstanding amount of affiliates' loans and deposits were HUF 103.3 billion and HUF 68.6 billion, respectively, at end-2022. The transaction size is relatively small and the risk is under control.

In terms of risk management, OTP Bank sets up a top-bottom management mode from the headquarter to branches, the Chief Risk Officer ("CRO") of the headquarter owns the power to appoint, remove and review branches' CROs. The headquarters' risk management responsibility includes making and maintaining risk strategies and preferences, holding a credit risk management committee, managing and monitoring investment portfolios and credit risk limits, establishing and enhancing the risk management system of market risk, operation risk, counterparty risk and country risk. Concerning credit risk, OTP Bank narrows credit risk exposure by building and monitoring relevant risk limit indicators, and manages credit risk exposure timely by analyzing borrowers' potential solvency regularly. Regarding liquidity management, OTP Bank searches for events that may influence global liquidity constantly, measures their occurring likelihoods and importance, and also factors in deposit withdrawal, currency exchange and yield shocks, global financial system and capital market shocks which may cause liquidity issues. Regarding market risk, OTP Bank matches short-term interest-bearing assets to interest-bearing liabilities with same maturities, or matches repriced long-term assets to liabilities with same maturities, then forecasts the largest expected market risk loss of exposure through the Value at Risk model and monitors relevant indicators. As for operation risk, OTP Bank builds an operational risk management system based on the group's consistency and capital management standards. The operational risk management system includes business operation risk management, self-assessment, loss data collection, scenario analysis, key risk indicators system and so on. Under the operational risk management framework, it also sets up guidelines for operation management and relevant procedures to reduce loss from operation risk effectively.

In terms of development strategies, OTP Bank regards satisfying most demands of clients, investors and employees and setting an international example in the environment, society and governance ("ESG") field as the intention of strategies. Based on Hungary, the Bank enhances its market position in 12 countries mainly in CEE while expanding its business presence to other countries, thus to enhance its market share in CEE region and its overall competitiveness in the international market. Meanwhile, OTP Bank keeps capital adequacy and liquidity stable, and considers it as the basis of operation and development, follows supervisory requirements of European countries and holds the transparency and prudence of information disclosure. Additionally, OTP Bank expands its business presence and improves medium- and long-term profitability by improving customer experience and cost-benefit. Combined with business characteristics and competitive advantages, the Bank builds personalized development strategies plan that meets its demand. The strategies plan is highly implementable, while considering the stable competition of developed countries in CEE region, and the rising uncertainty of other emerging markets during expansion, the Bank's future strategies implementation and the matching of consistent business expansion and corporate operation improvement still need to be concerned.

IV. Business Analysis

OTP Bank enjoys high brand awareness and reputation in CEE countries and has competitive advantages in Hungarian market, maintaining the largest market share in terms of both deposits and loans. The Bank expands its business by acquiring good banks in target countries, and the market positions in some countries are among the top.

As the largest banking conglomerate in CEE region, OTP Bank operates in 11 countries in CEE, with high coverage of business outlets in the main operating countries, which provides effective channel advantages for its deposit and loan business development and competition. Specifically, as a commercial bank with a long history of local operation, OTP Bank has the largest number of branches in Hungary and has accumulated a good customer base through its long-term local operation, which enables it to maintain a leading market share, with a deposit and loan market share of 29.1% and 25.5%, respectively, at the end of 2022, ranking 1st in Hungary in both deposit and loan business. In countries other than Hungary, OTP Bank has developed its deposit and loan business mainly by acquiring banks with a long history of operation, a good customer base and the highest deposit and loan market share in the target countries as its subsidiaries, and some of its subsidiaries have the highest market share in their home countries due to the brand effect and the inherent competitive advantages of its subsidiaries in their home countries. For example, as of the end of 2022, the Bulgarian subsidiary's total assets had a market share of 18.65% in the Bulgarian banking sector, ranking 1st, the Moldovan subsidiary's total assets had a market share of 14.2% in the Moldovan banking sector, ranking 3rd, the Serbian subsidiary's total assets had a market share of 14% in the Serbian banking sector as at the end of September 2022, ranking 2nd, the Slovenian subsidiary's total assets ranked 2nd in terms of market share of total assets in the country.

1. Corporate Banking Business

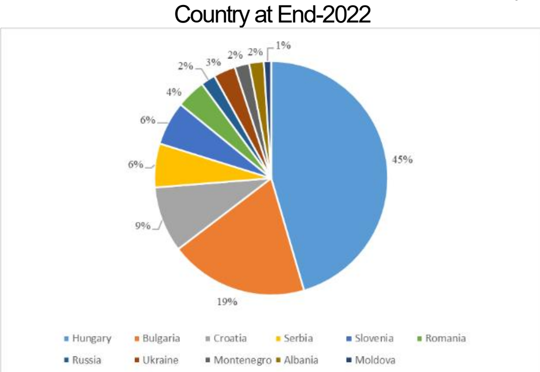
OTP Bank continued to improve its coverage of corporate customers in key business areas and refined the corporate banking customer experience by optimizing workflow and providing diversified financial services, resulting in good growth in the scale of the corporate banking business.

OTP Bank has corporate banking operations in Hungary and 11 other countries mainly in

CEE region, and its corporate deposit and loan business in Hungary remains the largest contributor to the overall deposit and loan business regionally. In recent years, OTP Bank's corporate banking business has maintained its partnership with enterprises in the regions where it operates, enhancing its ability to provide comprehensive financial services to corporate customers and strengthening customer bonding by optimizing corporate banking workflow, upgrading online and mobile banking ports and business processing experience, and providing diversified financial services such as factoring and leasing to public customers. Due to the good customer base in the operating regions and the improvement of the comprehensive service capacity for corporate customers, the scale of OTP Bank's corporate deposit business has maintained rapid growth. The contribution of other countries of operation to corporate deposit growth was at a relatively low level.

OTP Bank's corporate customer development is based on the prudent selection of target customers and the ultimate goal of increasing the volume of customer services and the scale of loan business by improving the coverage of customers across the industry in the region where it operates. Meanwhile, OTP Bank uses its CRM customer relationship management system to digitalize its customers, sales network and channels, thereby improving the efficiency of its corporate lending business. In addition, OTP Bank continues to optimize its corporate lending workflow to improve the efficiency of loan approval and placement while enhancing the level of credit risk prevention. In recent years, OTP Bank's corporate loan business has maintained moderate growth, with the growth in Hungary and Bulgaria continuing to be the main factors driving the overall growth in corporate loan business. However, the scale of OTP Bank's corporate loan business in Russia, Ukraine and Moldova was on a contraction trend.

Graph1 OTP Bank's Deposit Balances Structure by Country at End-2022



Source: OTP Bank

Table6 Deposit Structure after Foreign Exchange Adjustment

Indicator	Amount (HUF Tn)				Proportion (%)				Annual Growth Rate (%)	
	End-2020[1]	End-2021[1]	End-2021[2]	End-2022[2]	End-2020	End-2021	End-2021	End-2022	End-2021	End-2022
Retail Deposits	12.99	14.30	15.11	16.31	71.61	67.89	68.15	64.85	10.04	8.01
Household Deposits	10.77	11.90	12.60	13.64	59.38	56.49	56.84	54.21	10.42	8.26
Micro and Small Enterprises Deposits	2.22	2.40	2.51	2.67	12.23	11.40	11.31	10.63	8.18	6.70
Corporate Deposits	5.15	6.76	7.06	8.84	28.39	32.11	31.85	35.15	31.28	25.28
Total	**18.14**	**21.06**	**22.16**	**25.16**	**100.00**	**100.00**	**100.00**	**100.00**	**16.07**	**13.51**

Note: 1. The outstanding amount of deposit at end-2020 and end-2021 are adjusted using the exchange rate at end-2021
2. The outstanding amount of deposit at end-2021 and end-2022 are adjusted using the exchange rate at end-2022
3. Interests are excluded.
Source: Annual report of OTP Bank

2. Retail Banking Business

OTP Bank’s retail business has good distribution channels, and the layout and promotion of online business channels further enhance the efficiency of retail business expansion, and the retail banking business has maintained a good development trend; attention should be paid to the impact of inflation on personal deposit business in CEE region.

In terms of personal deposit business, OTP Bank has improved its offline network channels and enhanced customer service experience through continuous improvement of its service outlets and the establishment of ATMs and smart counters, while further enhancing the efficiency of customer expansion through the improvement of online banking, mobile banking and other online expansion channels. The market share of OTP Bank’s retail deposits was 41.2% in Hungary, 24.3% in Bulgaria, 30.7% in Slovenia, 24.0% in Montenegro, and 24.0% in Croatia, Serbia and Moldova, Serbia and Moldova all had a market share of around 10%, while Romania, Russia and Ukraine had a relatively low market share at end-2022. In addition, the growth rate of OTP Bank’s retail deposit business declined in 2022 due to the impact of rising expenditure on the residential sector brought about by inflation in Hungary and other CEE countries.

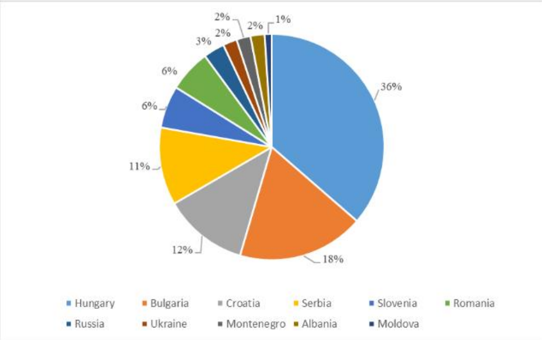
In terms of retail loan business, in recent years, OTP Bank's retail loan business expansion has gradually shifted to online channels, enabling loan approval and placement through online banking and mobile banking, optimizing customer experience while also allowing effective risk screening and control of loan customers through online big data and online risk control models. In terms of product set-up, OTP Bank will focus on the development of high-yield loans and bank and insurance products to further enhance the revenue level and revenue channels of its retail lending business. In recent years, OTP Bank has maintained growth in retail loan business. OTP Bank has a large market share in the main countries of operation, with market shares of around 30% for personal consumer loans in Hungary, Bulgaria, Montenegro and Slovenia, and around 20% for personal housing loans in Bulgaria, Serbia, Slovenia, Montenegro, Albania and Moldova, and over 30% for personal housing loans in Hungary at the end of 2022.

Table7 Structure of Stage 1 Loans and Stage 2 Loans after Foreign Exchange Adjustment

Indicator	Amount (HUF Tn)				Proportion (%)				Annual Growth Rate (%)	
	End-2020[1]	End-2021[1]	End-2021[2]	End-2022[2]	End-2020	End-2021	End-2021	End-2022	End-2021	End-2022
Retail Loans	7.62	8.56	9.04	9.69	55.47	54.33	54.19	51.87	12.36	7.21
Personal Housing Loans	3.59	4.12	4.34	4.79	26.10	26.17	26.02	25.64	15.01	10.37
Personal Consumption Loans	3.29	3.74	3.98	4.09	23.96	23.73	23.86	21.93	13.62	2.91
Micro and Small Firms Loans	0.74	0.70	0.72	0.80	5.41	4.43	4.31	4.31	-6.08	11.94
Corporate Loans	5.07	6.03	6.41	7.70	36.87	38.24	38.45	41.22	18.95	20.05
Leasing	1.05	1.17	1.23	1.29	7.66	7.43	7.36	6.91	11.28	5.06
Total	**13.74**	**15.76**	**16.68**	**18.67**	**100.00**	**100.00**	**100.00**	**100.00**	**14.71**	**11.99**

Note: 1. The outstanding amount of deposit at end-2020 and end-2021 are adjusted using the exchange rate at end-2021
2. The outstanding amount of deposit at end-2021 and end-2022 are adjusted using the exchange rate at end-2022
3. Interests are excluded.
Source: Annual report of OTP Bank

Graph2 OTP Bank's Loan Balances Structure by Country at End-2022



Source: OTP Bank

3. Financial Market Business

OTP Bank carries out its interbank business based on the Bank's liquidity and profitability, with a moderate share of market-integrated funds and relatively open channels for interbank financing. The scale of investment assets continues to grow, and the business structure is dominated by government bonds, with a relatively stable overall investment preference.

OTP Bank carries out interbank business according to interest rate levels, deposit and loan business and liquidity levels. In recent years, the scale of OTP Banks' interbank assets has fluctuated and the scale of market integration has continued to rise. OTP banks' interbank assets are mainly interbank deposits and repo assets, with the maturity of interbank deposits mainly within one year and the average interest rate of interbank deposits in 2022 was 11.02%, the maturity of repo assets was all within one year and the interest range of repo business in 2022 was 10.70%-18.00%. As for interbank liabilities, OTP's market capitalization has maintained growth, accounting for a moderate proportion of its total liabilities. The market financing channels are mainly government deposits, central bank deposits and interbank deposits, while the rest are repo liabilities and bond issues. As of the end of 2022, OTP Bank's government deposits, central bank deposits and interbank deposits amounted to HUF 1,463,158 million, with average interest rates of 2.28% and 2.40% in HUF and foreign currency respectively; repo liabilities were mainly denominated in foreign currency, with interest rates ranging from 2.47% to 5.20% for foreign currency denominated repo liabilities. As of the end of 2022, OTP issued bonds with a balance of HUF 870,682 million, with an average interest rate of 5.00% for HUF-denominated bonds payable and 2.95% for foreign currency-denominated bonds payable. OTP Bank had a total of HUF 301,984 million in subordinated bonds and loans on deposit at end-2022, involving three bonds and loans, namely a perpetual subordinated bond issued in 2006, a subordinated bond issued in 2019 and a subordinated loan in 2018, with a size of EUR 231 million, EUR 499 million and USD 0.17 billion, respectively, as of the end of 2022 interest rates of 4.742%, 2.875% and 5.00%, respectively.

In terms of investment business, OTP Bank maintained growth in the size of its investment assets, which were mainly allocated to bonds, with the rest being derivatives, equity assets and investment properties, etc. OTP Bank's bond investments were mainly in government bonds, with the rest being treasury bills, central bank bonds, corporate bonds and mortgage bonds. In terms of the classification of bond assets according to Moody's rating results, in 2022, the external grade of OTP Bank's securities measured at fair value through other comprehensive income was 74.34% at Baa3 and above; the external grade of bonds measured at amortized cost was 82.25% at Baa3 and above; the external grade of OTP Bank's bonds at Ba1 and below were mainly Government bonds. In terms of country allocation to government bonds, OTP Bank's government bonds are mainly invested in Hungary, with the remainder mainly comprising Romania, Croatia, Bulgaria and Serbia. OTP Bank holds HUF 324,729 million in derivatives, mainly in interest rate swaps and currency swaps. In 2022, OTP invested a total of HUF 126,086 million in equity assets, with mainly unlisted equity investments. Overall, OTP Bank's investment assets are dominated by higher grade bond investments and the overall credit risk of investment assets is relatively manageable.

Table8 Structure of Investment Assets

Indicator	Amount (HUF Bn)			Proportion (%)		
	End-2020	End-2021	End-2022	End-2020	End-2021	End-2022
Bond Investment	4784.79	6192.32	6738.80	93.73	93.90	92.41
Government Bonds	4438.65	5514.21	5755.16	86.95	83.62	78.92
Treasury	99.55	176.37	230.14	1.95	2.67	3.16
Central Bank Bills	--	109.77	252.55	0.00	1.66	3.46
Corporate Bonds	156.25	261.79	333.31	3.06	3.97	4.57
Mortgage Bonds	88.27	87.53	79.21	1.73	1.33	1.09
Others	2.08	42.65	88.43	0.04	0.65	1.21
Non-tradable Securities Measured at Fair Value through Profit and Loss	57.58	53.40	55.16	1.13	0.81	0.76
Debt Securities Measured at Fair Value through Profit and Loss	2.24	--	--	0.04	0.00	0.00
Derivatives	124.44	203.24	324.73	2.44	3.08	4.45
Equity Assets	93.63	114.71	126.09	1.83	1.74	1.73
Investment Property	38.60	29.88	47.45	0.76	0.45	0.65
Equity Instruments and Funds	3.74	1.17	0.39	0.07	0.02	0.01
Total Investment Assets	**5105.02**	**6594.73**	**7292.61**	**100.00**	**100.00**	**100.00**
Impairment Provision	**11.52**	**21.63**	**55.13**	**/**	**/**	**/**
Net Investment Assets	**5093.50**	**6573.10**	**7237.48**	**/**	**/**	**/**

Source: Annual report of OTP Bank

V. Financial Analysis

OTP Bank has provided consolidated financial statements for 2020-2022 covering subsidiaries and other institutions in Bulgaria, Serbia, Croatia, Slovenia, Ukraine and Russia. Deloitte Auditing and Consulting Ltd. audited the 2020 consolidated financial statements and Ernst & Young Ltd. audited the 2021-2022 consolidated financial statements and issued an unqualified audit report in accordance with EU IFRS and Hungarian Accounting Act requirements.

1. Quality of Assets

OTP Bank's asset size has maintained relatively rapid growth and its asset structure is dominated by loans and investment assets, and the share of loans has remained relatively stable at around 57%.

In terms of the composition of the assets of its subsidiaries, as of the end of 2022, OTP Bank Hungary accounted for around 42% of the total consolidated assets, while OTP Bank Bulgaria accounted for around 18%, OTP

Bank Croatia accounted for around 10%, and OTP Bank Serbia accounted for around 8%.

Table9 Structure of Assets

Indicator	Amount (HUF Tn)			Proportion (%)			Annual Growth Rate (%)	
	End-2020	End-2021	End-2022	End-2020	End-2021	End-2022	End-2021	End-2022
Cash Assets	2.43	2.56	4.22	10.42	9.28	12.87	5.09	65.15
Interbank Assets	1.34	1.65	1.39	5.74	5.97	4.24	22.87	-15.42
Net Loans and Advances	13.53	15.74	18.64	57.97	57.14	56.82	16.38	18.40
Investment Assets	5.09	6.57	7.24	21.83	23.86	22.06	29.05	10.11
Others	0.94	1.03	1.31	4.04	3.75	4.00	9.83	26.90
Total Assets	**23.34**	**27.55**	**32.80**	**100.00**	**100.00**	**100.00**	**18.07**	**19.06**

Source: Annual report of OTP Bank

(1) Loans

In recent years, the scale of OTP Bank's credit assets has maintained growth and the concentration of loan sectors is not significant, but loans at stage 3 are at a high level, while taking into account that it has placed a certain scale of restructuring-type loans, coupled with the Russia-Ukraine conflict and the continued weakening of the global economic situation, the quality of OTP Bank's credit assets may face some downward pressure and the level of provisions may come under pressure.

In recent years, the scale of OTP Bank's loans and advances has grown rapidly, maintaining a proportion of total assets at around 57%, with net loans and advances of HUF 18.6 trillion at the end of 2022, accounting for 56.82% of total assets. Regionally, in recent years OTP loans have been predominantly within Hungary, with the contribution of loans from Bulgaria, Croatia and Serbia at a high level. In terms of industry distribution, OTP bank loans are mainly concentrated in wholesale and retail trade, transport and storage accommodation and food services, manufacturing, mining, quarrying and other industries, real estate, agriculture, forestry and fishing and construction, together accounting for 41.36% of total loans, with a manageable concentration of loan industries.

In terms of the regional distribution of the loan portfolio (including loans, finance lease receivables, interbank deposits and repo assets, the same below), as of the end of 2022, OTP Bank's loan portfolio was mainly invested in Hungary, Bulgaria, Croatia and Serbia, of which loans measured at amortized cost, finance lease receivables, interbank deposits and repo assets accounted for 30.06%, 17.86%, 11.51% and 10.74% respectively; loans measured at fair value were invested in Hungary, 17.86%, 11.51% and 10.74% respectively. On the other hand, as of the end of 2022, OTP Bank's loan portfolio exposures to Russia and Ukraine amounted to HUF 10532.08 billion and HUF 543.159 billion, representing 5.32% and 2.74% of the total loan portfolio exposure, impairment provisions were made for HUF 187.610 billion and HUF 124.859 billion respectively. Considering the ongoing conflict between Russia and Ukraine, UniCredit will continue to monitor changes in the quality of loans to Russia and Ukraine.

OTP Bank has established a credit risk management structure, and all branches and subsidiaries within the group use credit risk models, including rating models and scorecards; in addition, OTP Bank adopts a graded authorization approach to control credit risk for its other branches and subsidiaries. In terms of disposal of non-performing assets, OTP writes off non-performing loans of HUF 12,503 million and HUF 17,936 million and HUF 67,651 million, respectively, in 2020-2022. In recent years, the proportion of stage 2 loans in OTP banks is at a high level due to factors such as the decline in the international economic boom. In terms of loans at stage 3, OTP Bank's loans at stage 3 are mainly mortgage loans, consumer loans, micro and small business loans and corporate loans, with the above loans accounting for 33.3 per cent of total stage 3 loans. In terms of loans over 90 days past due, the size of OTP Bank's loans over 90 days past due increased in 2022 due to the international situation, but the percentage of loans over 90 days past due continued to decline due to the faster growth of its loan size. In terms of restructured loans, as of the end of 2022, OTP Bank placed a balance of HUF 619,595 million in restructured loans, accounting for approximately 3% of total loans, and made impairment provisions of HUF 92,713 million against restructured loans; of which the scale of loans invested in medium and large enterprises was HUF 403,643 million, with impairment provisions of HUF 59,453 million. As of the end of 2022, OTP Bank's loans classified as stage 3 loans amounted to HUF 969,169 million, accounting for 4.93% of total loans, excluding Ukraine and Russia, stage 3 loans accounted for 4.1%; overall, as at the end of 2022, OTP Bank's loans overdue for more than 90 days accounted for 3.06%, taking into account the size of its restructuring loans, the conflict between Russia and Ukraine and the global economic situation. The Russia-Ukraine conflict and the continued weakening of the global economic situation, the quality of OTP Bank's credit assets may face some downward pressure.

In terms of impairment provisions, OTP Bank has maintained a large impairment provision in recent years as the size of its loans has grown, and the scale of impairment losses has continued to grow. In terms of the coverage of impairment allowances for each stage, OTP Bank maintained provision levels of around 1%, 10% and 60% for their stage 1, stage 2 and stage 3 loans respectively at end-2022. In terms of the coverage of impairment allowances for loans over 90 days past due, OTP Bank's provision for loan losses/loans over 90 days past due remained above 150%, maintaining a more than adequate level overall, but considering that its credit asset quality is under some downward pressure, its provisioning level may come under pressure in the future.

Table10 Quality of Loans

Indicator	Amount (HUF Tn)			Proportion (%)		
	End-2020	End-2021	End-2022	End-2020	End-2021	End-2022
Stage 1 Loan	11.54	13.56	16.39	80.38	81.53	83.43
Stage 2 Loan	2.00	2.19	2.29	13.92	13.19	11.64
Stage 3 Loan	0.82	0.88	0.97	5.71	5.28	4.93
Total Loans	**14.36**	**16.63**	**19.64**	**100.00**	**100.00**	**100.00**
NPL	**0.54**	**0.54**	**0.60**	**3.79**	**3.22**	**3.06**
Loan Loss Provision	**0.83**	**0.89**	**1.00**	**5.81**	**5.35**	**5.11**
Stage 1 Loan Loss Provision Ratio	**/**	**/**	**/**	**1.0**	**1.0**	**1.0**
Stage 2 Loan Loss Provision Ratio	**/**	**/**	**/**	**10.4**	**10.0**	**10.7**
Stage 1 and 2 Loan Loss Provision Ratio	**/**	**/**	**/**	**2.4**	**2.3**	**2.2**

Stage 3 Loan Loss Provision Ratio	/	/	/	62.3	60.5	61.0
Provision Coverage Ratio	/	/	/	153.51	166.32	166.80

Source: Annual report of OTP Bank

(2) Interbank and Investment Assets

In recent years, the scale of OTP Bank's interbank assets has fluctuated and the scale of investment assets has maintained growth. There is a certain scale of interbank and investment assets at stage 3, which are subject to a certain pressure of impairment.

In recent years, the scale of OTP Bank's interbank assets has fluctuated and the allocation of interbank assets is mainly based on interbank deposits and repo assets within 3 months. As of the end of 2022, OTP Bank's total interbank assets amounted to HUF 139.6 billion and impairment provisions of HUF 4.1 billion were made. In terms of the quality of interbank assets, OTP Bank's stage 2 and stage 3 interbank assets were HUF 63 million and HUF 24 million, with impairment provisions of HUF 12 million and HUF 24 million, respectively.

In recent years, the scale of OTP Bank's investment assets has continued to grow, maintaining a share of around 22% of total assets, with the main types of investments being bond investments. In terms of accounting entries, OTP Bank's investment assets mainly consist of financial assets measured at fair value through other comprehensive income and financial assets measured at amortized cost, accounting for 24.04% and 67.59% of investment assets respectively, and are mainly allocated to government bonds. In terms of the quality of invested assets, at end-2022, OTP Bank included in the stage classification interest-bearing securities at fair value through other comprehensive income and financial assets measured at amortized cost amounting to HUF 66,344.33 million, with a provision for impairment of HUF 82,674 million, of which HUF 28,885 million and HUF 28,687 million were classified as stage 2 and stage 3 interest-bearing securities at fair value through other comprehensive income, with a provision for impairment of HUF 1,040 million and HUF 24,831 million, respectively. The interest-bearing securities investments at stage 2 and stage 3 at fair value through other comprehensive income were HUF 28,285 million and HUF 28,687 million, with impairment provisions of HUF 1,040 million and HUF 24,831 million, respectively; financial assets at stage 2 and stage 3 at amortized cost were HUF 15,141 million and HUF 52,785 million, with impairment provisions of HUF 611 million and HUF 18,773 million, respectively.

(3) Off-Balance Sheet Activity

OTP Bank has large off-balance sheet business exposure and needs to be concerned about its exposure to credit risk. OTP Bank's off-balance sheet credit business is mainly loan commitments, guarantees, factoring and letters of credit. As of the end of 2022, OTP Bank's off-balance sheet business size was HUF 6.26 trillion, with loan commitments of HUF 4.23 trillion, guarantees of HUF 1.41 trillion, factoring of HUF 419.62 billion and letters of credit of HUF 53.557 billion, with some exposure to off-balance sheet business.

2. Structure of Liabilities and Liquidity

In recent years, driven by the sound development of deposit business, the scale of OTP Bank's liabilities has maintained a growth trend; various liquidity indicators have been maintained at a reasonable level.

Table11 Structure of Liabilities

项目	Amount (HUF Tn)			Proportion (%)			Annual Growth Rate (%)	
	End-2020	End-2021	End-2022	End-2020	End-2021	End-2022	End-2020	End-2021
Market Fund	2.04	2.36	2.85	9.82	9.63	9.68	15.61	20.84
Customer Deposit	17.89	21.07	25.19	86.02	85.94	85.44	17.76	19.56
Other Liabilities	0.87	1.09	1.44	4.16	4.43	4.88	25.56	32.48
Total Liabilities	**20.80**	**24.52**	**29.48**	**100.00**	**100.00**	**100.00**	**17.88**	**20.25**

Source: Annual report of OTP Bank

OTP Bank carries out interbank business based on liquidity and funding needs as well as the level of market interest rates. In recent years, the scale of funds incorporated in the OTP Bank market has increased and the proportion of total liabilities has remained stable and at a reasonable level. As at the end of 2022, OTP Bank's market capitalization was HUF 2.85 trillion, with government deposits, central bank deposits and interbank deposits as the main sources of market financing, and repo liabilities and bond issues as the rest, making the overall active liability channel relatively smooth.

Customer deposits are the most important source of liabilities for OTP Bank. In recent years, the better growth of OTP Bank's customer deposits has driven total customer deposits up and the overall deposit growth rate has increased. As of the end of 2022, OTP Banks customer deposits accounted for 85.44% of total deposits; in terms of deposit maturity, OTP Bank's deposits were mainly within one year.

OTP Bank's liquidity indicators remained at a reasonable level and the overall liquidity risk was manageable. In recent years, the relevant liquidity indicators of OTP Bank were at a reasonable level and the liquidity risk was manageable.

Table12 Liquidity

Indicator	End-2020	End-2021	End-2022
Liquidity Coverage Ratio (%)	214	180	172
Net Stable Fund Ratio (%)	139	139	137
Loan/Deposit	80	79	78

Source: Annual report of OTP Bank

3. Operation Efficiency and Profitability

OTP Bank's net interest margin remains at a good level, benefiting from its higher contribution to profit from commission and fee income. On the other hand, OTP Bank's profitability was weakened in 2022 compared to 2021 as its cost of risk increased, but its profitability remains at a good level.

Table13 Profitability

Indicator	2020	2021	2022
Net Interest Income (HUF Bn)	782.67	874.31	1091.31
Cost of Risk (HUF Bn)	190.88	47.65	210.46

Net Interest Income after Deduction of Cost of Risk (HUF Bn)	591.80	826.67	880.86
Fee and Commission Income (HUF Bn)	397.63	442.17	600.36
Exchange Gains or Losses (HUF Bn)	7.86	-4.08	-14.99
Net Investment Gains and Losses (HUF Bn)	24.18	27.47	16.55
Management Fee (HUF Bn)	691.13	747.61	975.15
Net Interest Margin (%)	3.61	3.51	3.51
Cost of Risk + Gross Profit (HUF Bn)	488.84	576.08	605.35
Net Profit (HUF Bn)	254.05	456.31	335.64
Cost/Income (%)	54.1	49.7	47.6
Average ROA (%)	1.17	1.79	1.11
Average ROE (%)	10.52	16.37	10.56

Source: Annual report of OTP Bank

OTP Bank's income mainly consists of net interest income and fee and commission income. OTP Bank's interest income is mainly dominated by interest income from loans, investment assets and finance lease receivables, while interest expenses are mainly dominated by interest expenses on deposits, swaps and interest expenses related to bond issuance. In recent years, OTP Bank's net interest income has increased thanks to the faster growth in loan size. In 2022, OTP Bank achieved net interest income of HUF 1.09 trillion. In terms of net interest margin, OTP Bank's net interest margin has decreased in recent years as a whole, but is still at a high level, with a net interest margin level of 3.51% in 2022. In terms of average interest rates on deposits and loans, in 2022, OTP Bank's average interest rates on loans measured at amortized cost in HUF and foreign currency were 8.65% and 5.46%, respectively, average interest rates on loans measured at fair value in HUF and foreign currency were 4.55% and 0.44%, respectively, and average interest rates on customer deposits measured in HUF and foreign currency were 2.21% and 0.68%, respectively.

OTP Bank's net commission and fee income has been increasing year on year, contributing to net profit, mainly from commissions and fees related to deposit management, bank cards, exchange rate conversion, etc. In 2022, OTP Bank achieved commission and fee income of HUF 600.36 billion. OTP Bank's net investment gains and losses mainly consist of gains and losses on bonds, gains and losses on fair value changes, net gains and losses on derivatives and profits of affiliated companies. In recent years, OTP Bank's net investment gains and losses have declined overall due to the impact of fair value changes and have not contributed significantly to profit.

The cost of risk for OTP Bank is mainly the provision for impairment. In recent years, OTP Bank's cost of risk has fluctuated. In 2021, due to the small scale of new impairment provisions and the larger reversal of impairment provisions led to a significant decrease in its cost of risk in that year compared to 2020. Since 2022, due to changes in the global economic environment and the Russia-Ukraine conflict as well as the increase in the scale of OTP Bank's own loans, OTP Bank has increased the impairment provisions for loans and investment assets, and the scale of cost of risk has increased significantly in 2022. In 2022, OTP Bank's cost of risk amounted to HUF 210.46 billion, of which HUF 142.07 billion was for loan impairment losses and HUF 60.77 billion was for bond investment impairment provisions. In terms of overheads, with the expansion of business scale year by year, OTP Bank's overheads continued to rise, but the cost-to-income ratio declined overall. In 2022, OTP Bank incurred overheads of HUF 975.15 billion, with a cost-to-income ratio of 47.6%.

The overall level of OTP Bank's net profit has fluctuated in recent years, mainly due to fluctuations in the cost of risk in 2021. In 2022, OTP Bank achieved a net profit of HUF 335,637 million. In terms of profitability indicators, OTP Bank's profitability has fluctuated in recent years, but is at a better level thanks to its higher level of net interest margin and the high contribution of net fee and commission income to its net profit.

4. Capital Adequacy

In recent years, OTP Bank has replenished its capital mainly through profit retention and is at a relatively adequate level.

In recent years, OTP Bank has replenished its capital mainly through profit retention. In 2022, OTP Bank made shareholder dividends for 2019-2021 for a total amount of HUF 120.25 billion. At the end of 2022, OTP Bank's owner's equity was HUF 3.32 trillion, of which HUF 28.00 billion was share capital and HUF 3.40 trillion was the size of retained earnings and reserves.

In recent years, with the relatively rapid development of credit business, OTP Bank's risk-weighted asset size has continued to grow. In terms of capital adequacy indicators, thanks to its better profit retention, OTP Bank's capital size has increased year on year, but with the faster growth of its business scale and shareholder dividends in 2022, its capital adequacy level has decreased compared to 2021, but is still at an adequate level.

Table14 Capital Adequacy

Indicator	End-2020	End-2021	End-2022
Supervisory Capital (HUF Tn)	2.67	3.19	3.57
Tier-1 Capital (HUF Tn)	2.32	2.93	3.28
Core Tier-1 Capital (HUF Tn)	2.32	2.93	3.28
Risk-weighted Assets (HUF Tn)	15.05	16.69	20.41
Risk Assets Ratio (%)	64.48	60.58	62.20
Shareholders' Equity/Total Assets (%)	10.87	11.02	10.13
Capital Adequacy Ratio (%)	17.7	19.1	17.5
Tier-1 Capital Adequacy Ratio (%)	15.4	17.5	16.1
Core Tier-1 Capital Adequacy Ratio (%)	15.4	17.5	16.1

Source: Annual report of OTP Bank

VI. External Support

Hungary is a landlocked country located in CEE region with a territory of 93,000 square kilometers, two thirds of which are plains and the rest hilly. The administrative region is divided into the capital and 19 states, with Budapest as the political, economic and cultural center of the country. Hungary is an important member of international or regional organizations such as the Visegrad Group, the EU, the North Atlantic Treaty Organization, the

Schengen Convention, but is not yet a member of the Eurozone, and its official currency is the Hungarian forint (HUF). Hungary's GDP reach USD 178.5 billion (or HUF 66.6 trillion) in 2022, with real GDP growth falling back to 4.6%, but still 1.1 percentage points above the average economic growth rate of EU countries.

OTP Bank has the largest market share of deposits and loans in Hungary, with 29.1% and 25.5% respectively in 2022; OTP Bank has branches in Bulgaria, Croatia and Serbia, where it also has a certain competitive advantage; in addition, OTP Bank has a more important position in the Hungarian financial system. Considering the above factors, it is possible that OTP Bank may receive support from the government directly or indirectly when caught in difficulties.

VII. Conclusion

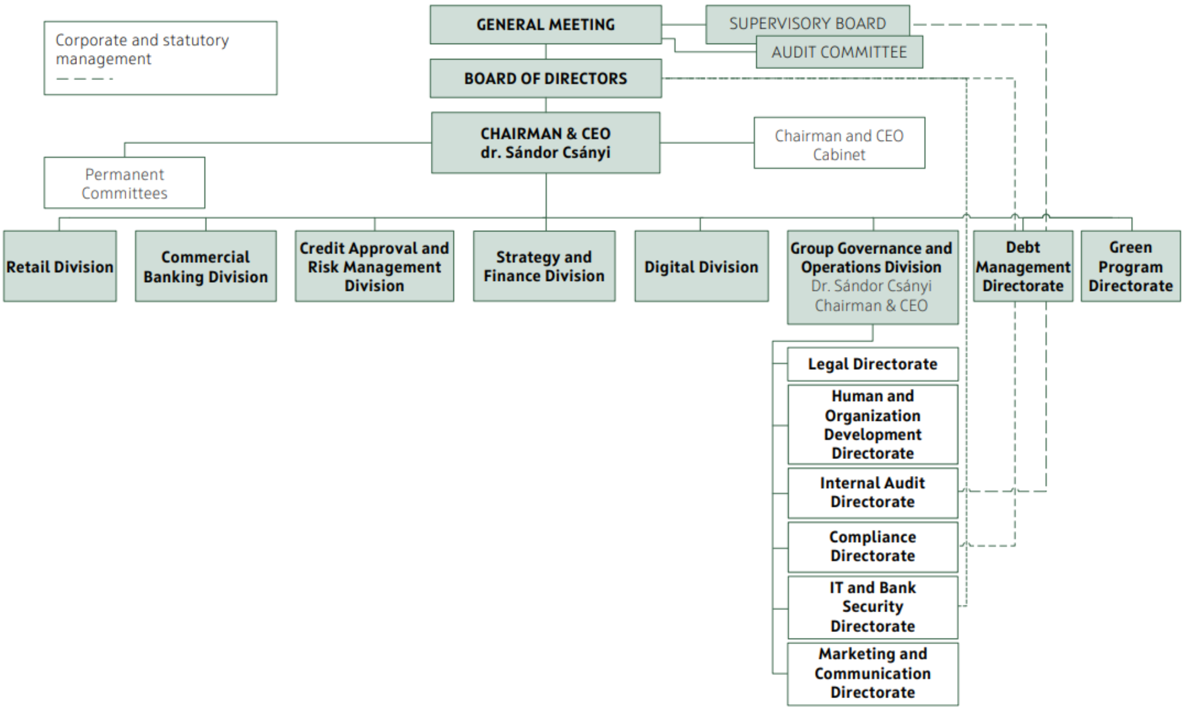
Based on a comprehensive analysis and assessment of OTP Bank's operational risks, financial risks, external support and other aspects, Lianhe Ratings assigned 'AAA' long-term issuer credit rating to the OTP Bank; the rating outlook is stable.

Appendix 1 OTP Bank's Shareholding Structure at End-2022

Shareholder	Shares	(%)
Domestic Institutions/Companies	89040716	31.80
Foreign Institutions/Companies	140129576	50.05
Domestic Individual	47338305	16.91
Foreign Individual	1464494	0.52
Employees and Senior Managers	1526762	0.55
Treasury Stock	354144	0.13
Government-Owned Enterprises	139946	0.05
International Development Institutions	3183	0.00
Others	2884	0.00
Total	**280000010**	**100.00**

Source: Annual report of OTP Bank

Appendix 2-1 OTP Bank's Corporate Governance Framework at End-2022



Source: OTP Bank

Appendix 2-2 OTP Bank's Main Subsidiaries

Name	Ownership (Direct and Indirect)		Activity
	2022	2021	
DSK Bank AD (Bulgaria)	99.92%	99.91%	commercial banking services
OTP Bank JSC (Ukraine)	100.00%	100.00%	commercial banking services
JSC "OTP Bank" (Russia)	97.92%	97.92%	commercial banking services
OTP banka d.d. (Croatia)	100.00%	100.00%	commercial banking services
OTP Bank Romania S.A. (Romania)	100.00%	100.00%	commercial banking services
OTP banka Srbija a.d. Novi Sad (Serbia)	100.00%	100.00%	commercial banking services
Crnogorska komercijalna banka a.d. (Montenegro)	100.00%	100.00%	commercial banking services
Banka OTP Albania SH.A. (Albania)	100.00%	100.00%	commercial banking services
OTP Bank S.A. (Moldova)	98.26%	98.26%	commercial banking services
SKB Banka d.d. Ljubljana (Slovenia)	100.00%	100.00%	commercial banking services
OTP Financing Malta Company Ltd. (Malta)	100.00%	100.00%	refinancing activities
OTP Financing Netherlands B.V. (the Netherlands)	100.00%	100.00%	refinancing activities
OTP Holding Ltd. (Cyprus)	100.00%	100.00%	refinancing activities
OTP Factoring Ltd.	100.00%	100.00%	work-out
OTP Mortgage Bank Ltd.	100.00%	100.00%	mortgage lending
OTP Real Estate Ltd.	100.00%	100.00%	real estate management and development
Merkantil Bank Ltd.	100.00%	100.00%	finance lease
OTP Building Society Ltd.	100.00%	100.00%	housing savings and loan
OTP Fund Management Ltd.	100.00%	100.00%	fund management
Bank Center No. 1. Ltd.	100.00%	100.00%	real estate lease
Inga Kettő Ltd.	100.00%	100.00%	property management
OTP Funds Servicing and Consulting Ltd.	100.00%	100.00%	fund services
OTP Real Estate Leasing Ltd.	100.00%	100.00%	real estate leasing

Source: Annual report of OTP Bank

Appendix 3 Calculation Formulas of Main Financial indicators of Banks

Indicators	Calculation Formulas
Cash Assets	Cash+ Deposit in the Central Bank
Interbank Assets	Due from Placements with Banks and Other Financial Institutions + Lendings to Banks and Other Financial Institutions + Redemptory Monetary Capital for Sale
Market Fund	Due to Placements with Banks and Other Financial Institutions + Borrowings from Banks and Other Financial Institutions + Financial Assets Sold for Repurchase + Negotiable certificate of deposit +Bonds
Investment Assets	Financial Derivatives +Tradable Assets + Investment on Bonds+ Other Investment on Bonds + Other Equity Instruments Investment +Investment Property+ Long-term Investment on Stocks +Others
Single Largest Client Loan Ratio	Single Largest Client Loan Balance/Net Capital×100%
Top 10 Clients Loans Ratio	Top 10 Clients Loans Balance/Net Capital×100%
NPL Ratio	NPL Balance/Total Loans Balance×100%
Loss Provision Ratio	Loss Provision Balance/Total Loans Balance×100%
Provision Coverage Ratio	Loss Provision Balance / NPL Balance×100%
Interest Sensitivity	Change in Net Interest Income Due to Interest Rates /Net Interest Income×100%
Excess Reserve Ratio	(Cash on Hand + Excess reserves)/Deposit Balance×100%
Current Ratio	Current Assets/Current Liabilities×100%
Net Stable Fund Ratio	Available Stable Fund/Stable Fund Required for Operation×100%
Liquidity Coverage Ratio	(Current Assets /Net Outflows of Fund in 30 Days)×100%
Liquidity Matching Ratio	Weighted Fund Resources/ Weighted Fund Operation×100%
High-quality Current Assets Adequacy Ratio	High-quality Current Assets/Short-term Net Outflows of Cash×100%
Loans/Deposits Ratio	Loans Balance/Deposits Balance×100%
Risk Assets Ratio	Risk Weighted Assets Balance/Total Assets×100%
Capital Adequacy Ratio	Net Capital/Risk Weighted Assets×100%
Core Capital Adequacy Ratio	Net Core Capital/Risk Weighted Assets×100%
Tier-1 Core Capital Adequacy Ratio	Net Tier-1 Core Capital/Risk Weighted Assets×100%
Tier-1 Capital Adequacy Ratio	Net Tier-1 Capital/ Risk Weighted Assets×100%
Leverage Ratio	(Tier-1 Capital- Tier-1 Capital Deduction)/Adjusted Balance of On- and Off-Sheet Assets×100%
Net Interest Spread	(Interest Income/Interest-bearing Assets- Interest Expense/Interest-bearing Liabilities)×100%
Net Interest Margin	(Gross Interest Income - Gross Interest Expense)/Interest-bearing Assets
Cost/Income Ratio	Operation and Administrative Expense/Revenue×100%
Return on Assets before Provision	Pre-Provision Operating Profit/[(Total Assets at The End of Period + Total Assets at The Beginning of Period)/2] ×100%
Average ROA	Net Profit/[(Total Assets at The End of Period + Total Assets at The Beginning of Period)/2] ×100%
Average ROE	Net Profit/[(Total Net Assets at The End of Period + Total Net Assets at The Beginning of Period)/2]×100%

Appendix 4-1 Setting and Definitions of Long-term Issuer Credit Ratings

Lianhe Ratings classified long-term issuer credit ratings into three levels and nine categories, which are AAA, AA, A, BBB, BB, B, CCC, CC, C. Apart from AAA, CCC and below, all credit ratings may be modified by using the symbol "+" or "-", to show relative standing within the major rating categories.

All credit ratings represent the relative rankings of the rated entities in terms of probability of default. While higher (lower) credit ratings indicate higher (lower) probability of default, the possibility of a default by entities with higher credit ratings can not be excluded.

All credit ratings are defined in the table below:

Ratings	Definitions
AAA	Extremely strong capacity for payment of financial commitment; highly unlikely to be affected by adverse economic conditions; the lowest probability of default.
AA	Very strong capacity for payment of financial commitment; not significantly vulnerable to adverse economic conditions; very low probability of default.
A	Strong capacity for payment of financial commitment; vulnerable to adverse economic conditions; low probability of default.
BBB	Adequate capacity for payment of financial commitment; more likely to be impaired by adverse economic conditions; moderate probability of default.
BB	Weak capacity for payment of financial commitment; significantly vulnerable to adverse economic conditions; high probability of default.
B	Capacity for payment of financial commitment is largely dependent on favorable economic conditions; very high probability of default.
CCC	Capacity for payment of financial commitment is extremely dependent on favorable economic conditions; extremely high probability of default.
CC	Limited protection in the event of bankruptcy or reorganization; highly vulnerable to nonpayment.
C	Nonpayment has occurred.

Appendix 4-2 Setting and Definitions of Rating Outlooks

Rating Outlook assigned by Lianhe Ratings is an opinion regarding the likely rating direction over the next year. Rating Outlooks are defined as follows:

Outlooks	Definitions
Positive	More credit-positive factors exist, indicating a high likelihood of a rating upgrade over the next year
Stable	Stable credit profile with a low likelihood of a rating change over the next year
Negative	More credit-negative factors exist, indicating a high likelihood of a rating downgrade over the next year
Developing	Conditions and implications of a special event are largely unclear, indicating that a rating may be raised, lowered or maintained over the next year

China Lianhe Credit Rating Co., Ltd.'s Surveillance Arrangements for OTP Bank Plc.

Lianhe Ratings will carry out regular or ad hoc surveillances during the validity period of the rating in accordance with relevant regulatory laws and regulations and relevant compliance requirements of Lianhe Ratings.

OTP Bank Plc. (the "Bank") shall provide relevant materials in a timely manner in accordance with the requirements of Lianhe Ratings. Lianhe Ratings will complete and release the surveillance credit reports in accordance with the requirements of relevant regulatory policies and the entrusted rating contract within the validity period of the rating.

The Bank shall promptly notify Lianhe Ratings and provide the relevant information, if there are significant changes or events that may have an apparent impact on the credit status of the Bank.

Lianhe Ratings will pay close attention to the operations of the Banks. In case of major changes to the Bank, or any event that may have material impact on the credit status of the Bank, Lianhe Ratings will carry out necessary investigation on the relevant events, conduct timely analysis on them, and affirm or adjust the credit rating results based on its investigation and analysis on such events.

If the Bank fails to provide relevant information required for surveillances in a timely manner, and subsequently prevents Lianhe Ratings from making decisions about of the credit rating changes for the Bank, Lianhe Ratings has the right to withdraw the ratings.