OTP Luxembourg

Disclosures 2023

(under Pillar 3)

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LIST OF ABBREVIATIONS

AC	Financial instruments at amortised cost
AIRB	Advanced IRB approach
ALCO	Asset-Liability Committee
AML/CFT	Anti-money laundering and countering the financing of terrorism
AT1	Additional Tier 1 capital
BIA	Basic indicator approach
BRRD	Bank Recovery and Resolution Directive
BoS	Banka Slovenije
CC	Credit Committee
CCF	Credit conversion factor
CCoB	Capital conservation buffer
CCHRI	Credit Committee for High-Risk Investments
CCR	Counterparty credit risk
CCyB	Countercyclical capital buffer
CEO	President of the Management Board
CET1	Common equity Tier 1 capital
CCP	Central counterparty
CNS	Risk exposure amount for contributions to guarantee fund
COREP	Common reporting standards
Covid-19	Coronavirus disease
CRA	Capital revaluation adjustment
CRD	Capital Requirements Directive
CRM	Credit risk mitigation
CRO	Chief risk officer (member of management board responsible for risk management)
CRR	Capital Requirements Regulation
CUSIP number	International security identification number for North America
CVA	Credit valuation adjustment
DFIs	Derivatives
EAD	Exposure at default
EBA	European Banking Authority
ECAI	External credit assessment institution
ECB	European Central Bank
ECL	Expected credit losses
EHQLA	Extremely high-quality liquid assets
ESG	Environmental, social and governance
EVE	Economic value of equity
EWS	Early warning system for detecting increased credit risk
FINREP	Financial reporting standards
FIRB	Foundation IRB approach
FLI	Forward-looking information
FVTOCI	Financial instruments at fair value through other comprehensive income
FTVPL	Financial instruments measured at fair value through profit or loss
GDP	Gross domestic product
GSIIs	Global systemically important institutions
HQLA	High-quality liquid assets
IAA	Internal assessment approach
ICAAP	Internal Capital Adequacy Assessment Process
IFRS 9	International Financial Reporting Standard 9
IILC	Investment and International Lending Committee
ILAAP	Internal Liquidity Adequacy Assessment Process
IMA	Internal models approach
IMM	Internal model method
IRB approach	Internal ratings-based approach

ISDA	International Swaps and Derivatives Association
ISIN	International securities identification number
IST	Income statement
LCR	Liquidity coverage ratio
LGD	Loss given default
LRCom	Leverage ratio (common disclosure)
LRSpl	Breakdown of on-balance-sheet exposures
LRSum	Summary of reconciliation of accounting assets and leverage ratio exposure measure
LTV	Loan-to-value ratio
NFCI	Net fee and commission income
NII	Net interest income
Nova KBM	Nova Kreditna banka Maribor d.d.
NPs	Natural persons (consumers)
NPEs	Non-performing exposures
NSFR	Net stable funding ratio
OCR	Overall capital requirement
OSIBs	Other systemically important banks
O-SIIs	Other systemically important institutions
OR	Operational risk
OUPN	Workout Department
P2G	Pillar 2 Guidance
P2R	Pillar 2 own funds requirements
PD	Probability of default
PKP	Act Determining Emergency Measures to Contain the Covid-19 Epidemic
POCI	Purchased or originated credit-impaired assets
PPE	Property, plant and equipment
QCCP	Qualifying central counterparties
RAF	Risk appetite framework
RAC	Risk absorption capacity
RWA	Risk-weighted assets
SA	Standardised approach
SKD	Standard Classification of Activities
SFA	Supervisory formula approach
SICR	Significant increase in credit risk
SID	Slovenska izvozna in razvojna banka, d.d., Ljubljana
SISBON	Slovenian information system on customer creditworthiness
SLS	Summit Leasing Slovenija d.o.o.
SMEs	Small and medium-size enterprises
SREP	Supervisory review and evaluation process
Tier 2	Tier 2 capital
TLTRO	Targeted longer-term refinancing operation
TSCR	Total SREP capital requirement
VP	Securities
ZBan-3	Banking Act
ZDR-1	Employment Relationships Act
ZGD-1	Companies Act

1 INTRODUCTION

The OTP Luxembourg Group's disclosures for 2023 under Pillar 3 of the Basel standards (hereinafter: the disclosures) have been prepared in accordance with the provisions of Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (CRR), amended by Regulation (EU) 2019/876 (CRR II) and Regulation (EU) No 2020/873 (CRR QF) (all three documents are hereinafter referred to collectively as the CRR), Directive 2013/36/EU, amended by Directive 2019/878/EU (both documents are hereinafter referred to collectively as the CRD), Commission Implementing Regulation (EU) No 2021/637 laying down implementing technical standards with regard to public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council (hereinafter: Implementing Regulation No 2021/637) and amendments thereto, the Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis (EBA/GL/2020/07) and other guidelines that lay down disclosure requirements (i.e. regarding materiality, proprietary information and confidentiality and disclosure frequency, regarding remuneration policies, etc.).

Nova KBM d.d. is ultimately owned by the financial holding company OTP Luxemburg S.à r.l. In accordance with Article 13 of the CRR, institutions owned by EU financial holding companies must comply with the obligations laid down in Part Eight of the CRR at the highest level of consolidation and at the sub-consolidated level were relevant (as required under Articles 437, 438, 440, 442, 450, 451, 451a and 453 of the CRR). The data in this document are therefore disclosed at the level of the OTP Luxemburg Group and at the level of the Nova KBM Group where relevant. The disclosures have been prepared by Nova KBM, as the largest financial institution in the OTP Luxemburg Group as of 31 December 2023.

Nova KBM has the status of other systemically important institution (O-SII), which means that it is treated as a large institution in accordance with Article 4(146)(b) of the CRR and as an institution that is not listed on the stock exchange in accordance with Article 4(148) of the CRR. The Bank is thus bound to the frequency and scope of disclosures set out in Article 433a(2) of the CRR.

Following the receipt of all necessary consents from the regulatory bodies, the takeover of the Nova KBM Group was completed on 6 February 2023, based on the sale and purchase agreement concluded between OTP Bank Nyrt. and Biser Topco S.à r.l. Indirectly, OTP Bank became the official owner of the Nova KBM Group, which comprises Nova KBM d.d. and ALEJA finance d.o.o. On the day the aforementioned transaction was concluded, Nova KBM d.d.'s 100% participating interest in Summit Leasing Slovenija d.o.o. was sold based on the agreement of 29 June 2022 on the sale and purchase of all of the company's issued capital, due to certain competition law concerns expressed by the Competition Protection Agency regarding the leasing activity within the Nova KBM Group following the conclusion of the sale and purchase agreement between OTP Bank Nyrt. and Biser Topco S.à r.l. Summit Leasing Slovenija d.o.o. and its associate Mobil Leasing are thus excluded from the compilation of the financial statements of the Nova KBM Group from 1 February 2023 on. The name of Biser Bidco S.à r.l., the sole shareholder of Nova KBM d.d., was changed to OTP Luxembourg S.à r.l. on 6 February 2023.

The OTP Group entered the Slovenian banking market in 2019 with the purchase of SKB. The process of merging SKB and NKBM has begun following the completion of the takeover of Nova KBM, making the merged bank, subject to the regulatory approval of the merger, the largest in Slovenia in the loan and deposit segment, while making the OTP Group the market leader in five countries in the region.

Macroprudential instruments

Following a strong recovery in recent years following the pandemic, a sharp drop in international trading and cooling domestic demand resulted in a slowdown in GDP growth in Slovenia in 2023 to 1.6%. Economic growth is expected to stabilise over the next several years at more than 2% in the context of an increase in real household income and foreign demand (2024: 2.2%; 2025: 2.3%; and 2026: 2.5%). Growth is expected to remain below the long-term potential in the wake of low growth in investments and a tight labour market. Inflation is expected to gradually ease in the period 2024–2026, but will likely remain above the target level of monetary policy and is expected to continue exceeding the euro area average despite the narrowing of that gap. Average real wage growth in expected to outstrip growth in average productivity in the period 2024–2026, which will keep inflation at a high level, with growth in the prices of services standing out. Inflation is expected to remain above the 2% target level and above the euro area average in the period 2024–2026. In 2023, the average annual Inflation rate in Slovenia was 7.2%, 3.0% is expected in 2024, 3.1% in 2025 and 2.1% in 2026. Employment growth is expected to slow due to the tight labour market, while wage growth is expected to remain high and outstrip growth in productivity.

Uncertainty accompanies official forecasts, which are still slightly elevated in terms of inflation. Because wage growth in Slovenia is one of the highest rates in the euro area, productivity growth that is weaker than expected could cause a sharper pass-through into final prices. This would be reflected in cost pressures on production, and a loss in the export competitiveness of the economy. In terms of demand, additional risks of higher inflation and higher economic growth derive from the still-high level of household savings, which could drop in the context of a potential improvement in confidence through an increase in consumption and housing investments.

In addition, the Bank of Slovenia made the following changes in capital buffers due to economic trends:
(1) A sectoral systemic risk buffer in the amount of 0.5% will enter into force on 1 January 2025 for all exposures to retail clients secured by residential real estate, and in the amount of 0.5% for all other exposures to retail clients.
(2) From 1 January 2025 on, banks will have to meet higher capital requirements in the scope of the countercyclical capital buffer. The Bank of Slovenia raised the level of the countercyclical buffer for exposures in the Republic of Slovenia from 0.5% to 1.0% of total risk exposure.
(3) Effective 1 January 2025 and in accordance with the relevant Bank of Slovenia resolution, the Nova KBM Group must take into account a higher buffer for other systemically important institutions in the amount of 75 basis points, up from the previous amount of 50 basis points.

Integration of environmental, climate and social risks (ESG)

The Group is aware that its business environment is and will be affected by the transition to a low-carbon economy and climate change. The continued transition to a low-carbon or carbon-neutral economy brings risks and opportunities for the Group (and other financial institutions). The Group recognises both physical climate change and transition risk as important factors of its overall risk profile.

The Group operates in a country that is a signatory to the Paris Agreement and part of the European Green Deal, under which Europe has committed to becoming a climate-neutral continent by 2050. European authorities expect the financial sector to play a key role in this regard, which the European Commission set out in its action plan for the financing of sustainable growth. Slovenia defined its strategy and national plan to contribute to the achievement of the EU's broader goals. The Bank has familiarised itself with the aforementioned documents and will integrate them into its business objectives in the scope of business plans.

In this respect, the regulators expressed clear expectations in the Guide on climate-related and environmental risks published in November 2020. That guide lays down supervisory expectations in connection with risk management and disclosures.

Accordingly, the Group will strive to achieve the following in the short and medium term:

- to adjust its portfolio of customers and exposures to the Nationally Determined Contributions (NDCs) of the EU, which requires the reduction of greenhouse gas emissions by 55% relative to 1990 levels by 2030 (and Slovenia's associated commitments); and
- to adopt measures to increase its commitment to finance the transition to a low-carbon or carbon-neutral economy.

The Group defined ESG risks as material for its operations and business model. The assessment of ESG risks is a continuous process. For this reason, the Group will continue to define ESG risk factors and include them in existing risk types and not as separate ESG risks. The Group will continue to focus on the introduction of ESG factors in internal processes in order to meet the associated regulatory requirements and improve the availability of data that will serve as the basis for future measures and goals.

The Group monitors key ESG risks and assesses their impact on various business areas and risks. The Group's focus is on the introduction of ESG risk factors in the relevant risk types. The Group's approach is the gradual inclusion of ESG factors in the risk management framework:

- short-term: emphasis on the introduction of acute physical risk and transition risk (i.e. policy changes to achieve the target of zero emissions);
- medium-term: emphasis on the introduction of chronic physical risk and transition risk in technological changes and policy changes, in particular with regard to water consumption, waste and energy consumption; and
- long-term: emphasis on the introduction of transition risk, which is represented by behavioural changes, and social and governance risks.

Obligation to disclose information

The Group is obliged to disclose material information that, if omitted or misstated, would change or affect the assessment or decision of persons who use that information to make business decisions. The law allows for the possibility of the non-disclosure of information that is deemed confidential or a trade secret.

Nova KBM has included the method, frequency and verification of the disclosure of material information in the Disclosure Policy of the Nova KBM Group. All disclosures are prepared on a consolidated basis in thousands of euros, except where otherwise stated.
In accordance with Article 432 of the CRR, the Group has omitted disclosures (an entire template or certain rows or columns in a specific template) that are not relevant. The Group's disclosures are not audited. The Group's disclosures were approved by the Bank's Management Board. The Group publishes disclosures on the website www.nkbm.si in Slovene and English, in the section intended for investors.

2 RISK MANAGEMENT OBJECTIVES AND POLICIES

This section defines the disclosure requirements set out in Article 435 of Part Eight of the CRR.

2.1 STATEMENT OF THE MANAGEMENT BODY REGARDING POLICIES IN PLACE TO ENSURE THE FULFILMENT OF DISCLOSURE REQUIREMENTS UNDER PART EIGHT OF THE CRR

In accordance with Article 431(3) of Regulation (EU) No 2019/876 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR II), the management body, represented by

- **John Denhof, President,**
- **Sabina Župec Kranjc, Vice-President,**
- **Miha Kristl, member,**
- **Matej Falatov, member, and**

the Supervisory Board, represented by its **Chairman Imre Bertalan**,

hereby confirms, by signing this statement, that the Group prepares the disclosures under Part Eight of the CRR II (hereinafter: the disclosures) in accordance with the Disclosure Policy of the Nova KBM Group (hereinafter: the Disclosure Policy), which is updated at a minimum annually or in the event of regulatory changes, and which ensures that the disclosures are prepared in accordance with Part Eight of the CRR II and other legal requirements. The method, frequency and verification of the disclosure of material information are included in the Disclosure Policy. In accordance with the Disclosure Policy, the Group has in place internal controls and procedures for ensuring the accuracy of disclosed information. The administrators of specific content are responsible for primary controls.
Key elements of the Disclosure Policy include:

- the definition of the roles and responsibilities of organisational units included in the preparation of the disclosures;
- the identification of information for publication (in accordance with EBA GL/2014/14 and Articles 432 and 433 of the CRR II);
- instructions for contributions from organisational units, and the coordination and control thereof;
- approval of the disclosures by the Management Board; and
- publication of the disclosures on the Bank's website.

Maribor, 28 March 2024

Management Board of Nova KBM d.d.

Miha Kristl	Matej Falatov	Sabina Župec Kranjc	John Denhof
Member	Member	Vice-President	President

Supervisory Board of Nova KBM d.d.

Imre Bertalan
President

2.2 GENERAL INFORMATION REGARDING RISK MANAGEMENT OBJECTIVES AND POLICIES

This section includes the disclosures required under Article 435(1) of the CRR, which are set out in Table 'EU OVA – Institution risk management approach' in the Guidelines.

2.2.1 RISK MANAGEMENT STRATEGIES AND PROCESSES

(Article 435 (1.a) of the CRR)

2.2.1.1 Disclosure of information at the OTP Luxembourg Group level

Since the change in ownership, Nova KBM is owned by the EU parent financial holding company OTP Luxembourg S.à r.l., and is thus required to disclose the relevant information and data set out in Part Eight of the CRR on the consolidated financial position of the OTP Luxembourg Group.

In order to ensure compliance with risk management legislation at the consolidated level, Nova KBM included risk management and reporting obligations at the consolidated level of the OTP Luxembourg Group in its own methodological approach where appropriate. That methodology is described in the following sections of this document.

2.2.1.2 Disclosure of information at the Nova KBM Group level

The Group's mission is to ensure the security of its operations, to accept risks in a serious and responsible manner, and to maintain the highest standards of risk management. In the scope of the risk appetite framework, the Group defined the objectives of the future take-up and management of risks, taking into account its risk profile, the envisaged and expected development of the Group's operations, its business and investment strategies, the asset and liability management (ALM) strategy, including the IT strategy, non-performing loan management strategy, ESG strategy and recovery plan. The Group regularly identifies and measures various types of risks that arise in its operations.

The risk appetite framework is based on six pillars:

- the identification and measurement of risks;
- the risk management strategy;
- the risk appetite statement;
- the risk absorption capacity, the establishment of operational limits, the establishment of an allocation system and the monitoring of the use of allocated own funds;
- risk management; and
- the definition of roles and responsibilities.

The Bank defined the following risk management objectives at the Group level in its risk appetite framework:

- moderate, sustainable and long-term profitability;
- the generation of profits while accepting moderate credit risk;
- the acceptance of significant yet diversified risk from exposures to governments and investment-grade financial institutions with the aim of ensuring the high liquidity of assets;
- the acceptance of low funding risk and market liquidity risks;
- the accelerated integration of ESG risks in the business and management environment of the Bank and banking group.
  The Group is introducing climate and environmental risks in its business strategy and business plan, and in its risk management framework. The Group strives to maintain these types of risks at low or moderate levels in accordance with the objectives of its ESG strategy. The Group is taking a progressive approach to the integration of ESG risks/factors in its business planning and risk management framework, with a clear emphasis on lending activities. The Group aims to adjust its investment and loan portfolios over the short and medium terms to ensure that they are in line with Slovenia's climate commitments. It also aims to increase its commitments to finance the transition to a low-carbon or carbon-neutral economy; and
- to maintain the other risks to which the Group is exposed at a low or moderate level.

The risk management process reflects the Group's comprehensive approach and includes the following:

- the identification of the risks to which the Group is exposed in its operations;

- the measurement of risks and risk factor monitoring methods;
- the continuous monitoring of exposure to individual risks, and systematic and comprehensive reporting;
- the performance of stress tests, the results of which are used in the decision-making process and the making of strategic decisions;
- the established limit system, with an early warning system and a defined risk appetite; and
- learning from and adaptation to the changing business environment which includes the re-assessment of limits and methodologies for setting limits in order to ensure the stable and secure operations of the Nova KBM Group over the long term.

The monitoring and management of individual types of risk are defined in detail in the relevant risk management policy and the associated methodologies, which take into account the specific characteristics of individual types of risk. Each policy or methodology is the responsibility of one person who ensures the harmonisation of a specific bylaw with other bylaws, taking into account the applicable legislation, guidelines, recommendations and best banking practice. The Group has the following in place in the area of internal risk management:

- a risk management policy;
- a risk management methodology;
- a risk appetite statement that defines the appetite for a particular type of risk, as well as the level of key risk indicators; and
- a comprehensive limit system, including operating limits and an early warning system.

Decisions regarding the risk appetite framework, the establishment of an operational limit system, risk management policies, and methodologies for measuring, monitoring and managing risks within the Nova KBM Group are made by Nova KBM as the largest credit institution in the Group. All Group companies manage risks in accordance with legal requirements and internal policies or methodologies that reflect their activities and the scope of operations. Persons at the Bank responsible for individual policies and methodologies must be familiar with the method used to manage the risks covered by those policies and methodologies at all Group companies, and have the ability and duty to influence the establishment of an appropriate method for managing and measuring individual risks at Group companies. Risk management procedures are carried out independently at the level of each individual company. The Group has defined reporting methods, report content, reporting frequency and report recipients for each individual type of risk.

All Nova KBM Group companies treat risk management as the continuous process of identifying, measuring and managing the risks that arise in the course of their operations.

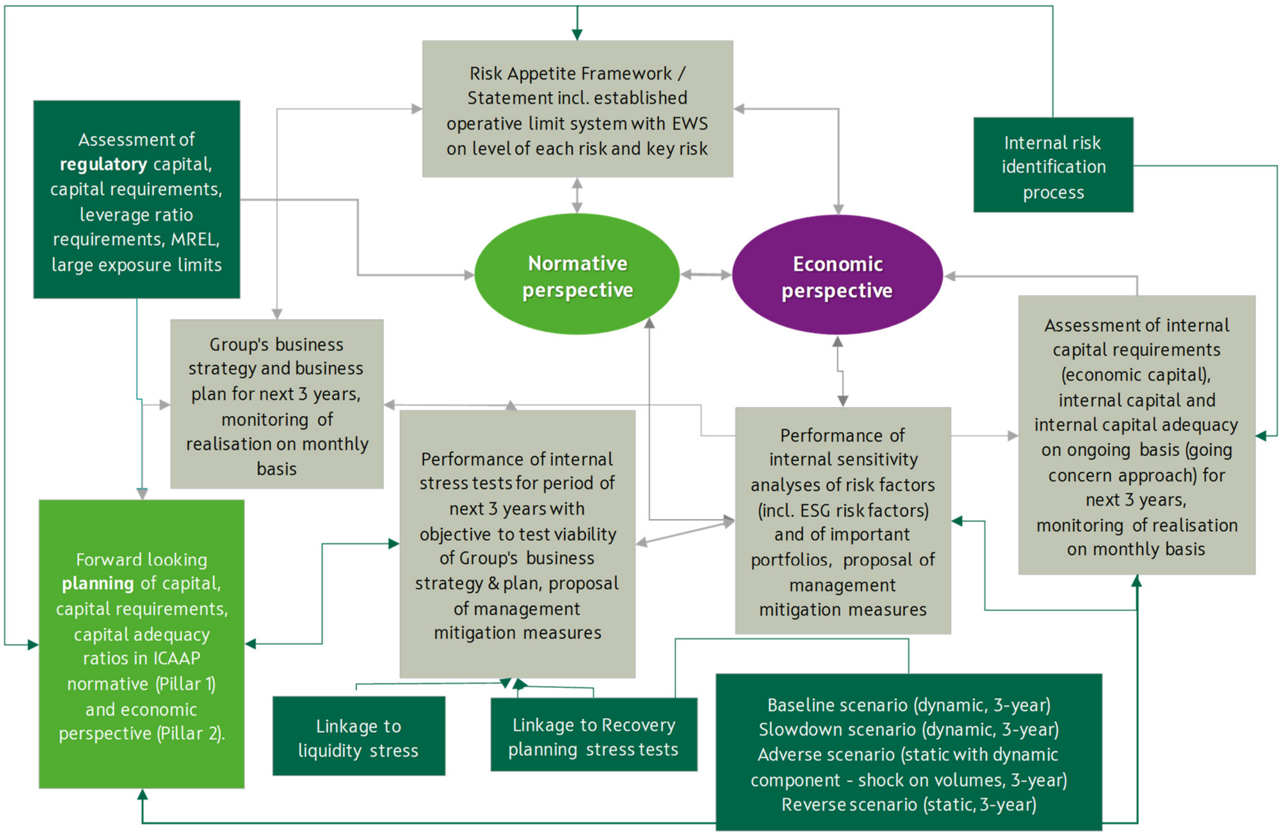
In accordance with the Capital Requirements Directive IV, ECB guidance and the European Banking Authority (EBA) guidelines relating to the SREP, the Bank carries out the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP).

Reliable, effective and comprehensive ICAAP in ILAAP are based on two pillars, i.e. economic and normative perspectives that are mutually complementary.

2.2.1.2.1 Internal Capital Adequacy Assessment Process (ICAAP)

At least once a year, the Group critically reviews its risk profile and appetite for individual types of risk in the scope of an integrated process, from the identification of risks to the performance of stress tests and the drafting of a recovery plan and the feedback process, which then affect regular processes and strategic decisions. The connectivity of the ICAAP is illustrated in the figure below.

Figure 1: Implementation of the ICAAP from the normative and economic perspectives



The identification of the risks to which the Group is exposed in its operations is an integral element of the ICAAP. The identification of risks is the task of every Group employee. The acceptable level of and method for measuring and monitoring individual types of risk are defined by experts who specialise in the management of such risks. The organisational unit responsible for defining the acceptable level of and method for measuring and monitoring risks is organisationally segregated from the units that take-up risks.

The risks to which the Group is exposed in its operations and the methods for measuring particular types of risk are presented in section 5.1 of the disclosures. The Group deems the following types of risk to be material: credit risk (in particular default, concentration, migration), credit spread risk, strategic risk, operational risk, IRRBB, and liquidity risk.

Credit risk is the most important risk to which the Bank is exposed in its operations. In addition to credit risk, the Bank has identified the following types of risks that it addresses in the scope of credit risk:

- credit concentration risk,
- risk associated with foreign currency loans,
- country risk,
- settlement risk,
- residual risk,
- credit rating migration risk,
- risk in connection with special credit facilities,
- risk in connection variable-rate loans,
- counterparty risk,
- sovereign risk, and
- risks in connection with real estate.

The treatment of ESG risks is based on the inclusion of ESG factors in existing risk types where they are relevant, rather than as stand-alone risks.

In the scope of the ICAAP, the Bank:

- calculates capital requirements, capital and capital ratios in the scope of Pillars 1 and 2;
- defines the risk appetite at the Group level and at the level of individual risk types;
- defines key risk factors and the associated threshold values in the scope of the planning process, and when performing internal stress tests and sensitivity analyses. The Bank defines the threshold values of identified risk indicators in the scope of the ICAAP from the normative and economic perspectives, and in the scope of the recovery and resolution process;
- performs internal stress tests and sensitivity analyses; and
- analyses the effects of the above-described processes and proposes to the governance body the measures required to limit risk exposure.

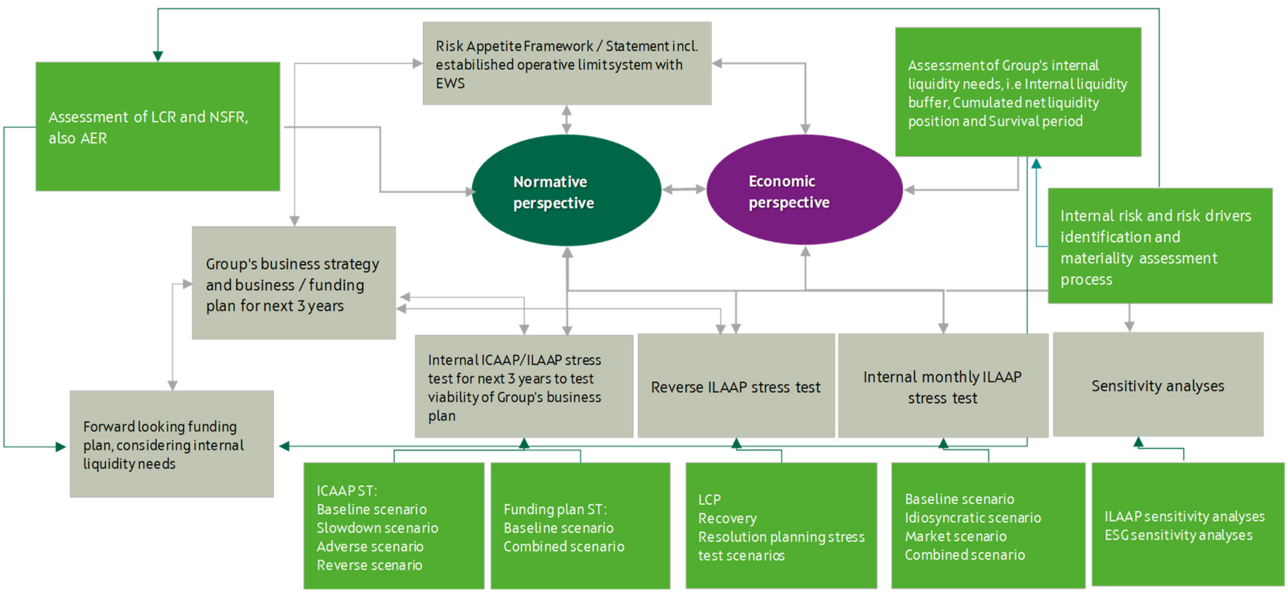
The Bank strives for the continuous improvement of the ICAAP. Improvements are currently aimed at upgrading the economic perspective and, in this context, identifying and assessing risk factors, and performing sensitivity analyses and internal stress tests.

2.2.1.2.2 Internal liquidity adequacy assessment process (ILAAP)

The purpose of the ILAAP implemented by the Group is the effective management and systematic identification, assessment, measurement and mitigation of the risks to which the Group is exposed in its operations.

The ILAAP is in line with the Bank's business model, size, complexity, risks and market expectations. It includes all qualitative and quantitative information that serves as the basis of its risk appetite, including a description of the systems, processes and methodology used to measure and manage liquidity and funding risks. The connectivity of the ILAAP is illustrated in the figure below.

Figure 2: Implementation of the ILAAP from the normative and economic perspectives



The main objectives of the ILAAP are:

- the planning of actual and potential cash inflows with respect to cash outflows, and the assessment of liquidity risk through the calculation of liquidity ratios;
- ensuring an adequate level of liquid investments or other forms of liquidity in relation to liquidity risk;
- the monitoring of the appropriate structure of liabilities and financial assets;
- the calculation of liquidity ratios;
- the establishment of limits and maintenance of a limit system to limit exposure to liquidity risk;
- the performance of various liquidity stress tests, including an adverse scenario;
- the definition of the economic and normative perspectives of the ILAAP;
- the definition of links between the ICAAP, ILAAP, the recovery plan, liquidity resolution and the planning process; and
- the availability and maintenance of a liquidity contingency plan should liquidity problems arise.

The Group continued to upgrade the ILAAP in 2023. It further updated the ILAAP policy and methodology and the ILAAP methodology for the performance of stress tests, which comprehensively covers in detail the performance of all liquidity stress tests within the Group. In the scope of liquidity resolution, the Group has defined key members of the Nova KBM Group, key liquidity factors, a developed methodology, rapid and slow stress tests and the use of risk mitigation measures.

In the scope of the separate monitoring of market liquidity risk and funding liquidity risk, the Group also identified intraday liquidity risk and asset encumbrance risk.

It also upgraded the liquidity contingency plan.

The Group simulated a liquidity crisis in 2021 and thus verified the appropriateness of predefined procedures for managing a liquidity crisis through the activation of available measures to mitigate liquidity risk. The exercise indicated that the Group is capable of reacting swiftly and effectively to a liquidity crisis and that established procedures are appropriate.

The Group draws up its annual business plan within the framework of its risk appetite. The structure of and approach to the funding of business under the business plan is defined in detail in the refinancing plan. The refinancing plan provides a detailed definition of individual segments of funding with regard to geographical origin, the maturity structure of funding, and realised and projected funding costs. The refinancing plan outlines the scope of the projected funding for the next three years. The document also encompasses business continuity in crisis conditions. It is evident from the refinancing plan that the Group's funding is diversified and stable, as a large portion of funding comes from deposits by non-bank customers.

The Group has in place the Rulebook on the Validation of the ILAAP Methodology, which describes the validation process, the frequency of validation, responsibilities, reporting and corrective measures that follow validation. The rulebook also includes a register of ILAAP methodologies that are subject to validation.

2.2.1.2.3 Performance of stress tests and sensitivity analyses

The Group has established a process for performing internal stress tests and sensitivity analyses that are used to assess its ability to continue as a going concern in less favourable operating conditions. At the request of regulators, the Group also performs regulatory stress tests. The performance of stress tests and sensitivity analyses is set out in the Stress-Testing Policy of the Nova KBM Group. The Group performs regulatory stress tests taking into account the methodologies prescribed by regulators, while in performing internal stress tests, it uses an internally established policy and methodologies, which define scenarios, input data and a timeframe, assumptions, risk parameters, measurement techniques, thresholds and proposed management measures.

The Group performs the following types of stress tests and sensitivity analyses:

- stress tests at the request of the Bank of Slovenia/European Central Bank;
- stress tests/sensitivity analyses in the scope of the ICAAP;
- stress tests/sensitivity analyses in the scope of the ILAAP;
- stress tests in the scope of the recovery plan;
- regulatory and internal climate-related stress tests, and sensitivity analyses
- other occasional stress tests (i.e. when launching a new product).

Use of stress tests in the decision-making process:

The Group presents the results of stress tests and sensitivity analyses to the Supervisory Board, the Bank's Management Board and to other relevant stakeholders, with the aim of briefing them on the results, findings and proposed mitigation measures in the further operations of the Group.

Performing stress tests in the scope of the ICAAP

Stress tests and sensitivity analyses are performed at least once a year as part of the ICAAP with the aim of assessing the impact of a major economic downturn and other unexpected events on the risk profile, and the capital and/or financial position of the Group.

In the scope of the ICAAP, the Bank prepares internal macroeconomic stress scenarios that differ from one another in terms of the intensity of an economic crisis and the impact of macroeconomic risks factors on the risk parameters and portfolios covered by the stress test. The key assumptions of ICAAP stress scenarios include the following:

- scope of risks:
    - credit risk, covering a portion of assets through the impact on the credit portfolio's size and own funds through the effect of impairments in the profit and loss statement, which is one of the components of own funds;
    - market risk covering a portion of assets through the following:
        - a shock to debt securities held in the banking book (covering a portion of assets and own funds via the effect of revaluation adjustments),
        - a shock to equities held in the banking book (covering a portion of assets and own funds via the effect of revaluation adjustments), and
        - loans measured at fair value through profit or loss (covering a portion of assets and own funds via the effect on profit or loss);
    - funding risk through the effect of the size of the liability portfolio on profit or loss due to shocks on margins and volumes; the risk is also correlated with volumes and margins on the asset side;
    - operational risk of the effect on profit and loss items;
    - profitability risk and interest rate risk in the banking book, covering the impact on:
        - net interest income – NII (as a result of all risks, covering part of profit or loss),
        - net fee and commission income – NFCI (covering part of profit or loss),
        - operating costs (covering part of profit or loss),
        - losses arising from market risk (revaluation of securities),
        - losses arising from credit risk (expected credit losses), and
        - losses arising from operational risk.
- Scenarios covering all of the above-stated risks include:
    - A baseline scenario, which is based on the business plan and represents the planning of own funds, own funds requirements and capital adequacy based on a 'top-down' and 'bottom-up' business plan. A dynamic balance sheet assumption is used.
    - A slowdown scenario, which is the macroeconomic scenario that the Bank deems is most likely to be realised and that envisages a slowdown in macroeconomic growth relative to the business plan. The objective of this scenario is to test the business plan in an economic environment that is less favourable than forecast. Used in this scenario is a dynamic balance sheet assumption that is based on the fact that the adopted business plan is also feasible under changed macroeconomic conditions.
    - An adverse scenario, which envisages an economic downturn or an even deeper recession, if the economy is already in recession, which simultaneously affects all risk factors. This scenario defines a series of systemic risks that may threaten the Group's financial stability and trigger special shocks, including growth in gross domestic product (GDP) in the EU. The approach selected for the adverse scenario is static because it assumes that the Bank will not follow its adopted business plan in the event of a severe crisis, but will seek to maintain the status quo. Notwithstanding the above, the Bank incorporates a dynamic component in stress testing in subsequent years when performing stress tests on the static volumes (new and rolled-over exposures) of the credit and treasury portfolios, and in the case of deposits and costs.
    - A reverse scenario is defined as the determination of the point of collapse where macroprudential supervisory own funds requirements are no longer met. Based on an inverse loop, the Bank defines the macroeconomic assumptions that correspond to such a point of collapse.
- Macroeconomic assumptions: the Bank analyses forecasts of key macroeconomic risk factors (indicators) published by various local and international organisations, and it forecasts the values of macroeconomic assumptions in various stress scenarios using internal tools and expert judgement. For that purpose, the Bank also takes into account, inter alia, the forecasts prepared by the parent bank, OTP Bank.
- Risk parameters assessed on the basis of internal models:
    - exposure at default (EAD),
    - probability of default (PD),
    - loss given default (LGD).
- Time components: ICAAP stress tests cover a period of three years and are carried out at the level of the Nova KBM Group
- Measurement techniques: the Bank has in place an internal methodology, based on which it assesses the effects of specific risks and risk parameters on the final results of stress tests
- Established limits: ICAAP stress tests are deemed successfully completed when the minimum established limits for the following are exceeded:

  - Common Equity Tier 1 capital ratio,
  - total capital ratio, which take into account the required regulatory and internal limits of the above ratios.
- Evaluation of results: the Bank presents the effects of the following in the scope of stress-testing results:
  - risk factors (risk parameters),
  - effects on the balance sheet and profit and loss account, including the effects of the impact of a stress test on the size of individual portfolios,
  - capital adequacy ratios, regulatory own funds and risk-weighted assets,
  - leverage ratio, the cost of risk, the MREL and liquidity ratios, and
  - sensitivity analysis following an assessment of all of the above-described effects on the Group's key portfolios
- When performing reverse ICAAP stress tests and stress tests in the scope of the recovery plan, the Group has in place uniform methodology for determining minimum capital adequacy ratios and a uniform escalation process.
- The roles and responsibilities for performing stress tests are defined in the Group's existing bylaws.

If sensitivity analyses are performed in the scope of the ICAAP from the normative and economic perspectives, the Bank analyses the sensitivity of risks/portfolios to certain risk factors or changes in risk parameters and impacts on the normative economic solvency ratio.

The Bank also performs stress tests when introducing new products and services, if so required by the provisions of bylaws.

The Bank engages independent external validators for the validation of internal models, while certain models are validated by the parent bank, OTP Bank. The validation process is set out in the model validation methodology.

The Bank reports to management bodies and regulators regarding stress testing and sensitivity analyses.

Performing stress tests in the scope of the ILAAP

The performance of stress tests in the scope of the ILAAP is an integral part of the Group's overall risk management. The results of stress tests affect the decision-making process and the adoption of strategic decisions. The aim of performing stress tests is to ensure sufficient liquidity even in stress conditions.

The main assumption of measuring and managing liquidity risk is the survival period in stress conditions. This means that the Bank can survive a pre-determined period of stress conditions without adopting additional measures. In this way, the Bank ensures the time required to adopt measures in accordance with its risk appetite framework and ensures its long-term viability. The survival period is defined in relation to the internal liquidity buffer and cumulative net funding gap.

The Bank regularly implements various liquidity management scenarios, including through the use of methods to mitigate liquidity risk, and on the basis of the results of stress tests verifies the assumptions that serve as the basis for decisions in connection with ensuring the appropriate liquidity of the Bank and Group.

Based on such scenarios, the Bank defines the method used to ensure an adequate liquidity position, while taking into account:

- the normal course of operations (baseline scenario); and
- emergency liquidity conditions (stress scenario).

Stress scenarios are divided into three main groups:

- a scenario adjusted to the Bank's own liquidity position, i.e. an idiosyncratic scenario, which assumes the loss of renewable major sources of liquidity (e.g. institutional investors and large enterprises) without the provision of collateral by the Bank, and a decline in deposits by minor investors;
- a scenario conditioned by the situation on the market, which assumes a decline in the liquidity of assets and a deterioration in the terms for obtaining liquidity on the market; and
- a scenario based on a combination of the two aforementioned scenarios.

Stress scenarios are based on various levels of severity and different lengths for the period of emergency liquidity conditions. They take into account the impact on on- and off-balance-sheet items, and other contingent liabilities. The Bank implements each of these stress scenarios (idiosyncratic, market and combined) at two levels of difficulty that are defined based on the predetermined quantile of an empirical distribution of each risk factor. Key risk factors that are analysed by the Bank include downgrades, changes in the market value of investments, outflows of demand and time deposits, the larger liquidation of off-balance sheet items and lower inflows from loans. Assumptions for scenarios that derive from statistical analysis can be revised based on an expert opinion, in particular where the timeframe for statistical analysis is small and an expert in such cases facilitates the consideration of historical events.

ILAAP stress tests are deemed successfully completed when the minimum established limits for the following are exceeded:

- LCR,
- NSFR,
- Survival period,
- Internal liquidity buffer.

A stress test is performed at least once a year for the liquidity contingency plan and recovery plan. The Bank reports regularly to the ALCO and in the scope of the CRO report regarding stress tests performed.

Performance of stress tests linked to ESG, with a special emphasis on climate risks

The Bank included the performance of climate-related stress tests in its internal policy and methodology on the performance of stress tests with the primary aim of the short-term and long-term integration of stress tests and analyses in this area.

As a systemically important institution, the Group participated in the ECB's climate stress test in 2022, which showed that the Group's treatment of and exposure to this type of risk is comparable to other participating institutions. The Bank performs annual internal climate-related stress tests, and thus analyses the sensitivity of the risk profile and performance indicators to climate-related risk factors.

For the purpose of managing, measuring and monitoring ESG risks/factors, the Bank continuously collects actual data and improves the quality thereof with the help of clients and other sources. The Bank also dedicates special attention to the formulation of an internal assessment methodology where data are not available.

2.2.2 STRUCTURE AND ORGANISATION OF THE RELEVANT RISK MANAGEMENT FUNCTION INCLUDING INFORMATION ON ITS AUTHORITY AND STATUTE, OR OTHER APPROPRIATE ARRANGEMENTS

(Article 435 (1.b) of the CRR)

This section discloses the structure and organisation of the Group's risk management and the risk management functions as required under Article 435(1)(b) of the CRR.

2.2.2.1 Disclosure of information at the OTP Luxembourg Group level

Certain members of the Management Board of OTP Luxembourg S.à r.l. are also members of the Supervisory board of the Nova KBM Group as presented in section 2.2.2.2 and, as owner representatives, those persons also perform a controlling function at the Nova KBM Group level.

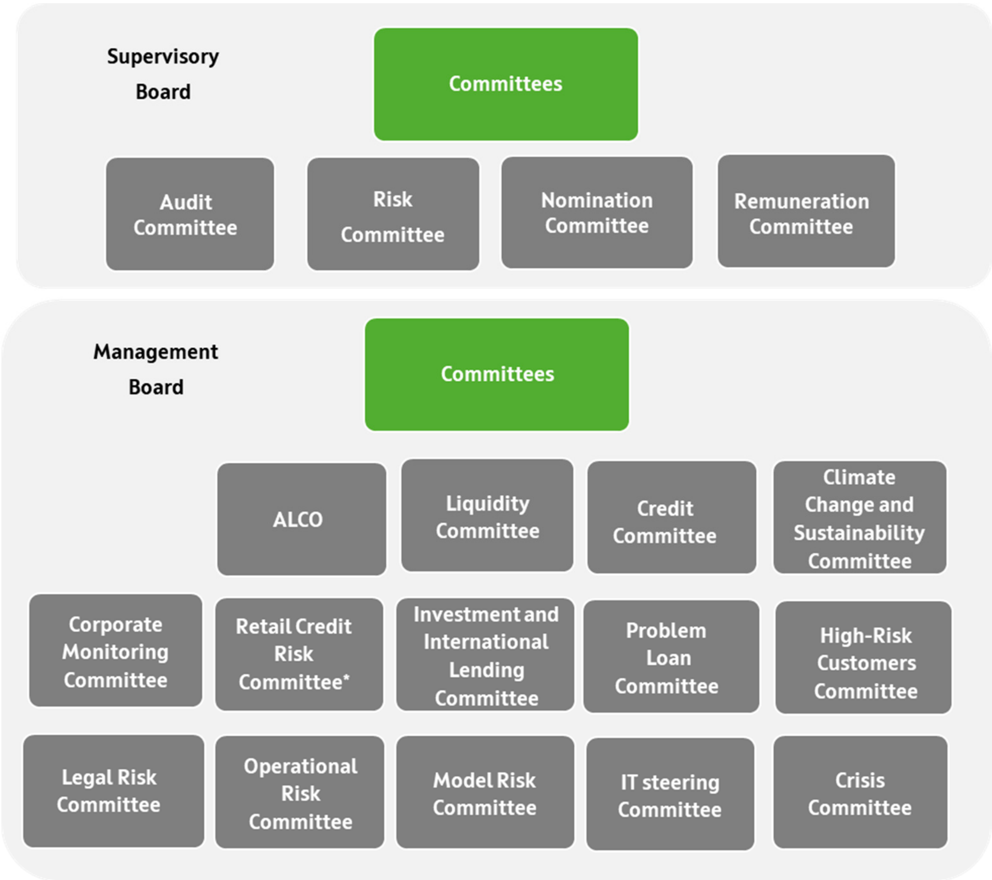
2.2.2.2 Disclosure of information at the Nova KBM Group level

The Group has in place a risk management structure that defines the active role of the Supervisory Board and Management Board, as well as the appropriate structure of the risk management function, which is separated in organisational terms from other business areas. Key decisions are made at the level of the Management Board and Supervisory Board.

To ensure the systematic control of exposure to material risks, the Group has established a system of internal controls at all levels of the organisational structure. Responsibility for establishing and implementing internal controls lays with persons responsible for individual areas at the Bank. Internal control functions are in place to ensure an independent and objective assessment of effectiveness and compliance with regard to the Bank's internal governance arrangements on the basis of the review and assessment of the adequacy of risk strategies and policies, the Bank's risk management processes, procedures and methodologies, and reporting on risks by the Bank and Group companies. Control functions represent three lines of defence that comprise the risk function, compliance function and internal audit function. The task of the Compliance Department is to ensure the proper management of compliance risk, i.e. to ensure the proper operations of the Bank in accordance with the applicable regulations, legislation and standards of good practice. The role of the Internal Audit Department is to ensure an independent assessment with regard to the quality and effectiveness of internal governance arrangements, including the Bank's risk management systems and processes and internal controls, and to provide assurances to the management body, Audit Committee and senior management regarding the adequacy of internal governance arrangements. The Internal Audit Department supports and assists the management body in safeguarding the Bank's long-term interests and protecting its reputation. As part of the assessment regarding the quality and effectiveness of internal governance arrangements, the Internal Audit Department also performs independent assessments of the work of the risk management and compliance functions through the internal audit process.

In terms of internal governance, the Bank thus has several governance levels in place to ensure the effective management of risks, as illustrated by Figures 3 and 4. Decisions in connection with the management and take-up of material risks are adopted by the decision-making bodies presented below.

Figure 3: Governance of the Nova KBM Group



* Committee being established.

1. Supervisory Board and Management Board

Nova KBM's governance bodies as at 31 December 2023 were the Management Board (four members), the Supervisory Board (seven members) and the General Meeting of Shareholders.

MANAGEMENT BOARD

Nova KBM's Management Board had four members as at 31 December 2023. Detailed information about the Management Board can be found in Section 2.4. Information regarding governance arrangements.

NOVA KBM COMMITTEES

- Credit Committee

The Bank's Credit Committee makes decisions within its powers regarding all loans to customers, in accordance with the competences, procedures and decision-making methods in place at the Bank with respect to loan origination.

The committee has four members. The committee's chair is the member of the Management Board responsible for corporate banking. Meetings of the committee are convened once a week.

- Investment and International Lending Committee

The Investment and International Lending Committee discusses and makes decisions regarding international investments in accordance with the Bank's investment strategy and lending policy. It decides on international lending activities (syndicated loans, direct lending, promissory notes, etc.) on foreign markets, and on the Bank's investments within the framework of its debt securities portfolio. The committee comprises four members from the areas of finance and risk management, and meets on a weekly basis. It is chaired by the member of the Management Board responsible for finance.

- Problem Loan Committee

The Bank also has in place a Problem Loan Committee. It has four members, and is chaired by the member of the Management Board responsible for risk management.

- Liquidity Commission

The Liquidity Commission monitors the situation and adopts measures to ensure short-term liquidity. It has nine members, and is chaired by the member of the Management Board responsible for finance.

The Liquidity Commission meets daily.

- Asset-Liability Committee (ALCO)

The ALCO assesses and monitors the structure of the statement of financial position, capital adequacy, interest rate risk, structural liquidity, market risks, currency risks, the profitability and results of profit centres, financial plans, aggregate credit risk, regulatory requirements, the tax aspects of operations, and other risks associated with new products and services. It has ten members, and is chaired by the member of the Management Board responsible for finance.

The ALCO meets once a month.

- Operational Risk Committee

The Operational Risk Committee is responsible for monitoring, measuring, assessing, and managing operational risks. It has seven members, and is chaired by the member of the Management Board responsible for risk management.

The committee meets at a minimum quarterly.

- Crisis Committee

The Crisis Committee is the decision-making body responsible for managing crises. The committee makes independent decisions regarding all proposals for immediate action aimed at crisis management, including decisions regarding the use of extraordinary financial and other assets. The committee meets and functions when crises occur. It is chaired by the president of the Management Board.

- Model Risk Committee

The committee is responsible for reviewing model risk management, the register of models, model risk appetite and take-up, and the model risk management statement. It is responsible for the approval and submission of final decisions to the Management Board in connection with new risk models and changes to existing models, the adoption of the Bank's bylaws regarding model risk management, the results of the assessment of materiality and risk models, plans and reports in connection with model validation.

It has eight members and is chaired by the member of the Management Board responsible for risk management.

The committee typically meets once a month.

- IT Steering Committee

The committee is tasked with studying, discussing and making decisions regarding all current IT requirements in connection with personnel, risk- and finance-related issues, discussing external providers of IT services, and making decisions regarding new projects and planning requirements.

It comprises all members of the Management Board. Because the function of member of the Management Board responsible for the Bank's operations (COO) is vacant, the committee is chaired by the Bank's procurator, who coordinates activities in connection with the management of the Bank's operational organisational units.

It typically meets once a month.

- Climate Change and Sustainability Committee

The Climate Change and Sustainability Committee is responsible for the comprehensive and effective implementation of the ESG strategy with the aim of managing the associated risks and opportunities. The committee's mission is to ensure the comprehensive implementation of the ESG strategy across the organisation, to define, assess, manage and mitigate climate-related risks, and to exploit to the greatest extent possible the business opportunities presented by the ESG transformation.

The Climate Change and Sustainability Committee is chaired by the member of the Management Board responsible for risk management (the President of the Management Board serves as deputy chair). The committee members include all of the members of the Management Board, each of which is responsible for an area that is relevant to their function.

The committee meets at a minimum quarterly.

SUPERVISORY BOARD

According to the Articles of Association, the Supervisory Board comprises a minimum of six and a maximum of 11 members, who are appointed by the General Meeting of Shareholders. It had seven members as at 31 December 2023.

Detailed information about the Supervisory Board can be found in Section 2.4. Information regarding governance arrangements.

COMMITTEES OF THE SUPERVISORY BOARD

The following committees performed their work in accordance with the Companies Act (ZGD-1) and Banking Act (ZBan-3) during the 2023 financial year: the Audit Committee, the Remuneration Committee, the Nomination Committee, the Risk Committee and the Credit Committee.

The Credit Committee was responsible for giving consent to the Management Board for the conclusion of loan transactions for which the Supervisory Board has adopted a special resolution.

The Supervisory Board's Credit Committee performed its work until 6 February 2023, i.e. the day the indirect sale of shares of Nova KBM d.d. to OTP Bank Nyrt. was completed. On that day, the Supervisory Board adopted a resolution terminating the Credit Committee at its first session in its new composition.
Detailed information regarding the work and powers of the Supervisory Board's committees is presented in the section entitled Corporate governance statement of Nova KBM.

2. Internal control mechanisms according to the model of three lines of defence

The Bank has defined the organisational structure of internal control mechanisms according to the model of three lines of defence, in the scope of the Internal Control System Policy at Nova KBM.

Internal controls, as the first line of defence, are the primary tool for managing business risk. The primary objective of internal controls is to reduce risks to an acceptable level (risk mitigation), and to prevent intentional and unintentional errors and irregularities. The Bank has internal controls in place at all organisational levels, including business, control, and support functions, and at the level of each product and service of the Bank, with a clear and documented decision-making process, a clear segregation of responsibilities and powers, and a clear work process defined by internal instructions.

Internal control functions, as the second and third lines of defence, provide an independent and objective assessment of effectiveness and compliance with regard to the Bank's internal governance arrangements on the basis of the review and assessment of the adequacy of risk strategies and policies, the Bank's risk management processes, procedures and methodologies, and reporting on risks.

RISK MANAGEMENT TASKS

Nova KBM's risk management function ensures independent control over the management of the risks that arise from the institution's activities. The Bank's core internal risk management policies establish a clear mandate for the risk management function in terms of its objectives and powers in relation to other functions, and provide the risk management function access to the information needed to prepare assessments, analyses and reports that support the Management Board's decision-making process. Policies are regularly reviewed and updated in order to reflect both external (in particular legislative) events, and internal changes and objectives.

Nova KBM's risk management function is responsible for ensuring effective processes are in place:

- to define the risks to which the Bank is exposed;
- to develop methods and models for the assessment and measurement of risks;
- to develop, maintain and monitor the risk management strategy, risk appetite framework and risk management policies;
- to develop, maintain and monitor the Lending Policy, Collateral Policy, Operational Risk Policy, Outsourcing Policy, IT Security Policy, the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP), and to develop forward-looking own funds/liquidity management, and to plan capacities using the appropriate methodologies and tools;
- performance of internal stress tests and sensitivity analyses in the scope of the ICAAP and ILAAP, and with regard to climate risks
- to regularly review (at least once a year) the risks to which the Bank is exposed in the performance of its business activity;

- to perform a risk-related review of the consequences of new business activities proposed by the Bank's commercial functions;
- to develop and maintain reports and analyses relating to the risks to which the Bank is exposed, including credit, market, interest rate, liquidity, operational and strategic risks, and the reputation risk; and
- to implement the bank recovery and resolution directive (BRRD), and the processes of the Bank and the banking group; to develop and maintain recovery and resolution plans.

In addition, the risk management function has an early warning system (EWS) in place for detecting increased risks in order to capture potential risks in the Bank's portfolio and to take appropriate action to mitigate such risks in a timely manner. The main area of work is the continuous inclusion of risk models in the Bank's risk management processes.

RISK IDENTIFICATION

The risk identification process includes the annual assessment of the risk profile, the drafting of the register and set of risks to which the Bank and the Group are exposed and the definition of a materiality threshold for each risk. The risk assessment process includes ongoing analyses of existing risks and the identification of new or emerging risks captured in all relevant organisational units.

The risk assessment process represents the basis for identifying/modifying risk materiality thresholds, and for defining qualitative/quantitative measures in the scope of the ICAAP for new types of risks, on the basis of which the Bank's risk appetite is determined.

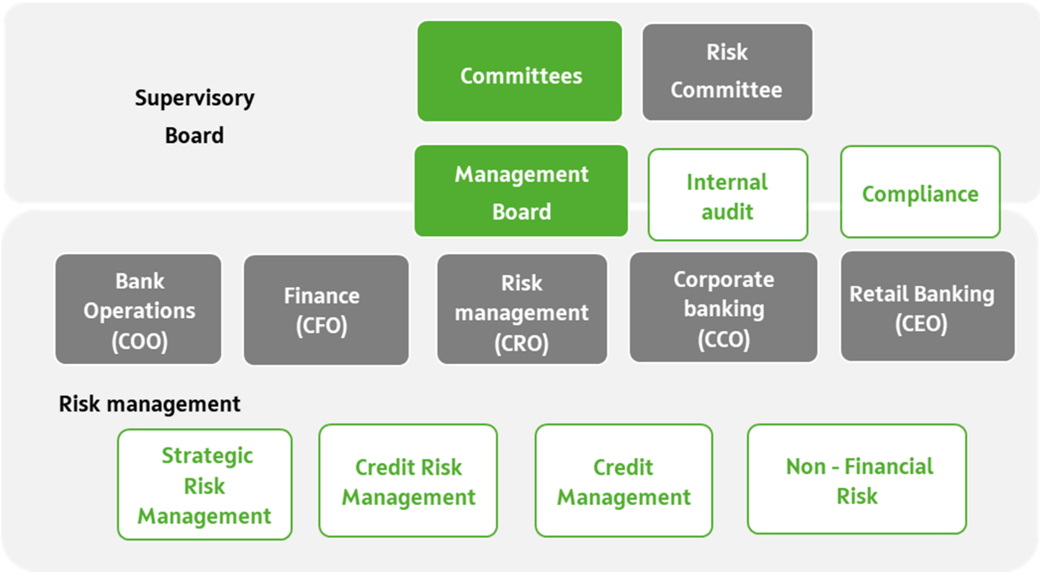
RISK APPETITE

The risk appetite framework (RAF) defines the Bank's risk profile and the corresponding level of risks the Bank is prepared to accept in order to achieve its business objectives. Risk appetite is quantified in the risk appetite statement which serves as the basis for communicating the Group's risk appetite throughout the organisation. The RAF is thus reflected in and determines the business strategy.

In accordance with legal requirements, the risk management function has direct access to the Supervisory Board, while a regular reporting process to the Management Board is in place via a monthly report submitted to the Chief Risk Officer (CRO), which provides the latter detailed information regarding the main identified risks to which the Group is exposed in quantitative and qualitative terms, with key risk indicators being assessed in terms of the three levels of limits set out in the risk appetite statement.

The figure below illustrates the organisational structure of risk management at Nova KBM d.d.

Figure 4: Organisation of the area of risk management at Nova KBM d.d.



Compliance function

As an element of the system of internal control mechanisms, the compliance function manages compliance risk through regular monitoring, assessment, measures and reporting. The compliance function reports directly to the Bank's Management Board and is functionally and organisationally segregated from the Bank's other functions in which conflicts of interest could arise vis-à-vis the compliance function. The compliance function has unlimited access to all information required for the performance of its tasks and responsibilities.

Compliance risk is the current and expected risk of losses in connection with income, capital and the Bank's reputation due to breaches of or failure to comply with laws, the requirements of supervisory bodies (e.g. the Bank of Slovenia, European Central Bank, Securities Market Agency, etc.), rules and regulations (internal and external), agreements, prescribed practices and the ethical standards set out in the Code of Conduct of Nova KBM d.d. and the Nova KBM Group.

The primary objective is the Bank's commitment to operating in accordance with valid regulations and ethical standards in order to safeguard the core values, integrity, ethics and reputation of the Bank and Group. The continuous management of compliance risk in this area is required to achieve the aforementioned objective, including, in particular, the management of all risks that could bring the Bank or Group into disrepute, cause financial damage, result in legal or regulatory sanctions, or affect employees, customers, contractors, suppliers, shareholders and all other stakeholders who cooperate with or wish to cooperate with the Bank or Group.

The preventive management of compliance risk includes the regular monitoring of all changes to valid legislation on the one hand and ensuring the implementation of those changes in the Bank's bylaws and processes on the other, as well as the establishment, propagation and actual implementation of a culture of compliance and integrity across the Bank and Group. The latter is based on the principle of equity and the Bank's zero-tolerance policy with regard to unauthorised conduct.

To that end, the compliance function:

- informs and educates employees with regard to the values, policies and processes that help ensure that the Bank acts responsibly and fulfils all valid obligations;
- provides advice and assistance to the Bank as a whole and to its employees with regard to measures that contribute to the prevention of non-compliance;
- establishes internal controls and improves the effectiveness thereof;
- manages compliance risk management systems, and identifies, assesses, monitors and reports on risks;
- addresses identified events that indicate possible breaches of regulations in the broadest sense or the ineffectiveness of safeguards (inadequate arrangements or security controls), or that indicate a previously unknown situation that could be relevant with regard to compliance;

- addresses all adverse or unplanned events that cause or could cause an unwanted situation at the Bank. Adverse events include, in particular, errors (the aspect of an event) and unauthorised conduct;
- regularly verifies and tests internal controls and resilience to specific compliance risks;
- continuously monitors new and amended regulations and rules, and the implementation thereof; and
- analyses compliance risk by actively participating in the verification of whether new products are launched in accordance with valid regulations, standards and the Bank's bylaws.

The compliance function draws up an assessment of the compliance risks to which the Bank and Group are exposed at least once a year or when necessary, i.e. in the event of material changes in operations (geographical expansion, new products, new owner, etc.) or material changes in the regulatory environment (e.g. new regulations). That assessment also sets out the planned management of identified risks, taking into account previously envisaged or planned measures and activities to manage/mitigate compliance risks. Also defined in that regard are priorities with respect to the identified level of compliance risks. The compliance function reports regularly to the management body and relevant organisational unit with respect to the aforementioned assessment, together with proposed measures for improvement of internal controls in the event of increased compliance risk. The compliance function submits an annual report and annual compliance risk assessment to the Bank's Management Board and Supervisory Board for review and approval.

Given the specific nature of the tasks and activities of the Bank's compliance function, the employees who perform the compliance function require a high level of professional competences in the area of law and the appropriate work experience. Also desired is knowledge in the areas of banking, economics (finance) and the Bank's business processes. For that purpose, employees who perform the compliance function attend regular training in the area of compliance.

Internal audit function

The Bank has in place a three-line system in order to ensure effective governance, risk management and internal control systems. Serving as the third line is the Internal Audit Department, which is organised as a sector.

The Internal Audit Department conducts internal auditing in accordance with:

- the International Standards for the Professional Practice of Internal Auditing,
- the Code of Internal Auditing Principles,
- the Code of Ethics of Internal Auditors, and
- the Internal Audit Charter.

Nova KBM's Internal Audit Department is responsible for the internal audit function of Nova KBM and the Nova KBM Group. The parent bank's subsidiaries may have their own internal audit function in accordance with legal requirements and/or the decision of their owners. Nova KBM's Internal Audit Department is responsible for internal auditing at all subsidiaries as part of the performance of its control activities. Decisions regarding auditing at subsidiaries are adopted based on annual planning, which in turn is based on risks. All subsidiaries must comply with the rules of the Internal Audit Charter.

For the purpose of performing its tasks, the internal audit function has the comprehensive and unlimited right to request the submission of information and documentation, and the right to review and investigate.

Principles of the Internal Audit Department's work:

- it is an independent organisational unit that is segregated from the Bank's other organisational units;
- reports directly to the entire Management Board of Nova KBM, the OTP Group's Internal Audit Department, Audit Committee and Supervisory Board
- reports to the President of the Management Board (CEO) in disciplinary and organisational terms;
- the head of the Internal Audit Department is responsible for the performance of auditing tasks in accordance with the law; and
- auditing tasks are performed in accordance with the annual audit plan, which is submitted to the OTP Group's Internal Audit Department and Supervisory Board/Audit Committee in accordance with the law

Operating principles of the Internal Audit Department:

- Independence in the planning of internal auditing. The Internal Audit Department independently draws up an annual plan based on risks in accordance with the risk-based internal audit planning methodology of the Nova KBM Group and the requirements of

the OTP Group's Internal Audit Department. The Bank's Management Board approves that plan with the consent of the Supervisory Board.
- Independence in auditing, reporting and the assessment of the results of auditing. Independence is ensured in the scope of the audit process. The Bank's Management Board receives audit reports following coordination with audited areas/organisational units.
- Inclusion of the Internal Audit Department in other activities. Auditors only perform auditing activities. If other activities are performed, it must be ensured that an auditor's impartiality is not impaired as a result.
- Impartiality. Once a year, every internal auditor must declare any conflicts of interest that might impair their impartiality.
- Education and training. In accordance with the law, at least one employee must hold the title of certified internal auditor. Appropriately qualified staff must be in place to ensure the quality of internal auditing. This is ensured by the Bank through an annual education and training plan.

The Internal Audit Department ensures the quality of internal auditing through external assessments performed every five years and through annual internal assessments. The aforementioned external assessment provides the assurance of an independent assessor that internal auditing work is performed in line with professional standards and rules. The most recent external assessment report was drafted in December 2022 (by PWC Zurich) and indicated that the work of the internal audit function is in line with all relevant standards.

2.2.3 SCOPE AND NATURE OF RISK MEASUREMENT AND REPORTING

(Article 435 (1.c) of the CRR)

As a systemically important institution, the Group is subject to direct supervision by the ECB, and is thus included in the Single Supervisory Mechanism (SSM), the supervision of which falls under the jurisdiction of the Joint Supervisory Team, which comprise European and national supervisory authorities. The Group operates in line with the provisions of regulations issued by the ECB and SRB, the guidelines and requirements issued by the EBA and, in certain cases, the provisions of local regulators.

The Group takes a systematic approach to measuring and reporting exposure to individual types of risk from a normative (Pillar 1) and economic (Pillar 2) perspective, and from both a regulatory and internal perspective. In the scope of Pillar 1, the Group is obligated to meet regulatory reporting requirements; in the scope of Pillar 2, the Group measures and reports on risks based on internally established and developed methodologies for measuring risks and reporting on exposures to individual types of risk. In the scope of Pillar 1, the Group uses the standardised approach to measure credit and market risks, and the basic indicator approach for measuring operational risk. More information about the selection of risks, risk measurement approaches and information regarding exposure to risks can be found in sections 5, 9, 12, 13, 15, 16, 18 and 20-22 of these disclosures.

The persons responsible for managing and reporting on specific risks are independent from the organisational units that take up risks, which in turn prevents conflicts of interest.

Reports that are discussed by various internal stakeholders and regulators take into account requirements for objective, comprehensive and transparent reporting about individual risks. The Group strives for the standardisation and automation of the reporting process.

2.2.4 POLICIES FOR HEDGING AND MITIGATING RISK, AND THE STRATEGIES AND PROCESSES FOR MONITORING THE CONTINUING EFFECTIVENESS OF HEDGES AND MITIGANTS

(Article 435 (1.d) of the CRR)

The Bank has in place an umbrella document regarding the acceptance and management of risks, i.e. the risk appetite framework, including the risk appetite statement, and the Operational Limits Handbook at the level of the Nova KBM Group and at the level of the OTP Luxembourg Group, where appropriate. That handbook includes:

- risk appetite, overall and by individual type of risk;
- precisely defined thresholds for key risk indicators;

- precisely defined exposure thresholds for each segment, product, etc., which are linked to the risk appetite limit and key risk indicators; and
- an early warning system, and measures and responsibilities in the event the maximum value of thresholds are exceeded.

The monitoring and management of individual types of risk are defined in detail in the risk management policy, which takes into account the specific characteristics of individual types of risk. Each policy is the responsibility of one person who ensures the harmonisation of an individual policy with other policies, and with the applicable legislation and best banking practice. Defined is the minimum scope of an individual policy, which includes a definition of activities during the current year, the definition of risk, the method for measuring, reporting and limiting exposure, and a clear definition of the tasks of individual persons.

The following bylaws are deemed the most important risk management and control policies at the Group level:

- Strategies:
    - Business strategy
    - Asset and Liability Management (ALM) Strategy
    - Investment strategy
    - Trading strategy for financial instruments in the trading book
    - IT strategy
    - ESG strategy
- Credit risk:
    - Credit Risk Management Policy
    - Corporate and Financial Markets Lending Policy
    - Lending policy for Private Individuals and Micro Companies
    - Collateral Policy
- Pillar 1 capital adequacy:
    - Policy Governing the Management of Own Funds and Own Funds requirements
- Market risks:
    - Market Risk Management Policy
    - Interest Rate Risk Management Policy
    - Hedge Accounting Policy
- Operational risks:
    - Framework for implementing the Operational Risk Management Policy
    - Operational Risk Management Policy
    - Outsourcing Policy
    - Compliance Policy
    - IT Security Policy
    - Policy Governing the Management of Risk Associated with Information and Communication Technology (ICT)
    - Fraud Management Policy
    - Reputation Risk Management Policy
- ICAAP and ILAAP:
    - ILAAP Policy within the Nova KBM Group
    - Internal Capital Adequacy Assessment Policy (ICAAP)
    - Model Risk Management Policy
    - Stress Testing Policy
- The Group's other management policies and strategies:
    - Governance Policy of Nova KBM d. d. and Companies within the Nova KBM Group
    - Policy on the Assessment of the Suitability of Members of Management bodies and key Function Holders (the Fit & Proper Policy)
    - Internal Control System Policy
    - Disclosure Policy

- Remuneration Policy
- Anti-Corruption Policy
- Data Management Policy
- Dividend Policy
- Policy on the Risk-Adjusted Return on Capital (RaRoC)
- Rules on the Introduction of New Products and the Modification of Existing Products
- Policy on Drafting of the Strategies, Plans and Forecasts of the Nova KBM Group
- Recovery and Resolution Policy
- ESG Policy

Risk management policies form the basis for the management of individual risks across the entire Group. In line with the scope of their operations, Group companies may use their own approach to managing specific risks, with the consent of the responsible person at the parent bank.

Credit risk management is carried out on the basis of:

- statistical credit rating models used to assess the risk associated with an obligor (probability of default);
- statistical credit rating models used to assess loss given default;
- the daily monitoring of notifications from the EWS;
- the definition of appropriate forms of collateral in terms of type, legal certainty and the valuation thereof;
- the definition of rules regarding the identification and formulation of groups of connected clients, and the determination of the appropriate exposure on that basis;
- the appropriate segregation of responsibilities and the definition of decision-making competences at all levels of credit risk management;
- a clear framework for portfolio monitoring and credit risk management;
- the establishment of appropriate processes and tools for effective recovery in the event of non-performing investments;
- the indirect (through loan-origination models) and direct participation of representatives of the Risk Management Department in decisions regarding loan origination;
- clear guidelines and rules in the loan origination process;
- the adoption of appropriate strategies when obligors encounter financial difficulties;
- risk assessment methodologies, reporting and the adoption of measures, and the monitoring of the success thereof;
- a limit system for the entire portfolio subject to credit risk, which is directly integrated into the risk appetite framework and ICAAP; and
- IT support for the appropriate documentation of data and the prevention of operational risk.

The management and mitigation of liquidity risk (ILAAP) is carried out on the basis of:

- limit systems;
- the daily monitoring of the liquidity position and liquidity ratios;
- the performance of stress tests;
- the ILAAP methodology;
- the ILAAP methodology as it relates to the performance of stress tests;
- liquidity risk management contingency plan methodologies;
- other risk assessment methodologies, reporting and the adoption of measures, and the monitoring of the success thereof;
- IT support for the appropriate documentation of data and the prevention of operational risk.

The management and mitigation of market risk is carried out on the basis of:

- the established limit system;
- the daily monitoring of the EWS;
- the performance of stress tests;
- risk assessment methodologies, reporting and the adoption of measures, and the monitoring of the success thereof;
- hedging of interest-rate risk using derivatives
- IT support for the appropriate documentation of data and the prevention of operational risk.

The management and mitigation of operational risk (OR) is carried out on the basis of:

- the established Operational Risk Loss and Event Data Rulebook;
- established OR self-assessment and scenario analysis methodologies;
- the established risk indicator management framework;
- the daily monitoring of OR loss events;
- the established outsourcing risk management framework; and
- the definition and monitoring of appropriate measures to prevent the repetition of OR loss events.

The management and mitigation of other types of risks, material in terms of the ICAAP, are carried out on the basis of:

- the establishment and monitoring of a limit system and EWS, where appropriate;
- the performance of stress tests, where appropriate;
- established risk assessment and measurement methodologies;
- reporting on risks and the proposal of the necessary measures to mitigate exposure to risk and the monitoring of the success of those measures;
- the established system of internal controls; and
- the established system for defining the roles and responsibilities of individuals responsible for managing individual types of risks.

2.2.5 DECLARATION OF THE MANAGEMENT BODY REGARDING THE ADEQUACY OF RISK MANAGEMENT ARRANGEMENTS

(Articles 435(1)(e) and 435(1)(f) of the CRR)

In accordance with Article 17 of the Regulation on internal governance arrangements, the management body and the internal capital adequacy assessment process for banks and savings banks and Articles 435(1)(e) and 435(1)(f) of Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR), the management body comprising the Management Board:

- **John Denhof, President,**
- **Sabina Župec Kranjc, Vice-President,**
- **Miha Kristl, member,**
- **Matej Falatov, member**

and the Supervisory Board, represented by its **Chairman Imre Bertalan**,

hereby confirm, by signing this declaration, that the risk management function, which is an independent area within the Bank's organisational scheme, is adequately arranged. The risk management system is appropriate with respect to the Bank's risk profile and strategy, and its capacity to take-up risks.

Within the framework of its Governance Policy and its Internal Control System Policy, the Group has put in place an effective internal governance system based on the concept of three lines of defence, where the risk management function represents the second line of defence. The risk management function is an independent organisational unit.

Risk Management Function and Risk Appetite Framework

The risk management function is an important part of the overall governance of the Group and is based on the Nova KBM Group's Risk Appetite Framework which defines the concepts, objectives and procedures in connection with the conscious acceptance of risks. The Risk Appetite Framework is linked to the Group's business strategy, ICAAP, ILAAP, the implementation of stress tests, including sensitivity analyses, and other processes/strategies material for the governance of the Group. The main elements of the Risk Appetite Strategy are included in the risk appetite statement which serves as the basis for informing the Bank's organisational units about Nova KBM's risk appetite. This approach provides for the proper implementation of the Group's risk management strategy.

The basis for the drafting of the Risk Appetite Framework is the identification of the risks associated with the Group's current and future operations. Risks are identified using the appropriate process, which is an integral part of the assessment of the Bank's risk profile in the scope of the ICAAP and ILAAP. The identification of risks is carried out with the help of quantitative and qualitative models and covers both the risks to which the Group is already exposed and the risks to which it might be exposed in the future. The result of the risk identification process is a list of risks that are subsequently assessed and managed in the scope of the ICAAP and ILAAP processes. Also defined is the materiality of individual types of risks is defined based on an assessment of each type of risk during the risk quantification process through the definition of the materiality of risks and the need to allocate capital or a liquidity buffer. This is performed with the help of an assessment of the probability of the realisation of risks and the occurrence of a loss event, an assessment of the appropriateness of controls established to mitigate individual risks and on the basis of the results of stress tests from the business plan and sensitivity analyses. The need to allocate capital or a liquidity buffer is assessed, and a limit system established for identified and assessed risks.

Risk Appetite Statement and Risk Bearing Capacity

In its risk appetite statement, the Group defines the overall scope and type of risks that it is willing to accept or avoid achieving its business objectives. Defined in that statement is the risk appetite framework which sets out a list of material and other risks, as well as key risk indicators relating to capital adequacy, liquidity, asset quality and profitability. Those indicators are monitored on a regular basis. For the purpose of defining its risk appetite, the Group has established threshold values for the aforementioned key risk indicators by acceptance level based on forward-looking assessments, as well as risk triggers. The established risk appetite is further integrated in the limit system, together with the early warning system. The limit system is defined in the Group's Operational Limits Handbook which is a separate document enclosed with the risk appetite statement.

In addition to the risk appetite statement, the Group has also defined its risk-bearing capacity. Risk-bearing capacity determines the maximum scope of risks that the Nova KBM Group is capable of taking-up and is defined by the amount of Common Equity Tier 1 capital (CET1), which is in line with the 'going concern' approach defined in the ICAAP framework. In the scope of the ILAAP, this is represented by available, highly liquid assets, and the definition of the minimum required liquidity buffer that must be ensured by the Bank for a three-month period of emergency liquidity conditions.

Risk-bearing capacity represents the starting point for the definition of the overall risk appetite, which is also defined for each type of risk by the need to allocate capital or a liquidity buffer, and by the total utilisation of the acceptable scope of risks with respect to the risk appetite. When determining its risk appetite, the Nova KBM Group takes into account the most recent list of risks, the utilisation of limits by individual type of risk, and by individual organisational unit, segment and product, where appropriate. The risk appetite is in line with the Group's business plan and the results of the internal stress tests. The Group regularly monitors the utilisation of risk-bearing capacity through key risk triggers and reports them to the Bank's bodies. The risks that the Group is willing to take-up do not exceed its risk-bearing capacity.

The performance of stress tests and sensitivity analyses is also an integral part of the overall risk management process within the Nova KBM Group. The results obtained from both processes are used in the decision-making process and in the adoption of strategic decisions. Stress tests and sensitivity analyses are performed in scope of the ICAAP, ILAAP and the Recovery Plan.

The Bank includes environmental, social and governance risks in risk management and other internal processes, with an emphasis on environmental and climate risks. That process is continuously updated with the aim of achieving its objectives and commitments to sustainable development and the transition to a low-carbon economy.

An effective risk management system, which is based on the business model put in place at the Group level, and also effective corporate governance, have made a comprehensive contribution to reducing SREP requirements in recent years.

Risk profile

The risk profile is drawn up at the level of the Nova KBM Group. Identified and assessed risks included in the Nova KBM Group's risk profile do not deviate from the risks identified by the OTP Luxembourg Group.

The Bank has in place a comprehensive process for identifying types of risks to which it is exposed in its operations. The Bank monitors identified risks in the form of a risk register. A narrower set of risks assessed during the drafting of the risk profile is confirmed by risk owners and other responsible persons, including the Bank's Management Board, and presents the risks to which the Group is exposed in its operations. The risks identified and assessed in the scope of the risk profile are further addressed in the Internal Capital Assessment Process.
The treatment of ESG risks is based on the inclusion of ESG factors in existing risk types where they are relevant, and not as separate risks in order to avoid the duplication of the associated effects. The Risk Appetite Strategy includes (1) target guidelines regarding the implementation of ESG risks in the Group's operations and (2) key ESG risk indicators.

The assessment of the risk profile for 2023 is in line with expectation regarding the business environment, with an increased number of cyber attacks, and global macroeconomic and geopolitical developments. Risks identified as predominant include interest rate risk in the banking book, the risk of fraud (including in connection with cyber security), concentration risk, ICT risk and country risk. The Group proactively monitors and implements the appropriate measures to mitigate identified risks/threats on a regular and permanent basis.

Risk-bearing capacity, risk appetite and established limit system

The risk appetite statement is a written statement regarding the overall scope and type of risks that the Group is willing to take-up or avoid to achieve its business objectives. The risk appetite statement (RAS) expresses the capacity to consciously take up risks, which is defined by a set of quantitative measurements and qualitative statements. The risk appetite is defined as the highest level of risk that the Group can take up with respect to own funds and liquidity, its ability to manage and control risks, and regulatory constraints. Defining the risk appetite is an integral part of business planning and the planning of regulatory own funds and own funds requirements, the planning of liquidity needs, and the performance of stress tests. The risk appetite is defined at the level of each type of risks with the need for the allocation of own funds, and in a total amount as a proportion of the risk-bearing capacity. The latter is represented by the amount of Common Equity Tier 1 capital.

Every year, or more frequently as required, the Management Board approves the risk appetite statement in the scope of the risk appetite framework in order to ensure compliance with the business strategy, the business and regulatory environments, and the requirements of stakeholders.

The risk appetite statement links established key risk indicators, the results of the ICAAP and ILAAP, the normative and economic perspectives, and the limit system, together with the early warning system.

The key risk indicators link the Group's business strategy, business plan and risk profile. The table below illustrates the selected key risk indicators defined in the Group's risk appetite statement as at 31 December 2023. All the key indicators on the reporting date were adequately clear of the internal thresholds put in place.

Table 1: Value of selected key risk indicators on 31 December 2023 for the OTP Luxembourg Group

Solvency	**Common Equity Tier 1 capital ratio**	18.46%
	Total capital ratiop	19.81%
	Leverage ratio	8.28%
	Economic solvency ratio	60.05%
Solvency	**LCR**	369.06%
	NSFR	191.52%
	Survival period	> 365 days
	Net operating margin	51.10%
Asset quality	**NPL ratio**	2.35%
	Coverage of non-performing loans	45.25%

The economic perspectives of the ILAAP set out the required size of the internal liquidity buffer which consists of high-quality available liquid assets intended to cover funding liquidity risk and market liquidity risk. The Group sets a minimum requirement for the internal liquidity buffer as the liquidity risk appetite.

Strategic business planning, and capital and liquidity adequacy planning process

On an annual basis, the Bank carries out the strategic business planning process, which defines the Group's future strategic business priorities and comprises two phases: a 'top-down' phase and a 'bottom-up' phase. The objective of the strategic business plan is to establish a comprehensive planning process that includes regulatory own funds/own funds requirements/capital adequacy, funding and profitability plans.

Such an approach translates long-term strategic business objectives into measurable short-term and medium-term financial targets, and facilitates the monitoring and management of the success of the business plan during the year.

The purpose of the strategic business planning process is to achieve:
- balanced, risk-weighted operations across all business areas and organisational units;
- high risk management standards;
- compliance with regulatory requirements; and
- stable capital and liquidity position.

The process of strategic planning and capital and liquidity adequacy planning provides for the following:

- the assessment of key risk management indicators, taking into account strategic priorities and the business plan;
- the assessment of the risk-bearing capacity with regard to internal and regulatory requirements;
- the assessment of the risk appetite and thresholds of key risk indicators, and the establishment of a limit system for each type of risk; and
- the performance of stress tests for the purpose of assessing the impact of stress scenarios on capital adequacy, own funds and liquidity.

The business plan for the next three years is approved by the management body.

Resolution planning

The Group Resolution Plan is prepared by the resolution authorities, rather than by the Group itself. The Group works closely with the Single Resolution Board (SRB) and the Bank of Slovenia (BoS) which established the Group Resolution Plan. The Resolution Plan is based on a multiple point of entry resolution as the preferred resolution strategy. Under the SPE bail-in strategy, the Bank would be recapitalised through a write-down and/or conversion to equity of capital instruments and other eligible liabilities to stabilise the Bank.

To further support and improve resolvability the Group has established **a multi-annual resolvability work programme**, which defines resolution planning activities. The programme includes, inter alia:

- the updating of the stand-alone document, 'Separability Analysis Report' (SAR), where the sale of the company is envisaged as an alternative strategy in the resolution of NKBM;
- the completion of the stand-alone document 'Business Reorganisation Report' (BRP), which defines minimal activities and business areas that NKBM must ensure in the event of resolution in the form of a bail-in, as well as measures that the Bank would implement during the reorganisation of operations;
- the drafting of the stand-alone document 'Liquidity in resolution – reporting on liquidity during a period of resolution', which covers reporting roles and responsibility, a description of the required information systems and a self-assessment of the Bank's liquidity exercise; and
- the drafting of an updated Bail-In Playbook with two comprehensive dry-run reports regarding valuation and the bail-in procedure.

The Group's Management and Supervisory Boards regularly reviews progress with regard to the multi-annual resolvability work programme.

MREL

The BRRD requires banks in EU member states to maintain minimum requirements for own funds and eligible liabilities (MREL) to make resolution credible by establishing sufficient loss absorption and recapitalisation capacity. The Group regularly analyses and monitors the MREL and includes it in full in its comprehensive risk management system.
The Group's MREL based on the total risk exposure amount (TREA), as issued by the Bank of Slovenia, is set at the level of 22.44% (without the combined buffer requirement (CBR), which is at the level of 3.74% for 2023), which must be met as of 1 January 2024

following the end of the transition period. The MREL TREA and MREL LRE were 32.15% and 14.66%, respectively, as of 31 December 2023.

Maribor, 28 March 2024

Management Board of Nova KBM d.d.

Miha Kristl	**Matej Falatov**	**Sabina Župec Kranjc**	**John Denhof**
Member	Member	Vice-President	President

Supervisory Board of Nova KBM d.d.

Imre Bertalan
President

2.3 INFORMATION REGARDING RISK MANAGEMENT OBJECTIVES AND POLICIES BY RISK CATEGORY

This section covers the disclosures required under Article 435(1) of the CRR and are set out in the guidelines defined in Commission Implementing Regulation (EU) 2021/637 for each individual risk category.

2.3.1 GENERAL QUALITATIVE INFORMATION REGARDING CREDIT RISK

This section includes the disclosures required under Articles 435 and 442 of the CRR and defined in Article 8 of Commission Implementing Regulation (EU) 2021/637.

Credit risk is the risk of loss arising from the failure of an obligor to settle its obligations to a Group company, and is the basic risk to which the Group is exposed in its activity. As the core document, the Nova KBM Group's risk appetite framework includes quantified strategic objectives in connection with the take-up of credit risk.

Credit risk management includes the identification, measurement and reduction of risks to an acceptable level that is in line with the established business strategy, risk appetite framework and risk appetite statement. Credit risk is managed at the level of customer, individual Group company and the Group as a whole.

The Group monitors, mitigates and manages credit risk:

- by defining the risk associated with an obligor and assessing expected credit losses in accordance with the International Financial Reporting Standards;
- by ensuring sufficient capital to cover credit risks;
- by limiting exposure in the scope of the limit system, which is directly integrated into the risk appetite framework and ICAAP; and
- by appropriately securing financial assets.

For the purpose of mitigating credit risk, decision-makers from the risk management function are included in the decision-making process (decisions according to the four-eyes principle).

2.3.1.1 Non-performing exposures

The Group designates as non-performing exposures (NPEs) those exposures where it justifiably expects that an obligor will be unable to settle its obligations in full by the contractual deadline or that those obligations will not be settled without measures taken by the Bank, including the redemption of collateral, the sale of claims or forbearance.

The Group deems exposures to be non-performing if any of the following criteria are met:

- the exposure has a status of non-performing or is classified as Stage 3 in accordance with IFRS 9 and the Group's Methodology for Assessing Expected Credit losses (including arrears in the settlement of a material credit obligation of more than 90 days in accordance with the new definition of default under Article 178 of Regulation (EU) No 575/2013 (Capital Requirements Regulation or CRR), and with regulatory technical standards regarding the materiality threshold for credit obligations in arrears under Article 178 of Regulation (EU) No 575/2013), which is deemed the sum of all past due unpaid obligations of an individual obligor to the Bank until that sum exceeds 1% of total exposure to that obligor and is greater than €100 or €500, depending on calculated exposure;
- an exposure has been forborne, whereby the Group has experienced a material economic loss or assesses that an obligor's liabilities will probably not be repaid – forbearance with a low probability of payment;
- the exposure has already been treated as non-performing and the exit criteria are not met; and
- the customer is in insolvency proceedings.

The Bank has precisely defined criteria for customers in default. When those criteria are met, it deems that the risk associated with a customer has been mitigated and default status can be discontinued. When a customer is returned to a non-default rating grade, the associated exposure in a given observation period is reclassified as Stage 2 in accordance with IFRS 9.

When the reasons that resulted in a significant increase in the credit risk associated with a specific financial asset no longer exist and the Bank has sound reason to believe that there will not be another significant increase in the credit risk associated with an obligor's exposures over the short term, that financial asset is classified according to IFRS 9 as Stage 1 and expected credit losses are recalculated for a 12-month period.

The return to non-performing exposures after forbearance is carried out if, during the two-year probationary period, a debtor is 30 days in arrears with respect to any exposure or if forbearance is repeated.

The Workout Department and Legal Office manage the portfolio of customers in default who are classified to default rating grades.

2.3.1.2 Interest rates and loan origination costs

The Bank has in place a system for setting interest rates based on an internal process and methodology in accordance with its adopted strategy and plan for the financial year. To that end, its policy is continuously adapted to current conditions in the internal and external environments based on the monitoring and analyses of the current situation. Proposals for setting and amending interest rates are put forth on the basis of a review and analysis of the current situation at the Bank and its immediate and wider environments, and an assessment of various factors that impact the level of proposed interest rates at the moment interest rates change.

Factors taken into account in the setting of interest rates on corporate loans include the base interest rate in the currency in which the loan is denominated, the required minimum margin set by the owner, the purpose of the loan, credit rating, the credit history of the borrower, loan maturity, type of collateral, the profitability of cooperation with the Bank and the competition aspect. Interest rates for standardised products for micro and small enterprises are set on the basis of the profitability of a specific product in accordance with the relevant internal methodology and are approved via a resolution of the ALCO. Costs are defined based on the valid list of fees/resolution of the decision-making body, taking into account product and lending policies, an analysis of the competition and profitability calculations.

The prices of retail loans (approval costs, interest rates) are prepared or set on the basis of an analysis of competition in the banking sector and a calculation of the profitability of a specific product, which is performed according to an internal methodology. Interest rates are set on the basis of the valid resolution of the ALCO, while approval costs are set on the basis of the valid resolution of Nova KBM's Management Board.

The Bank applies an effective interest rate (EIR). An EIR is an interest rate that precisely discounts estimated future cash outflows or inflows to the gross carrying amount of a financial asset over the expected duration thereof. When estimating ECLs for POCI assets, the effective interest rate set at initial recognition is used for discounting purposes.

Interest rate benchmarks are interest rates that are regularly updated and publicly accessible. They are used in a number of financial transactions, such as housing loans and inter-bank transactions, and in complex financial instruments. Interest rate benchmarks are calculated by independent organisations. In most cases, they reflect the costs of borrowing money on various markets. This includes the cost of inter-bank lending, while they may also reflect the costs incurred by banks when borrowing money from other sources, such as insurance companies and pension or other funds.

Interest rate reform is in progress with the aim of ensuring the increased reliability, accuracy and integrity of interest rate benchmarks. As a result, certain interest rate benchmarks were discontinued (e.g. the interest rate benchmark for overnight euro transactions EONIA and the LIBOR).

2.3.1.3 Exposure limits

In its operations the Group meets the restrictions on maximum allowed exposure prescribed by the CRR. In accordance with Article 395 of the CRR, the Bank's exposure to an individual person or group of connected clients, minus impairments and provisions, credit risk mitigation, exemptions and the effect of credit protection, may not exceed 25% of its eligible capital or €150 million (whichever is higher), provided that the sum of exposure values to all connected clients that are not institutions does not exceed 25% of the Bank's eligible capital after taking into account regulatory reductions.

The Group's exposure to a client or a group of connected clients is limited with regard to the following:

- the credit rating of the individual client, having regard for the financial solidity of the group of connected clients;
- the collateral obtained;
- separately by product, where relevant; and
- the business segment (whether the exposure is to retail customers, to corporates or to financial institutions)

The Group regularly monitors the utilisation of the established limits, and reports regularly thereon to the appropriate management bodies.

2.3.1.4 Credit portfolio limits

With the aim of preventing a significant increase in credit risk and concentration in the Group's portfolio, and preventing the basic limits set out in the risk appetite statement from being transgressed, the Group has introduced a credit portfolio limit system. The latter links the overall credit risk appetite through Pillar 1 and Pillar 2 risk-weighted assets (RWAs) for individual business areas, segments and products.

Also defined are certain limits that are linked to the quality of the portfolio and that ensure the quality of the portfolio is maintained at an acceptable level.

The defined limits are additional supported by the early warning system (EWS), which sets out warning thresholds, and clearly defined roles, responsibilities and essential actions when those thresholds are reached.

2.3.1.5 Collateral policy

The Bank accepts the collateral set out in the CRR/CRD and the Regulation on credit risk management at banks and savings banks. The Bank also accepts other acceptable forms of collateral.
The type of required collateral depends on the Bank's strategy and lending policies, specifically the policy governing lending to corporate and financial market customers and the policy governing consumer loans and loans to micro enterprises. Collateral is defined depending on:

- the purpose and maturity of an investment, and
- an obligor's creditworthiness.

The Bank improves the quality of the collateral portfolio and thus mitigates credit risk through established minimum requirements for the collateralisation of investments (maximum loan-to-value – LTV). The Bank has defined the permitted level of unsecured investments taking into account the maturity of an investment and an obligor's creditworthiness.

2.3.2 QUALITATIVE DISCLOSURE RELATED TO COUNTERPARTY CREDIT RISK

This section covers the disclosures required under Article 435(1)(a) of the CRR and are set out in Table EU CCRA – Qualitative disclosure related to CCR of the Guidelines.

Counterparty credit risk management is explained in more detail in section 6.

2.3.3 QUALITATIVE DISCLOSURE REQUIREMENTS RELATED TO MARKET RISK

This section covers the disclosures that are required under Article 435(1)(a)(b)(d) of the CRR and that are set out in Article 15 of Commission Implementing Regulation (EU) 2021/637 and in Template EU MRA: Qualitative disclosure requirements related to market risk.

Market risk management is explained in more detail in section 12.

2.3.4 QUALITATIVE DISCLOSURE REQUIREMENTS RELATED TO LIQUIDITY RISK

This section covers the disclosures that are required under Article 435(1) of the CRR and that are set out in Article 7 of Commission Implementing Regulation (EU) 2021/637 and in EU LIQA (template on qualitative and quantitative information of liquidity risk) of the Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013.

This section includes the disclosures required under Articles 435(1) and 442 of the CRR and defined in Article 8 of Commission Implementing Regulation (EU) 2021/637.

Liquidity risk management is explained in more detail in section 18a.

2.4 INFORMATION REGARDING GOVERNANCE ARRANGEMENTS

This section includes the disclosures required under Article 435(2) of the CRR, the content of which is set out in Table EU OVB.

2.4.1 NUMBER OF DIRECTORSHIPS HELD BY MEMBERS OF THE MANAGEMENT BODY

(Article 435 (2.a) of the CRR)

Management Board

Nova KBM's Management Board comprised the following four members as at 31 December 2023: John Denhof, President, Sabina Županec Kranjc, Vice-President, and members Miha Kristl and Matej Falatov.

Table 2: Membership of Management Board members on the bodies of other entities

Membership on the bodies of other entities as at 31 December 2023				
Management Board	Name of other entity	Activity	Management Board	Supervisory Board
Sabina Županec Kranjc	Bank Association of Slovenia	Banking		X
Matej Falatov	ALEJA finance d.o.o.	Factoring		X

John Denhof was originally appointed President of the Management Board with a term of office beginning on 1 March 2017 and ending on 28 February 2022. On 22 November 2021, Nova KBM's Supervisory Board reappointed John Denhof to serve as President of the Bank's Management Board for a period that ran from 1 March 2022 until 31 December 2022.
On 16 November 2022, the Supervisory Board reappointed John Denhof to serve as President of Nova KBM's Management Board for a period that ran from 1 January 2023 to 31 December 2023. In December 2023, the Supervisory Board reappointed John Denhof to serve as President of Nova KBM's Management Board for a period that will run from 1 January 2024 to 31 December 2024.

The Supervisory Board appointed **Sabina Županec Kranjc** as member of the Management Board for a 5-year term on 1 October 2014. On 11 November 2014, she received her authorization from the Bank of Slovenia to perform the function of member of the Management Board. The term of office of the new member of the Management Board began as of the day of her taking office, i.e. 17 November 2014. MSc Sabina Županec Kranjc was reappointed as member of the Management Board for a term that ran from 17 November 2019 to 16 November 2022. On 22 November 2021, the Supervisory Board reappointed her as member of Nova KBM's Management Board for a term that ran from 17 November 2022 to 31 December 2023. In December 2023, the Supervisory Board reappointed MSc Županec Kranjc to serve as member of Nova KBM's Management Board for a term that will run from 1 January 2024 to 31 December 2024.

Matej Falatov was originally appointed to his function with a term of office beginning on 6 July 2018 and ending on 5 July 2023. On 22 November 2021, the Supervisory Board also reappointed Matej Falatov to serve as member of Nova KBM's Management Board for a period that ran from 23 November 2021 until 31 December 2023.
On 21 June 2023, the Supervisory Board reappointed Matej Falatov to serve as member of Nova KBM's Management Board for a period that will run from 1 January 2024 to 31 December 2024.

Miha Kristl was appointed member of the Management Board for a period that ran from 1 January 2022 to 31 December 2023. In December 2023, the Supervisory Board reappointed Miha Kristl to serve as member of Nova KBM's Management Board for a period that will run from 1 January 2024 to 31 December 2024.

The reappointment of the President and members of the Management Board was the result of the signing of the agreement on the sale of the participating interest in Nova KBM d.d. to the new owner, and ensures the smooth functioning of the Bank and the continuity of its management in the transitional period until the merger of Nova KBM d.d. and SKB banka d.d.

The reappointment of members of the Management Board is also a result of the establishment of the new organisational structure of the future merged bank and the composition of the future (enlarged) seven-member Management Board of the Bank.

In the scope of the aforementioned process, the joint (indirect) owner of the two banks, OTP Bank Nyrt., in cooperation with the Bank's Supervisory Board, identified and proposed Gvido Jemenšek as a potential and suitable candidate for the position of member of the Management Board of the merged bank responsible for retail banking.

In accordance with the selection process for members of the merged bank's Management Board, the Supervisory Board appointed Gvido Jemenšek to serve as new member of the Bank's Management Board in December 2023. The term of office of the new member of the Management Board will begin when he assumes his function and under the condition that he receives ECB authorisation to perform that function. Member of the Management Board Gvido Jemenšek will serve as the Bank's procurator until he receives ECB authorisation.

Supervisory Board

The Supervisory Board comprised the following seven members as of 31 December 2023: Imre Bertalan, Chairman, Andrej Fatur, Deputy Chairman, and members Tünde Barabás, Sándor István Pataki, Marko Košak, Tamás Bernáth and Dorothea Nikolaeva Nikolova-Iltcheva.

Table 3: Membership of Supervisory Board members on the bodies of other entitiesm

Membership on the bodies of other entities as at 31 December 2023				
Supervisory Board	**Name of other entity**	**Activity**	**Management Board**	**Supervisory Board**
Imre Bertalan, Chairman	SKB d.d.	Banking		X
Andrej Fatur, Deputy Chairman	Odvetniška družba Fatur Menard, o.p., d.o.o.		X	
Dorothea Nikolaeva Nikolova-Iltcheva, Member	DSK bank AD	Banking	X	

2.4.2 RECRUITMENT POLICY FOR THE SELECTION OF MEMBERS OF THE MANAGEMENT BODY AND THEIR ACTUAL KNOWLEDGE, SKILLS AND EXPERIENCE

(Article 435 (2.b) of the CRR)

The Bank implements a Policy on the Selection of Suitable Candidates for the Management Body in accordance with the provisions of paragraph 2 of Article 35 of the Banking Act (ZBan-3). In addition to being valid and implemented across Nova KBM Group companies, that policy envisages the establishment and implementation of an appropriate selection policy for suitable candidates that ensures:

- that the management body, as a whole, takes into account the wide range of knowledge, skills and experience of its members, which facilitates an in-depth understanding of the Bank's business activities and the risks to which it is exposed;
- initiatives to achieve diversity within the management body, including the appropriate representation of both genders and policies to achieve these objectives by increasing the number of members of an under-represented gender on the management body; and
- the definition of conditions for the performance of a specific function, including the required profile of members of the management body before they are appointed.

The members of the management body play a key role in the pursuit of the Bank's interests, and must therefore be, individually and as a whole, appropriately qualified, experienced and of a suitable number to ensure the reliable performance of the tasks entrusted to them, while their personal interests must be in line with the long-term interests of the Bank. Based on their responsibility to manage and supervise the Bank, the members of the management body are expected to possess specific professional and personal competences. The required knowledge, skills and experience of each member, individually and in connection with other members as a complementary whole, ensure a level of understanding of the Bank's transactions, the risks to which it is exposed and the structure of governance required for the adoption of professional, sound and competent decisions for managing and supervising the Bank.

Moreover, the Bank consistently implements the Policy on the Assessment of the Suitability of Members of Management Bodies and Key Function Holders (so-called Fit & Proper Policy) of Nova KBM. That policy sets out in detail the key criteria for the fulfilment of individual and collective suitability that must be met by members of the management body, as well as the body that verifies the fulfilment of those criteria.

The criterion of experience is thus defined for members of the management body (the education, work experience and knowledge of individual members or candidates in key areas are assessed in this regard), as well as the criterion of personal reliability and reputation, and the criterion of management.

In accordance with EBA Guidelines on internal governance, and the supervisory guidelines and recommendations of regulatory authorities (the Bank of Slovenia and ECB), the section 'Criterion of experience' also defines other related matters that could have a decisive effect on the Bank's future operations. This concerns, in particular, the fulfilment of the condition regarding knowledge and experience in the areas of sustainable financing and associated ESG risks, IT risks, cyber risks, sustainable business models and digitalisation. Candidates for and members of the governance body must fulfil those criteria individually and at the level of the entire body.

In accordance with the revised EBA Guidelines on the assessment of the suitability of members of the management body and key function holders, the policy now includes knowledge of the prevention of money laundering and terrorist financing as a condition for the fulfilment of conditions covering knowledge, skills and experience.

In accordance with the revised EBA Guidelines on the assessment of suitability, the policy was supplemented with a provision that requires the Bank to take into account additional requirements and/or introduce additional measures to ensure diversity in terms of gender, and to respect the principle of equal opportunities with the aim of enhancing the positive impact on the decision-making process at individual levels of management.

In connection with ensuring diversity, the Bank also adopted the new Diversity, Equality, Inclusion and Commitment Policy at the beginning of 2023 (Diversity Policy).

In accordance with the Diversity Policy and the Employee Development Strategy objectives relating to the representation of the under-represented gender were defined, which promotes diversity in the Bank's two-tier system of governance. The Bank strives to ensure that governing bodies are diverse in terms of age, gender, geographic origin, education and profession, that they represent various views and experiences, and that they facilitate independent opinions and critical thinking.

Presentation of the Bank's Management Board and Supervisory Board

MANAGEMENT BOARD

Notwithstanding the aforementioned, the Bank's Supervisory Board takes into account the provisions of the Companies Act (ZGD-1), Banking Act (ZBan-3), Bank of Slovenia implementing regulations, EU regulations, the Bank's Articles of Association and Nova KBM's Policy on the Selection of Suitable Candidates for Management Body Members in the appointment of the President and members of the Management Board.

John Denhof began performing the function of President of the Management Board on 1 March 2017. He is a financial expert with extensive experience gained in various management roles at Citibank in several emerging and developed markets, including Singapore, the UK, Turkey, the Czech Republic and Spain. He has been working in the financial sector for more than 25 years. He has planned and implemented the repositioning of banks, transformed them into institutions with sustainable growth and profitability, developed distribution channels, improved capacities for digital operations, and increased added value for customers. He performed the function of Chairman of the Supervisory Board of Summit leasing Slovenija d.o.o. from 18 September 2017 to 6 February 2023. From 8 May 2018 until 11 June 2019, he served as Deputy Chairman of the Supervisory board of KBM Infond d.o.o.

Sabina Župec Kranjc holds a master's degree in economics and business, with a major in corporate finance and banking. She has been a member of Nova KBM's Management Board since 17 November 2014 and has more than 25 years of work experience in the field of banking. She began her business career in 1998 in the Treasury Sector at Abanka Vipa d.d., where she was head of Trading Department from 2003 to 2004. From 2004 to 2008, she served as the head of trading and then the head of treasury at Raiffeisen Banka d.d. She was the head of the Treasury Sector at Abanka Vipa d.d. from 2008 to 2013. She has been employed at Nova KBM since July 2013 as the Executive Director of the Financial Markets Sector, where she has managed more complex projects, such as asset quality review (AQR) and the privatisation of the Bank. In the past, she served as Chairperson of the Supervisory Board of PBS, and served as member of the Supervisory Board of Terme Olimia from 1 July 2015 to 10 September 2017. She performed the function of member of the Supervisory Board of KBM Infond d.o.o. from 2014 to 11 June 2019. She performed the function of member of the Supervisory Board of

Summit leasing Slovenija d.o.o. from 18 September 2017 to 6 February 2023, and also serves as member of the Supervisory Board of the Bank Association of Slovenia.

Matej Falatov holds a bachelor's degree in economics. He also received a master's degree in management and corporate organisation from the School of Economics and Business at the University of Ljubljana, and completed a specialised course in banking management. He has obtained his knowledge in various managerial positions. From 2016 to 2018, he served as the President of the Management Board of Addiko Bank d.d. Ljubljana, where he was responsible for all banking services and leasing transactions. Before that function, he served as a member of the management board or executive director at various banks in Slovenia and abroad (Hypo Alpe Adria Bank d.d., Ljubljana, SKB banka d.d. Ljubljana, Factor Banka d.d. and West East Bank a.d. Sofia), where he was responsible for managing the areas of corporate banking, retail banking, treasury, investment banking and other financial-commercial services. He performed the function of member of the Supervisory Board of Summit leasing Slovenija d.o.o. from 30 August 2018 to 6 February 2023. He has served as the Chairman of the Supervisory Board of ALEJA finance d.o.o. since 21 October 2021, and as member of Nova KBM's Management Board since 6 July 2018.

Miha Kristl holds a master's degree in science, which he received from the School of Economics and Business at the University of Ljubljana. He has more than 20 years of work experience in the field of banking, with an emphasis on risk management. He has performed numerous managerial functions during his career, including the following: Director of the Risk Management Department at Raiffeisen banka d.d. (from July 2003 to December 2007), Director of the Risk Management Department in the K&H Group (from January 2008 to May 2010), Director of the Integrated Risk and Capital Department in the KBC Group (from June 2010 to May 2013), Strategy Advisor in the KBC Group (from June 2013 to September 2014), Executive Director at the Bank of Slovenia (from October 2014 to December 2018), and Director of the Credit Management Sector at Nova KBM d.d. (from February 2020 to 31 December 2021), where he gained experience in the management of human and other available resources. He has served as member of Nova KBM d.d.'s Management Board and Chief Risk Officer since 1 January 2022. He performed the function of member of the Supervisory Board of Summit Leasing Slovenija d.o.o. from 1 January 2022 to 6 February 2023.

SUPERVISORY BOARD

The provisions of the Companies Act (ZGD-1), Banking Act (ZBan-3), Bank of Slovenia implementing regulations, EU regulations, the Bank's Articles of Association and Nova KBM's Policy on the Selection of Suitable Candidates for Management Body Members are taken into account in the appointment of the Supervisory Board members.

The Bank has also adopted the Governance Policy of Nova KBM d.d. and Nova KBM Group Companies, which sets out the delegation of responsibilities and competences among the members of Nova KBM's management and supervisory bodies.

In connection with the strategy and criteria for selecting members of the Management Board and Supervisory Board, and key function holders, the Bank has in place the Policy on the Assessment of Suitability of Members of Management Bodies and Key Function Holders (Fit & Proper Policy), based on which a special Fit & Proper Committee was formed.

Taking into account Nova KBM's Policy on the Selection of Suitable Candidates for Management Body Members and the Fit & Proper Policy, the Supervisory Board's Nomination Committee identifies and recommends to the Supervisory Board candidates for members of the Management Board, and identifies and recommends to the General Meeting of Shareholders candidates for members of the Supervisory Board.

On the day the indirect sale of shares of Nova KBM d.d. to OTP Bank Nyrt. was completed (i.e. 6 February 2023), the Bank's General Meeting of Shareholders adopted a resolution regarding the start of the term of office of newly appointed members of the Supervisory Board, who were named candidates and received authorisation from the ECB in 2022 to perform their supervisory functions.
On 6 February 2023, the General Meeting of Shareholders appointed the following persons to five-year terms of office as members of the Supervisory Board: Imre Bertalan, Tünde Barabás, Sándor István Pataki, Marko Košak, Tamás Bernáth and Dorothea Nikolaeva Nikolova-Iltcheva. On the day new members were appointed to the Supervisory Board, the terms of office of previous members ended. The exception was Andrej Fatur, whose term of office continues following the completion of the indirect sale of shares of Nova KBM d.d. to OTP Bank Nyrt. in accordance with the resolution of the General Meeting of shareholders.

On 6 February 2023, the Supervisory Board appointed Imre Bertalan to serve as Chairman of that body. Andrej Fatur was appointed to serve as new Deputy Chairman.

Imre Bertalan received his bachelor's degree from Karl Marx University of Economic Sciences in Budapest, Hungary. He has more than 33 years of work experience in the field of economics. He is employed by OTP Bank Nyrt. as Director of Personnel for the OTP Group. He has served as Chairman of SKB banka d.d.'s Board of Directors since September 2020.

Andrej Fatur holds a doctorate in law from the School of Law at King's College London, and has many years of experience in the domestic and international environment (legal advisor at the European Court of Justice, occasional lecturer at University College London, Faculty of Laws, and Director and occasional consultant at NEOS Business Consulting Ltd., London). After completing his judicial clerkship, he began his career as a lawyer, returned to that profession after a few years abroad, and now works at his own law firm as a commercial lawyer. In the interim period, he served as a legal consultant for several months at the Bank of Slovenia in the areas of banking supervision and banking regulation. He is the author of numerous professional articles in the field of commercial law, in particular competition law. He has lectured on this subject at several conferences at home and abroad.
Mr. Fatur has served continuously as a member of Nova KBM's Supervisory Board since 2012.

Tünde Barabás graduated from the University of Economic Sciences in Budapest, Hungary. She received her master's degree in business administration. She also received her doctorate degree in management and organisational sciences. She has more than 21 years of work experience in banking. She has been employed by OTP Bank Nyrt., Budapest, Hungary, since 2020 as Head of Risk Management and Control.

Sándor István Pataki graduated from the Moscow State Institute of Internal Relations (Faculty of Diplomacy) in Russia. He also received a degree from the Budapest Institute of Banking in Hungary. He has more than 32 years of work experience in the field of economics, including banking. He joined OTP in 2005 as Head of Investor Relations, and has also been in charge of Debt Capital Markets since 2008.

Marko Košak is a Full Professor of Money and Finance at the University of Ljubljana, School of Economics and Business, where he teaches several courses in banking, financial institutions and markets. His academic research interest lies in the field of banking, micro- and macroprudential regulation and financial markets and he has published in different international and domestic peer-reviewed journals and books. He has altogether more than 28 years of work experience in academia and as a finance professional with reach experience in cooperation with national and international institutions (European Banking Authority, European Banking Federation, The Bank Association of Slovenia) and has also served as a supervisory board member.

Tamás Bernáth graduated from the University of Economics in Budapest. He completed postgraduate studies in law at ELTE in Budapest and received his MBA from INSEAD. He has more than 27 years of work experience in the area of finance. He is employed as a faculty member at the educational institute Mathias Corvinus Collegium (MCC), which is headquartered in Budapest.

Dorothea Nikolaeva Nikolova-Iltcheva received her master's degree in economics from the University for National and World Economy in Sofia, Bulgaria. She is also certified as an accountant by the Association of Chartered Certified Accountants of the United Kingdom. She has more than 28 years of work experience in the area of banking. She is a member of the Management Board and Executive Director of Recovery at DSK Bank AD, Sofia, Bulgaria.

2.4.3 THE POLICY ON DIVERSITY WITH REGARD TO SELECTION OF MEMBERS OF THE MANAGEMENT BODY, ITS OBJECTIVES AND ANY RELEVANT TARGETS SET OUT IN THAT POLICY, AND THE EXTENT TO WHICH THESE OBJECTIVES AND TARGETS HAVE BEEN ACHIEVED

(Article 435 (2.c) of the CRR)

The Bank did not have a separate diversity policy for the selection of members of its management bodies until December 2022. In December 2022, the Bank adopted the Diversity, Equality, Inclusion and Commitment Policy, which entered into force on 1 January 2023. That policy was subject to periodic review in December 2023.

Diversity in terms of gender represents a key component of all levels of the organisation. The Employee Development Strategy defines, *inter alia*, objectives relating to the representation of the under-represented gender, which promotes diversity in the Bank's two-tier system of governance. The Bank strives to ensure that governing bodies are diverse in terms of age, gender, geographic origin, education and profession, that they represent various views and experiences, and that they facilitate independent opinions and critical thinking.

In order to ensure a diverse and inclusive environment, Nova KBM implements a number of programmes and practices to promote diversity, equality, inclusion and commitment. The Bank implements the above-mentioned policy not only in gender balance, but also in the following areas: the recruitment and selection of employees, the remuneration policy, career development and performance management, key personnel and succession planning, training, employee engagement and satisfaction surveys, internal communication, non-discrimination, a sense of security and belonging, etc.

In accordance with the competences of the Supervisory Board's Nomination Committee as set out in the ZBan-3, the aforementioned committee is striving to improve the representation of both genders on the management body over the next five years by pursuing the objective of increasing the number of members of the under-represented gender on the Management Board and Supervisory Board.

Diversity is ensured in practice through procedures used to nominate and appoint members of the management and supervisory bodies. According to available data, diversity criteria (gender, professional experience, age, education and expertise) were met.

The representation of women on the seven-member Supervisory Board was 29% in 2023.

As of 31 December 2023, the Management Board comprised four members: one woman and three men. The female member of the Management Board has actually performed her function since 2014, which further contributes to the continuity and quality of the Management Board's decision-making process.

2.4.4 THE INSTITUTION HAS A SEPARATE RISK COMMITTEE PUT IN PLACE

(Article 435(2.d) of the CRR)

The Bank has established the Risk Committee, which is a consultative body of the Supervisory Board of Nova KBM d.d., and whose mission consists of supervising the Bank's senior management with regard to the implementation of the risk management strategy at the Bank and at the Group. It also provides advice with regard to the Bank's current and future risk appetite. The committee met four times in 2023 (four ordinary sessions).

2.4.5 DESCRIPTION OF THE INFORMATION FLOW ON RISK TO THE MANAGEMENT BODY

(Article 435(2.e) of the CRR)

The risk management and finance divisions draw up reports on the management of and exposure to various types of risk, including ESG risks, on the utilisation of the established limit system and the risk appetite, on the values of key risk and performance indicators, on exposure by certain segments/portfolios/products, and on the Bank's performance, and submit them to the **Bank's Management Board**, the **Risk Committee** and the **Supervisory Board**.

Monthly reports on risks are also made to the **ALCO**.

Reporting is undertaken on a daily, monthly, quarterly and annual level. The risk management division reports data separately at the levels of the Nova KBM Group and the OTP Luxembourg Group.

The Bank sets out the frequency of reporting and the person responsible for reporting in its individual risk management policies.

The risk management division published the most important indicators of liquidity risk, interest rate risk and market risk on the intranet on a daily basis. It also draws up the risk management report on a monthly basis, and submits it to the Management Board, the executive directors, and the directors of the relevant departments.

The Bank has established various committees for managing specific types of risk. Their competences and responsibilities are defined in separate rules of procedure.

The Operational Risk Committee is an advisory body of the Bank's Management Board. The committee is tasked with studying and discussing, and making decisions regarding issues relating to operational risk management. The committee meets quarterly or more often, as required.

The Model Risk Committee was established in 2019. It is responsible for drawing up and implementing the model risk management framework, and has the central coordinating role in ensuring that the actions of stakeholders in model risk management comply with accepted standards.

The Physical and Information Security Department reports to the Management Board regarding the management of incidents and threats to business continuity and information security following the occurrence of major incidents, during the elimination of the associated consequences and the implementation of measures to mitigate the consequences and risks arising from incidents. It also reports to the Operational Risk Committee on a quarterly basis, and regarding incidents when they are detected.

Since its formal establishment in February 2020, the Information Technology Committee has been responsible for ensuring that the IT area functions in accordance with the Bank's business plan. The committee addresses the following topics in the scope of its work: the review of and decisions regarding plan-related requirements, decisions regarding the prioritisation of IT requests for changes submitted by business users, the discussion of and decisions regarding all current strategic IT requirements, the review and discussion of the work of external IT service providers, and monthly reporting regarding the area's work, the status of projects, the status of major change requests and daily tasks. It comprises all members of the Management Board. Because the function of member of the Management Board responsible for the Bank's operations (COO) is vacant, the committee is chaired by the Bank's procurator, who coordinates activities in connection with the management of the Bank's operational organisational units.

In 2024, the Bank established the Corporate Client Monitoring Committee, which monitors and discusses the portfolio of performing investments/clients for which increased credit risk has been identified and exposure to a specific client exceeds a given exposure limit. The primary tasks and powers of that committee are as follows: decisions regarding and the approval of the client risk status (CRS), the reclassification of clients from PE to NPE based on UTP criteria, decisions regarding the appropriateness of the CRS for clients automatically reclassified to Stage 2 due to a change in their credit rating (notwithstanding the exposure amount), and decisions regarding, and the approval and monitoring of strategies/action plans for specific clients. The committee also discusses clients/groups of connected clients who are financed by at least two members of the OTP Group ("jointly financed regional and/or international clients and client groups" – JFC), who have a different CRS or different non-default/default status, with the aim of harmonising those statuses between the relevant members of the OTP Group, if necessary and justified. The committee also discusses monthly reports (e.g. the EWS Report and Portfolio Report).

The Retail Client Credit Risk Committee is being established. The committee will discuss and present a locally drafted report on the quality and monitoring of the portfolio, and will also monitor the latter (exposure trends, quality of the portfolio, comparison with the banking sector, the monitoring of products, approved limits under the credit policy, RAS, etc.). The committee will provide resources and monitor the development of the quality of data for internal data sources required for the management of credit risk in connection with retail banking. It will regularly monitor the utilisation of RAS limits and propose measures in the event of transgressions, request various ad hoc analyses of the portfolio, and have an overview of the coordination and amendment of the rules and policies prescribed by the Group.

The Bank has a separate and independent Anti-Money Laundering Office that coordinates activities in the areas of AML/CFT and restrictive measures. The aforementioned office reports directly to the Bank's Management Board, while the AML/CFT officer coordinates activities in the areas of AML/CFT and restrictive measures. The AML/CFT officer reports quarterly and annually to the Management Board. Quarterly reports include data reported to the Office of the Republic of Slovenia for Money Laundering Prevention and other supervisory authorities, the findings of first- and second-level controls, other activities and identified risks and measures adopted to manage those risks in the areas of AML/CFT and restrictive measures. The annual report includes a summary of annual activities in the area of AML/CFT (statistical data, risk analysis, amendments to internal rules and application systems, the implementation of internal control activities, participation in training, etc.). In accordance with implementing regulations, a report is also drawn up for the Office for Money Laundering Prevention in the scope of annual reporting. The AML/CFT officer also briefs the Bank's Supervisory Board on the content of the annual report.

The AML/CFT officer heads the Committee for Treatment of High-Risk Clients, which discusses and adopts measures when transacting with clients where the Bank identifies certain conduct that poses a compliance risk or other practices that, by their nature, pose increased risk to the Bank.

The AML/CFT officer is appointed to the same position for the Group, and coordinates activities in the areas of AML/CFT and restrictive measures within the Group.

The Risk Management Department assesses the risk profile of the Bank and the Group once a year. The risk profiles of the Bank and the Group are discussed by the Management Board and the Risk Committee.

3 SCOPE OF APPLICATION

This section defines the disclosure requirements set out in Article 436 of Part Eight of the CRR.

3.1 NAME OF THE INSTITUTION TO WHICH THE REQUIREMENTS OF THIS REGULATION APPLY

(Article 436(a) of the CRR)

As the parent bank, Nova KBM d.d. is obliged to publish disclosures for the Group in accordance with Article 13 of the CRR.

3.2 HARMONISATION OF THE CONSOLIDATED FINANCIAL STATEMENTS, COMPILED IN ACCORDANCE WITH THE VALID FINANCIAL REPORTING FRAMEWORK, WITH THE CONSOLIDATED FINANCIAL STATEMENTS, COMPILED IN ACCORDANCE WITH THE REQUIREMENTS OF CONSOLIDATION FOR PRUDENTIAL PURPOSES BASED ON CHAPTERS 2 AND 3 OF TITLE II OF PART ONE

(Article 436(b, c, d and e) of the CRR)

The OTP Luxembourg Group comprises the controlling company OTP Luxembourg S.à r.l. and its subsidiaries, which are part of the Nova KBM Group. Nova KBM d.d. is the controlling company of the Nova KBM Group, which controlled one subsidiary (ALEJA finance d.o.o.) and included one associate (Bankart d.o.o.) as of 31 December 2023.

Nova KBM d.d. is a commercial bank with many years of tradition. It focuses on the provision of standard banking services to retail and corporate customers. Its registered office is at Ulica Vita Kraigherja 4, 2000 Maribor, Slovenia.

The Bank's share capital amounted to €150,000,000 as at 31 December 2023, and was divided into 10,000,000 no-par-value ordinary registered shares.

Biser Bidco S.à r.l. became the holder of 100% of Nova KBM's shares on 21 April 2016. The company through which those shares were purchased was managed by certain investment funds, as branches of Apollo Global Management, Inc., and the European Bank for Reconstruction and Development.

On 6 February 2023, OTP Bank (OTP Bank Nyrt., Hungary) became the owner of Biser Bidco S.à r.l., which was the sole shareholder of Nova KBM d.d. With the purchase of Biser Bidco S.à r.l., OTP Bank also became the owner of ALEJA finance d.o.o., while Nova KBM's 100% participating interest in Summit Leasing Slovenija d.o.o. was sold and remains under the ownership of Apollo funds and the EBRD. The name of Biser Bidco S.à r.l., the sole shareholder of Nova KBM d.d., was changed on 6 February 2023. Since 6 February 2023, Biser Bidco S.à r.l. is named: OTP Luxembourg S.à r.l.

The OTP Group is a leading financial group that operates on the mass markets of Central and Eastern Europe, including Slovenia, where it is present with a 100% participating interest in SKB banka. The Group provides services in the areas of insurance, real estate, factoring, leasing, asset management, and the management of investment and pension funds.

The parent bank is obliged to compile consolidated financial statements at the level of the Nova KBM Group and OTP Luxembourg Group.

The financial statements of the Nova KBM Group are included in the consolidated financial statements of OTP Luxembourg S.à r.l.

Table 4: Composition of the OTP Luxembourg Group

Company	Relationship	Proportion of voting rights held by the Group (%)	Location of operations (or country of registration)
OTP Luxembourg. S.à r.l.	controlling company	100.00	Luxembourg
Nova KBM d.d.	subsidiary bank	100.00	Maribor, Slovenia
ALEJA finance d.o.o.	subsidiary	100.00	Ljubljana, Slovenia
Bankart d.o.o.	associate	29.22	Ljubljana, Slovenia

Template 1: EU LI1 – Differences between the accounting scope and the scope of prudential consolidation and mapping of financial statement categories with regulatory risk categories

€000

		a	b	c	d	e	f	g
		Carrying values as reported in published financial statements	Carrying values under scope of prudential 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 own funds requirements or subject to deduction from own funds
1	**Assets**							
2	Cash in hand, cash balances at central bank and demand deposits at banks	2,760,480	2,760,480	2,760,480				
3	Financial assets held for trading	5,507	5,507		5,487		20	6
4	Non-trading financial assets mandatorily at fair value through profit or loss	12,351	12,351	12,351				12
5	Financial assets at fair value through other comprehensive income	446,686	446,686	446,686				447
6	Financial assets at amortised cost	7,460,220	7,460,220	7,459,955				3,306
7	Derivatives intended for hedging	15,540	15,540		15,540			16
8	Investments in the equity of subsidiaries and associates	6,057	6,057	6,057				
9	Property, plant and equipment	52,664	52,664	52,664				
10	Intangible assets	30,833	30,833	6,608				24,225
11	Receivables for corporate income tax	65,091	65,091	583				64,509
12	Other assets	4,330	4,330	4,330				
13	Non-current assets held for sale and discontinued operations	210	210	210				
14	**Total assets**	**10,859,969**	**10,859,969**	**10,749,922**	**21,027**		**20**	**92,520**

		a	b	c	d	e	f	g
		Carrying values as reported in published financial statements	Carrying values under scope of prudential 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 own funds requirements or subject to deduction from own funds
15	**Liabilities**							
16	Financial liabilities held for trading	5,290	5,290		5,290			5
17	Financial liabilities designated for measurement at fair value through profit and loss (FVTPL)	0	0					
18	Financial liabilities at amortised cost	9,624,921	9,624,921					
19	Provisions	41,980	41,980					
20	Tax liabilities	13,006	13,006					
21	Other liabilities	29,688	29,688					
22	**Total liabilities**	**9,714,885**	**9,714,885**		**5,290**			**5**
23	Share capital	2,711	2,711					
24	Share premium	217,601	217,601					
25	Equity component of compound financial instruments	0	0					
26	Revaluation surplus	(14,360)	(14,360)					
27	Profit reserves	271	271					
28	Retained earnings/loss	790,978	790,978					
29	Net profit/loss	203,235	203,235					
30	Interim dividends	(55,352)	(55,352)					
31	**EQUITY ATTRIBUTABLE TO OWNERS OF PARENT BANK**	**1,145,084**	**1,145,084**					
32	Minority interests	0	0					
33	**TOTAL EQUITY**	**1,145,084**	**1,145,084**					
34	**TOTAL EQUITY AND LIABILITIES**	**10,859,969**	**10,859,969**		**5,290**			**5**

Template 2: EU LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements

€000

		a	b	c	d	e
		Total	Items subject to			
			Credit risk framework	Securitisation framework	CCR framework	Market risk framework
1	Assets carrying value amount under the scope of prudential consolidation (as per template EU LI1)	10,767,449	10,749,922		21,027	20
2	Liabilities carrying value amount under the scope of prudential consolidation (as per template EU LI1)	10,859,963			5,289	
3	Total net amount under the scope of prudential consolidation	10,767,449	10,749,922	0	21,027	20
4	Off-balance-sheet amounts	1,969,038	1,957,157		11,881	
5	Differences in valuations	485				
6	Differences due to different netting rules, other than those already included in row 2					
7	Differences due to the consideration of provisions	3,045				
8	Differences due to the use of credit risk mitigation techniques (CRMs)					
9	Differences due to credit conversion factors	(1,518,246)	(1,518,246)			
10	*Differences due to securitisation with risk transfer*					
11	*Other differences*	13,163			13,163	
12	Exposure amounts considered for regulatory purposes	11,234,930	11,188,833		46,071	20

Template 3: EU LI3 – Outline of the differences in the scopes of consolidation (entity by entity)

OTP Luxembourg Group

a	b	c	d	e	f	g	h
Name of the entity	Method of accounting consolidation	Method of prudential consolidation					Description of the entity
		Full consolidation	Proportional consolidation	Equity method	Neither consolidated nor deducted	Deducted	
ALEJA finance d.o.o.	Full consolidation	x					Factoring company
Bankart d.o.o.	Equity method			x			Payment instrument processing
Nova KBM d.d.	Full consolidation	x					Financial intermediation
OTP Luxembourg S.à r.l.	Full consolidation	x					Acquisition and management of investments

Nova KBM Group

a	b	c	d	e	f	g	h
Name of the entity	Method of accounting consolidation	Method of prudential consolidation					Description of the entity
		Full consolidation	Proportional consolidation	Equity method	Neither consolidated nor deducted	Deducted	
ALEJA finance d.o.o.	Full consolidation	x					Factoring company
Bankart d.o.o.	Equity method			x			Payment instrument processing
Nova KBM d.d.	Full consolidation	x					Financial intermediation

Template 4: EU PV1 – Prudent valuation adjustments

The Bank is not obliged to disclose Template EU PV1 – Prudent valuation adjustments because it does not use the core approach for determining additional value adjustments in accordance with Chapter III of Commission Delegated Regulation (EU) 2016/101 (Delegated Regulation 2016/101). The Bank meets the conditions for the use of the simplified approach set out in Article 4 of Chapter II of Delegated Regulation 2016/101 because the sum of the absolute value of fair-valued assets and liabilities does not exceed the threshold of €15 billion. The threshold of €15 billion applies on an individual and consolidated basis. If the threshold is breached, the core approach is applied to all entities included in consolidation. In accordance with Article 5 of Chapter II of Delegated Regulation 2016/101, additional valuation adjustments are calculated as 0.1% of the sum of fair-valued assets and liabilities. That amount is a deduction item from regulatory capital in accordance with Article 34 of the CRR, and is calculated taking into account Delegated Regulation 2016/101 and Article 105 of the CRR.

Table 5: EU LIA – Explanations of differences between accounting and regulatory exposure amounts

Legal basis	Qualitative information
Article 436(b) of the CRR	It is evident from Template EU LI1 that the accounting scope and the scope of prudential consolidation are exactly the same. Template EU LI1 illustrates the main differences between the carrying values reported in the financial statements under the scope of prudential consolidation and the exposure amounts that are treated, for prudential purposes, as the basis for the calculation of risk-weighted exposures under each risk framework. Deduction items from regulatory capital relate to deductions for intangible assets and deferred tax assets, to a deduction of the amount from additional value adjustments, to a deduction of the amount of insufficient coverage for non-performing exposures and to a deduction of the amount from additional impairments.
Article 436(d) of the CRR	Template EU LI2 illustrates the main differences between the carrying values reported in the financial statements under the scope of prudential consolidation and the exposure amounts that are treated, for prudential purposes, as the basis for the calculation of risk-weighted exposures under each risk framework. The main differences for the credit risk framework are the result of differences due to credit conversion factors. The main differences for the counterparty credit risk framework derive from the use of the original exposure method for the calculation of exposure values from derivatives. The "Total" column in Template EU LI2 discloses two deduction items from regulatory own funds, specifically in differences due to the consideration of provisions (deduction amount arising from additional impairments) and differences in valuations (deduction amount arising from additional value adjustments), which are also included in column "g" in Template EU LI1 and do not affect the exposure amount that is treated as the basis for the calculation of RWEA for regulatory purposes.

3.3 ANY 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

(Article 436 (f) of the CRR)

Taking into account regulatory requirements regarding the operations of an individual Group company, there are no legal impediments on the transfer of own funds and the settlement of liabilities between the parent company and subsidiaries within the Group.

3.4 THE AGGREGATE AMOUNT BY WHICH ACTUAL OWN FUNDS ARE LOWER THAN REQUIRED AT ALL SUBSIDIARIES NOT INCLUDED IN CONSOLIDATION, AND THE NAME OR NAMES OF SUCH SUBSIDIARIES

(Article 436(g) of the CRR)

The OTP Luxembourg Group includes all subsidiaries in supervision on a consolidated basis.

3.5 CIRCUMSTANCE FOR APPLYING THE PROVISIONS LAID DOWN IN ARTICLES 7 AND 9

(Article 436(h) of the CRR)

This disclosure is irrelevant for Nova KBM d.d.

4 OWN FUNDS

This section defines the disclosure requirements set out in Article 437 of Part Eight of the CRR, and in the technical standards from Article 4 of Commission Implementing Regulation (EU) 2021/637.

4.1 FULL RECONCILIATION OF COMMON EQUITY TIER 1 ITEMS, ADDITIONAL TIER 1 ITEMS, TIER 2 ITEMS AND FILTERS AND DEDUCTIONS APPLIED PURSUANT TO ARTICLES 32 TO 35, 36, 56, 66 AND 79 TO OWN FUNDS OF THE INSTITUTION AND THE BALANCE SHEET IN THE AUDITED FINANCIAL STATEMENTS OF THE INSTITUTION

(Article 437(a) of the CRR)

The scope of consolidation and the method used to consolidate the statement of financial position are the same as the scope and method of consolidation set out in Chapter 2, Part One, Title II of the CRR.

Template EU CC2 below discloses the difference between the on-balance-sheet and regulatory own funds of the OTP Luxembourg Group and Nova KBM Group as at 31 December 2023. Items of regulatory own funds are disclosed in Template EU CC1.

Template 5: EU CC2 – Reconciliation of regulatory own funds to balance sheet in the audited financial statements of the OTP Luxembourg Group and Nova KBM Group

€000

		a	a	c
		Balance sheet as in published financial statements as at 31 December 2023		Reference to row in EU CC1
		OTP Luxembourg Group	Nova KBM Group	
Assets – Breakdown by asset classes according to the balance sheet in the published financial statements				
1	Cash, cash balances at central banks and demand deposits at banks	2,760,480	2,704,588	
2	Financial assets held for trading	5,507	5,507	
3	Non-trading financial assets mandatorily at fair value through profit or loss	12,351	12,351	
4	Financial assets measured at fair value through other comprehensive income	446,686	446,686	
5	Financial assets at amortised cost	7,460,220	7,460,115	
6	- debt securities	2,845,100	2,844,981	
7	- loans to banks	167,722	167,722	
8	- loans to non-banking customers	4,398,116	4,398,116	
9	- other financial assets	49,282	49,296	
10	Investments in subsidiaries, associates and joint ventures	6,057	6,057	
11	Property, plant and equipment	52,664	57,450	
12	- property, plant and equipment	52,664	57,450	
13	- investment property	0	0	
14	Intangible assets	30,833	30,833	8
15	Receivables for corporate income tax	65,091	64,205	
16	- receivables for taxes	0	0	
17	- deferred tax assets	65,091	64,205	part. 10
18	Other assets	4,330	4,325	
19	Derivatives intended for hedging	15,540	15,540	
20	Non-current assets held for sale and discontinued operations	210	210	
21	**Total assets**	**10,859,969**	**10,807,866**	
Liabilities – Breakdown by liability classes according to the balance sheet in the published financial statements				

		a	a	c
		Balance sheet as in published financial statements as at 31 December 2023		Reference to row in EU CC1
		OTP Luxembourg Group	Nova KBM Group	
22	Financial liabilities held for trading	5,290	5,290	
23	Financial liabilities at amortised cost	9,624,921	9,569,321	
24	- deposits from banks and the central bank	9,828	9,828	
25	- deposits from non-banking customers	8,386,221	8,386,221	
26	- loans from banks and the central bank	135,729	135,729	
27	- debt securities	991,532	991,532	part 48
28	- other financial liabilities	101,610	46,010	
29	Provisions	41,980	41,980	
30	Corporate income tax liabilities	13,005	13,005	
31	- tax liabilities	13,005	13,005	
32	Other liabilities	29,688	29,688	
33	**Total liabilities**	**9,714,885**	**9,659,284**	
Shareholders' equity				
34	Share capital	2,711	150,000	1
35	Share premium	217,601	403,302	1
36	Own funds instruments issued, excluding share capital	0	0	
37	Accumulated other comprehensive income	-14,360	-13,471	part 3
38	Profit reserves	271	20,228	3
39	Retained earnings (including net profit for financial year and dividends paid during the year)	938,860	588,524	part 2
40	**Total shareholders' equity**	**1,145,084**	**1,148,582**	

4.2 DESCRIPTION OF THE MAIN FEATURES OF THE COMMON EQUITY TIER 1 AND ADDITIONAL TIER 1 INSTRUMENTS AND TIER 2 INSTRUMENTS ISSUED BY THE INSTITUTION

(Article 437(b) of the CRR)

Table EU CCA below discloses information regarding the own funds instruments of the OTP Luxembourg Group and Nova KBM Group.

Items of regulatory own funds are disclosed in Template EU CC1.

Template 6: EU CCA – Main features of regulatory own funds instruments and eligible liabilities instruments of the OTP Luxembourg Group and Nova KBM Group

	Template for main features of own funds instruments			
		Common Equity Tier 1 (CET1) capital		Tier 2 (T2) capital
1	Issuer	OTP Luxembourg S.à r.l.	Nova KBM d.d.	Nova KBM d.d.
2	Unique identifier	/	Designation: KBMS; ISIN: SI0021116494	Designation: KBM11; ISIN: SI0022103897
2a	Public or private placement		Closed circle of investors	Closed circle of investors
3	Governing law(s) of the instrument	Luxembourg Law on Commercial Companies from 1915, together with amendments	ZGD, ZTFI, ZNVP, ZBAN-3	ZBAN-3, Bank of Slovenia regulations
3a	Contractual recognition of write down and conversion powers of resolution authorities	No	No	No
	Regulatory treatment			
4	Current treatment taking into account, where applicable, transitional CRR rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital	Tier 2 capital
5	Post-transitional CRR rules	Common Equity Tier 1 capital	Common Equity Tier 1 capital	Tier 2 capital
6	Eligible at solo/sub-consolidated/ solo&sub-consolidated	Consolidated basis	Individual and sub-consolidated basis	Individual basis (at the level of Nova KBM), sub-consolidated basis (at the level of Nova KBM) and consolidated basis (at the level of OTP Luxembourg S.à r.l.) as Tier 2 instrument in accordance with Article 63 of Regulation (EU) No 575/2013 (*Capital Requirements Regulation or 'CRR'*)
7	Instrument type (types to be specified by each jurisdiction)	Common Equity Tier 1 capital	Common Equity Tier 1 capital	Additional Tier 1 capital
8	Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date)	€220 million	€553 million	€90.4 million on an individual and sub-consolidated basis, and €68.6 million on a consolidated basis
9	Nominal amount of instrument	Paid-in capital: €3 million	Paid-in capital: €150 million	€90.4 million
		Share premium: €217 million	Share premium: €403 million	

Template for main features of own funds instruments				
		Common Equity Tier 1 (CET1) capital		Tier 2 (T2) capital
9a	Issue price	Paid-in capital: €1 per share	Paid-in capital: €15 per share	€0.1 million per bond
9b	Redemption price	n.a.	n.a.	Principal on bond (€0.1 million) and accrued but unpaid interest on principal up to (but excluding) the maturity date (or up to (but excluding) the date of repurchase in the case of early repurchase)
10	Accounting classification	Shareholders' equity	Shareholders' equity	Financial liability
11	Original date of issuance	13 April 2016	19 December 2013	9 October 2019
12	Perpetual or dated	Perpetual	Perpetual	Dated
13	Original maturity date	n.a.	n.a.	9 October 2029
14	Issuer call subject to prior supervisory approval	n.a.	n.a.	Yes
15	Optional call date, contingent call dates and redemption amount	n.a.	n.a.	The issuer may, with prior notice, redeem the bonds in full in advance, but not in instalments, in the amount payable, at any time on or after the fifth anniversary of the bond issue date. The amount for payment on a bond is equal to principal, together with accrued but unpaid interest on principal up to (but excluding) the date stated for repurchase.
16	Subsequent call dates, if applicable	n.a.	n.a.	See point 15 above
Coupons/dividends				
17	Fixed or floating dividend/coupon	n.a.	n.a.	A fixed coupon rate applies up to (but excluding) 9 October 2024; a floating coupon rate applies from 9 October 2024 on.
18	Coupon rate and any related index	n.a.	n.a.	Fixed: 4% p.a. Floating: annual swap rate (expressed in a percentage) for swap transactions in euros with a maturity of five years + 4.4% p.a.
19	Existence of a dividend stopper	n.a.	n.a.	No
EU-20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	n.a.	Fully discretionary right	Mandatory
EU-20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	n.a.	Fully discretionary right	Mandatory
21	Existence of step up or other incentive to redeem	n.a.	n.a.	No
22	Noncumulative of cumulative	n.a.	n.a.	Noncumulative

	Template for main features of own funds instruments			
		Common Equity Tier 1 (CET1) capital		Tier 2 (T2) capital
23	Convertible or non-convertible	n.a.	n.a.	non-convertible[1]
24	If convertible, conversion trigger(s)	n.a.	n.a.	See note 1
25	If convertible, fully or partially	n.a.	n.a.	See note 1
26	If convertible, conversion rate	n.a.	n.a.	See note 1
27	If convertible, mandatory or optional conversion	n.a.	n.a.	See note 1
28	If convertible, specify instrument type convertible into	n.a.	n.a.	See note 1
29	If convertible, specify issuer of instrument it converts into	n.a.	n.a.	See note 1
30	Write-down features	n.a.	n.a.	See note 1
31	If write-down, write-down trigger(s)	n.a.	n.a.	See note 1
32	If write-down, full or partial	n.a.	n.a.	See note 1
33	If write-down, permanent or temporary	n.a.	n.a.	See note 1
34	If temporary write-down, description of write-up mechanism	n.a.	n.a.	See note 1
34a	Type of subordination (only for eligible liabilities)	n.a.	n.a.	n.a.
EU-34b	Ranking of the instrument in normal insolvency proceedings	n.a.	n.a.	Bonds represent the direct, unsecured and subordinated liabilities of an issuer, and are deemed Tier 2 instruments.
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	n.a.	ordinary liabilities	In the event of ordinary insolvency proceedings (bankruptcy or compulsory liquidation) against the issuer, claims arising from principal on bonds are repaid in the following order: (a) following the repayment of all current and future claims arising from: (i) the unsecured and non-subordinated instruments or liabilities of the issuer; and (ii) eligible liabilities instruments of the issuer in accordance with Article 72b of the CRR; (b) in the same order (*pari passu*): (i) mutually; and (ii) with all other current and future claims arising from: (x) the Tier 2 instruments of the

[1]Note: Given that bonds are Tier 2 instruments, conversion and/or partial write-down is possible in accordance with valid legislation: (i) Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council (*Bank Recovery and Resolution Directive*), (ii) Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010 (*Single Resolution Mechanism Regulation*), and (iii) the Resolution and Compulsory Winding Up of Banks Act.

Template for main features of own funds instruments				
		Common Equity Tier 1 (CET1) capital		Tier 2 (T2) capital
				issuer; and (y) all other instruments or liabilities of the issuer that are repaid or are designated for repayment in the same order as bonds (except the subordinated instruments and liabilities of the issuer that are repaid or designated for repayment with priority or subordinate in relation to bonds); and (c) prior to the repayment of all current and future claims arising from: (i) Additional Tier 1 instruments of the issuer in accordance with Article 52 of the CRR; (ii) ordinary shares of the issuer and any other Common Equity Tier 1 instruments of the issuer in accordance with Article 28 of the CRR; and (iii) all other subordinated instruments or liabilities of the issuer that are repaid or are designated for repayment after the issuer's liabilities arising from bonds. Instruments immediately senior to bonds: Unsecured claims arising from debt securities that meet certain conditions from point nine of the second paragraph of Article 207 of the Resolution and Compulsory Winding-Up of Banks Act.
36	Non-compliant transitioned features	n.a.	n.a.	No
37	If yes, specify non-compliant features	n.a.	n.a.	n.a.
37a	Link to the full term and conditions of the instrument (signposting)	/	KDD - Centralna Klirinško Depotna Družba d.o.o. - Notification	Shares and bonds NKBM

n.a. – not applicable for this instrument

4.3 FULL TERMS AND CONDITIONS OF ALL COMMON EQUITY TIER 1, ADDITIONAL TIER 1 AND TIER 2 INSTRUMENTS

(Article 437(c) of the CRR)

Regulatory own funds are broken down into categories with respect to its characteristics:

- Tier 1 capital, which includes
  - Common Equity Tier 1 capital; and
  - Additional Tier 1 capital; and
- Tier 2 capital.

Common Equity Tier 1 capital comprises:

- capital instruments (paid-up and share premium);
- retained earnings;
- accumulated other comprehensive income;
- other reserves;
- value adjustments on account of prudent valuation requirements;
- own fund deduction items:
    - for intangible assets,
    - for deferred tax assets, and
    - for insufficient coverage of non-performing exposures; and
- other adjustments to/deductions from Common Equity Tier 1 capital.

The Group has not issued Additional Tier 1 instruments.

In 2019, the Bank issued the subordinated bond KBM11 in the amount of €90.4 million acceptable as additional regulatory capital. The Bank includes issued bond in full in Additional Tier 1 capital at the level of Nova KBM and the Nova KBM Group, while applying the provisions of Articles 86 and 87 of the CRR for inclusion at the level of the OTP LuxembourgGroup. Based on the relevant legislation, the Bank obtained the requisite authorisation of the ECB, as supervisory authority, to include issued Tier 2 capital instruments in the calculation of regulatory own funds.

According to the situation as at 31 December 2023, all own funds instruments of the Nova KBM Group are eligible for inclusion in CET1 and Tier 2 capital, while own funds instruments of the OTP Luxembourg Group in the amount of €0.7 million are not eligible for inclusion in Common Equity Tier 1 capital and instruments in the amount of €21.8 million are not eligible for inclusion in Tier 2 capital based on the provisions of Articles 86 and 87 of the CRR.

Based on authorisation from the ECB, the Bank included a portion of net profit for the 2023 financial year in the calculation of Common Equity Tier 1 capital on 31 December 2023 as follows: €73.2 million at the level of Nova KBM, €87.7 million at the level of the Nova KBM Group and €87.2 million at the level of the OTP Luxembourg Group. The Bank includes net profit in the calculation of Common Equity Tier 1 capital solely based on a general meeting resolution or authorisation from the ECB as supervisory authority.

4.4 SEPARATE DISCLOSURE OF THE NATURE AND AMOUNTS OF FILTERS AND DEDUCTIONS

(Article 437(d) of the CRR)

In template EU CC1, the OTP Luxembourg Group and Nova KBM Group disclose the amounts and items of regulatory own funds and capital ratios as at 31 December 2023 in accordance with the provisions of the CRR and other regulations.

The groups disclose:

(i) prudential filters applied in accordance with Articles 32 to 35;

(ii) deductions in accordance with Articles 36, 56 and 66; and

(iii) items not deducted in accordance with Articles 47, 48, 56, 66 and 79.

The structure of the OTP Luxembourg Group's regulatory own funds was sound as at 31 December 2023. A total of 93% of total regulatory own funds is accounted for by Common Equity Tier 1 (CET1) capital, while 7% is accounted for by Tier 2 (T2) capital. Original own funds are comprised solely of CET1 capital. CET1 capital comprises own funds instruments issued by the OTP Luxembourg Group in the amount of €220 million. Tier 2 capital comprises own funds instruments issued by Nova KBM in the amount of €90.4 million, where the provisions of Articles 86 and 87 of the CRR were applied for inclusion at the level of the OTP Luxembourg Group (instruments in the amount of €21.8 million were not eligible for inclusion as at 31 December 2023).

According to the situation on 31 December 2023, the OTP Luxembourg Group's regulatory own funds were up by €71 million relative to 31 December 2022, primarily as the result of the inclusion of a portion of net profit for the 2023 financial year in the amount of €87.2

million. Other major reductions in own funds derive from deferred tax assets and the amount of equity instruments ineligible for inclusion in additional own funds.

The structure of the Nova KBM Group's regulatory own funds was also sound as at 31 December 2023. A total of 91% of total regulatory own funds is accounted for by Common Equity Tier 1 (CET1) capital, while 9% is accounted for by Tier 2 (T2) capital. Original own funds are comprised solely of CET1 capital. CET1 capital comprises own funds instruments issued by Nova KBM in the amount of €553 million. Tier 2 capital comprises debt instruments issued by Nova KBM in the amount of €90.4 million.

According to the situation on 31 December 2023, the Nova KBM Group's regulatory own funds were up by €86.6 million relative to 31 December 2022, primarily as the result of the inclusion of a portion of net profit for the 2023 financial year in the amount of €87.7 million.

Data regarding the regulatory own funds of the OTP Luxembourg Group and Nova KBM Group as at 31 December 2023 are disclosed in the rows of Template EU CC1 that are relevant for them.

Template 7: EU CC1 – Composition of regulatory own funds of the OTP Luxembourg Group and Nova KBM Group

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		Amounts as at 31 December 2023		Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
		OTP Luxembourg Group	Nova KBM Group	Reference to row in EU CCR2
Common Equity Tier 1 (CET1) capital: instruments and reserves				
1	Capital instruments and the related share premium accounts	219,626	553,302	34 + 35
	of which: Instrument type 1	219,626	553,302	
	of which: Instrument type 2	-	-	
	of which: Instrument type 3	-	-	
2	Retained earnings	735,626	384,718	part 39
3	Accumulated other comprehensive income (and other reserves)	-16,225	4,627	37 + 38
EU-3a	Funds for general banking risks	-	-	
4	Amount of qualifying items referred to in Article 484(3) CRR and the related share premium accounts subject to phase out from CET1	-	-	
5	Minority interests (amount allowed in consolidated CET1)	-	-	
EU-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	87,200	87,670	Part 39
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**1,026,226**	**1,030,318**	
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	(485)	(485)	
8	Intangible assets (net of related tax liability) (negative amount)	(24,225)	(24,225)	14
9	Not applicable			
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	(64,509)	(63,622)	17

		Amounts as at 31 December 2023		Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
		OTP Luxembourg Group	Nova KBM Group	Reference to row in EU CCR2
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	-	-	
12	Negative amounts resulting from the calculation of expected loss amounts	-	-	
13	Any increase in equity that results from securitised assets (negative amount)	-	-	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	-	
15	Defined-benefit pension fund assets (negative amount)	-	-	
16	Direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount)	-	-	
17	Direct, indirect and synthetic 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 (negative amount)	-	-	
18	Direct, indirect and synthetic holdings by the institution 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)	-	-	
19	Direct, indirect and synthetic holdings by the institution 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)	-	-	
20	Not applicable			
EU-20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	-	
EU-20b	of which: qualifying holdings outside the financial sector (negative amount)	-	-	
EU-20c	of which: securitisation positions (negative amount)	-	-	
EU-20d	of which: free deliveries (negative amount)	-	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38(3) CRR are met) (negative amount)	-	-	
22	Amount exceeding the 17.65% threshold (negative amount)	-	-	
23	of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	-	
24	Not applicable			
25	of which: deferred tax assets arising from temporary differences	-	-	

		Amounts as at 31 December 2023		Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
		OTP Luxembourg Group	Nova KBM Group	Reference to row in EU CCR2
EU-25a	Losses in the current financial year (negative amount)	-	-	
EU-25b	Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)	-	-	
26	Not applicable			
27	Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)	-	-	
27a	Other regulatory adjustments	(3,306)	(3,303)	
28	**Total regulatory adjustments to Common Equity Tier 1 capital (CET1)**	**(92,525)**	**(91,635)**	
29	**Common Equity Tier 1 (CET1) capital**	**933,701**	**938,683**	
Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	-		--
31	of which: classified as equity under applicable accounting standard	-		
32	of which: classified as liabilities under applicable accounting standards	-	-	
33	Amount of qualifying items referred to in Article 484(4) CRR and the related share premium accounts subject to phase out from AT1	-	-	
EU-33a	Amount of qualifying items referred to in Article 494a(1) CRR subject to phase out from AT1	-	-	
EU-33b	Amount of qualifying items referred to in Article 494b(1) CRR subject to phase out from AT1	-	-	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-	-	
35	of which: instruments issued by subsidiaries subject to phase out	-	-	
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**0**	**0**	
Additional Tier 1 (AT1) capital: regulatory adjustments				
37	Direct, indirect and synthetic holdings by an institution of own AT1 instruments (negative amount)	-	-	

		Amounts as at 31 December 2023		Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
		OTP Luxembourg Group	Nova KBM Group	Reference to row in EU CCR2
38	Direct, indirect and synthetic 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)	-	-	
39	Direct, indirect and synthetic 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)	-	-	
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	-	
41	Not applicable			
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)	-	-	
42a	Other regulatory adjustments to AT1 capital	-	-	
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**0**	**0**	
44	**Additional Tier 1 (AT1) capital**	**-**	**-**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**933,701**	**844,637**	
Tier 2 (T2) capital: instruments				
46	Capital instruments and the related share premium accounts	-	90,400	27
47	Amount of qualifying items referred to in Article 484(5) CRR and the related share premium accounts subject to phase out from T2 as described in Article 486(4) CRR	-	-	
EU-47a	Amount of qualifying items referred to in Article 494a(2) CRR subject to phase out from T2	-	-	
EU-47b	Amount of qualifying items referred to in Article 494b(2) CRR subject to phase out from T2	-	-	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	68,584	-	27
49	of which: instruments issued by subsidiaries subject to phase out	-	-	
50	Credit risk adjustments	-	-	
51	**Tier 2 (T2) capital before regulatory adjustments**	**68,584**	**90,400**	
Tier 2 (T2) capital: regulatory adjustments				

		Amounts as at 31 December 2023		Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
		OTP Luxembourg Group	Nova KBM Group	Reference to row in EU CCR2
52	Direct, indirect and synthetic holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	-	
53	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans 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)	-	-	
54	Direct, indirect and synthetic 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)	-	-	
54a	Not applicable			
55	Direct, indirect and synthetic holdings by the institution 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 amount)	-	-	
56	Not applicable			
EU-56a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)	-	-	
EU-56b	Other regulatory adjustments to T2 capital	-	-	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**0**	**0**	
58	**Tier 2 (T2) capital**	**68,584**	**90,400**	
59	**Total capital (TC = T1 + T2)**	**1,002,285**	**1,029,083**	
60	**Total risk exposure amount**	**5,059,052**	**5,053,294**	
Capital ratios and requirements including buffers				
61	Common Equity Tier 1 capital	18.46%	18.58%	
62	Tier 1 capital	18.46%	18.58%	
63	Total capital	19.81%	20.36%	
64	Institution CET1 overall capital requirements	8.82%	9.47%	
65	of which: capital conservation buffer requirement	2.50%	2.50%	
66	of which: countercyclical capital buffer requirement	0.55%	0.55%	
67	of which: systemic risk buffer requirement	0.00%	0.15%	
EU-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement	0.00%	0.50%	
EU-67b	of which: additional own funds requirements to address the risks other than the risk of excessive leverage	1.27%	1.27%	

		Amounts as at 31 December 2023		Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
		OTP Luxembourg Group	Nova KBM Group	Reference to row in EU CCR2
68	**Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements**	**9.56%**	**10.11%**	
Amounts below the thresholds for deduction (before risk weighting)				
72	Direct and indirect holdings of own funds and eligible liabilities 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)	24,507	24,507	part. 3, part. 4, part. 6
73	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 (amount below 17.65% threshold and net of eligible short positions)	0	0	
74	Not applicable			
75	Deferred tax assets arising from temporary differences (amount below 17,65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	583	583	
Applicable caps on the inclusion of provisions in Tier 2				
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	-	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	-	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	-	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-	-	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)				
80	Current cap on CET1 instruments subject to phase out arrangements	-	-	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	-	
82	Current cap on AT1 instruments subject to phase out arrangements	-	-	

		Amounts as at 31 December 2023		Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
		OTP Luxembourg Group	Nova KBM Group	Reference to row in EU CCR2
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	-	
84	Current cap on T2 instruments subject to phase out arrangements	-	-	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	-	

4.5 DESCRIPTION OF ALL RESTRICTIONS APPLIED TO THE CALCULATION OF OWN FUNDS IN ACCORDANCE WITH THIS REGULATION AND THE INSTRUMENTS, PRUDENTIAL FILTERS AND DEDUCTIONS TO WHICH THOSE RESTRICTIONS APPLY

(Article 437(e) of the CRR)

This disclosure is included in point 4.4. of this document.

4.6 WHERE INSTITUTIONS DISCLOSE CAPITAL RATIOS CALCULATED USING ELEMENTS OF OWN FUNDS DETERMINED ON A BASIS OTHER THAN THAT LAID DOWN IN THIS REGULATION, A COMPREHENSIVE EXPLANATION OF THE BASIS ON WHICH THOSE CAPITAL RATIOS ARE CALCULATED

(Article 437(f) of the CRR)

This disclosure is not relevant for the Group.

4.7 DISCLOSURES IN CONNECTION WITH TRANSITIONAL ARRANGEMENTS FOR MITIGATING THE IMPACT OF THE INTRODUCTION OF IFRS 9 ON OWN FUNDS

(Article 437(f) of the CRR)

This disclosure is not relevant for the Group because it did not opt to apply transitional arrangements to mitigate the impact of the introduction of IFRS 9 on original own funds.

4.8 TRANSITIONAL PROVISIONS FOR DISCLOSURE OF OWN FUNDS

(Article 492 of the CRR)

This disclosure is not relevant for the Group because it has not applied the transitional provisions for the calculation of regulatory own funds or any other risk-weighted asset amount since 1 January 2018. The transitional provisions are only taken into account in the calculation of capital buffers, which are in line with the provisions of the CRD.

5 OWN FUNDS REQUIREMENTS AND RISK-WEIGHTED EXPOSURE AMOUNTS

This section defines the disclosure requirements set out in Article 438 of Part Eight of the CRR, and in the templates prescribed in Articles 1(2), 1(3), 1(4), 11(d), 12, 13(g) and 15(2d) of Commission Implementing Regulation (EU) 2021/637.

5.1 SUMMARY OF THE INSTITUTION'S APPROACH TO ASSESSING THE ADEQUACY OF ITS INTERNAL CAPITAL TO SUPPORT CURRENT AND FUTURE ACTIVITIES

(Article 438(a) of the CRR)

The Group's risk appetite framework, including the risk appetite statement, is in place at the levels of the Nova KBM Group and the OTP Luxembourg Group. In that document, the Bank defined the risk appetite at the Group level taking into account the given risk-bearing capacity. The strategy is supplemented by the Operational Limits Handbook of the Nova KBM Group.

The Group has in place the Policy on the Management of Own Funds and Own Funds Requirements for the purpose of managing and calculating Pillar 1 own funds requirements; in the scope of Pillar 2, the Group has in place the Policy on the Implementation of the Internal Capital Adequacy Assessment Process, which illustrates mutual links within the ICAAP. Implementing documents for both policies comprise methodologies that define the approach for identifying and measuring risks, for calculating Pillar 1 and Pillar 2 own funds requirements, and regulatory and internal own funds, and for performing stress tests. All of the aforementioned internal documents also apply at the level of the OTP Luxembourg Group.

The Group identifies risks based on the internal Methodology for developing the risk profile.

In the first step, the Group identifies all financial and non-financial risks to which it is exposed in its operations through the risk profiling process. In doing so, it makes use of valid legislation, best practices and internal assessments. The Group includes the selection of risks in the Risk Appetite Strategy and risk profile report.

Table 6: Selected risks for 2023

Credit risks	Market risks	Operational risks	Liquidity risks	Other risks
Credit risk (risk of default)	Credit spread risk	Compliance risk	Funding risk	Business/strategic risk
Credit concentration risk	Credit valuation adjustment risk	Risk in connection with employee conduct	Market liquidity risk	Equity risk
Counterparty risk	Foreign exchange risk	Cybercrime risk	Intraday liquidity risk	Interest rate risk in the banking book
Country risk	Position risk	Data quality risk	Asset encumbrance risk	Profitability risk
Risk associated with foreign currency loans		Risk of fraud (internal and external)		
Credit rating migration risk		HR management risk		
Residual risk		Operational risk		

Credit risks	Market risks	Operational risks	Liquidity risks	Other risks
Risk in connection with special credit facilities (project financing risk)		Outsourcing risk		
Risk associated with variable rate loans		Project risk		
Risk in connection with real estate		Reputation risk		
Sovereign risk		System/IT risk		
		Model risk		

The assessment of ESG risks and factors is carried out through the assessment of questionnaires, i.e. through the assessment of threats and controls within the risk profile assessment. The selection of ESG risks and factors is an integral part of the Risk Appetite Strategy and the risk profile report. The inclusion of ESG risks and factors in other types of risks is presented in the table below, while a detailed description of the management of ESG risks can be found in Chapter 24.

Table 7: ESG risks and ESG risk driver inventory

Risk type	Environmental (E)	Social (S)	Governance (G)
Credit risks			
Credit default risk	Yes	Yes	Yes
Credit concentration risk	Yes	Yes	Yes
FX lending risk			
Residual risk	Yes		
Country risk	Yes	Yes	Yes
Migration risk	Yes	Yes	Yes
Counterparty credit risk			
Project financing risk (Specialized lending risk)	Yes	Yes	Yes
Variable lending risk			
Transfer risk			
Real estate risk	Yes		
Sovereign risk	Yes	Yes	Yes
Market risks			
Position risk	Yes	Yes	Yes
Credit spread risk	Yes	Yes	Yes
Foreign exchange risk			
Credit value adjustment			
Operational risks			
Conduct risk		Yes	Yes
Compliance risk			
Fraud risk			
Operational risk	Yes	Yes	Yes
Reputation risk	Yes		Yes
Model risk			
Systems-ICT risk	Yes		Yes
Project risk		Yes	Yes
Cyber-crime risk			Yes
Human resources risk	Yes	Yes	Yes

Risk type	Environmental (E)	Social (S)	Governance (G)
Outsourcing risk	Yes		Yes
Data quality risk (DQ)	Yes		Yes
Interest rate risk in the banking book (IRRBB)	Yes		
Liquidity risks			
Funding liquidity risk	Yes		Yes
Market liquidity risk	Yes	Yes	Yes
Intraday liquidity risk	Yes		
Assets encumbrance risk			
Business/strategic risks			
Business/strategic risk	Yes		Yes
Profitability risk	Yes		Yes
Participation risk			
Other risk categories			
Pension scheme (plan) risk			
Capital risk	Yes		Yes

After risks have been identified, the Bank draws up a questionnaire with threats and the associated controls for every risk. Questionnaires include actual events at the geopolitical level and in the business environment (macro and micro level), and in the areas of risk management and legislative changes. They are assessed by management-level employees and the owners of specific types of risk. The Group's risk profile is developed based on the results of questionnaires, while risks are also addressed in the scope of the ICAAP and ILAAP.

Materiality of risks in the scope of the ICAAP
Significant risks are identified based on an assessment of the Group's risk profile, and are then assessed in terms of materiality. Various quantitative criteria or the professional judgement of an individual are used to that end. Risks for which internal capital is allocated and internal capital requirements are calculated are defined in the next step.

Materiality of risk factors in the scope of the ICAAP
The Group identifies and assesses the materiality of risk factors in the scope of the ICAAP, as described in the ICAAP methodology covering the performance of stress tests within the Nova KBM Group. The Group updates the identification and assessment process annually. The Group has identified risk factors that affect risk management within the Group, primarily through internally developed models, and assesses their impact and materiality with the help of sensitivity analyses.

The assessment of the materiality of climate-related and environmental risk factors is described in more detail in Chapter 24.

Assessment of internal capital requirements
The assessment of internal capital requirements represents the Group's own view of the level of capital required to cover unexpected losses arising from risks to which it is materially exposed in its operations, both at the level of the Nova KBM Group and the OTP Luxembourg Group. The Group calculates the amount of internal capital required to cover risks for which it allocates internal capital and calculates Pillar 2 capital requirements based on internal models using the going concern approach and a confidence interval of 99.9%.
The Group takes into account regulatory requirements and its own internal assessments when setting minimum capital ratios.

The current amounts of regulatory own funds and internal capital of the Nova KBM Group and the OTP Luxembourg Group are monitored at meetings of the ALCO, Risk Committee and Supervisory Board.

The Group discloses information about regulatory own funds in section 4 and about risk exposure under Pillar 2 in section 2.1.6.

5.2 AMOUNT OF ADDITIONAL OWN FUNDS REQUIREMENTS BASED ON THE SUPERVISORY REVIEW PROCESS AS REFERRED TO IN POINT (A) OF ARTICLE 104(1) OF DIRECTIVE 2013/36/EU AND KEY METRICS

(Articles 438(b) and 447 of the CRR)

The Group must fulfil the minimum Pillar 1 own funds requirements set out in the CRR and that relate to:

- the Common Equity Tier 1 capital ratio and must be at least 4.5%;
- the Tier 1 capital ratio and must be at least 6.0%; and
- the total capital ratio and must be at least 8.0%.

In the context of the above-mentioned, the Group must also meet the Pillar 2 own funds requirements set out in the CRD and defined by the joint supervisory team:

- Pillar 2 requirement (P2R);
- Pillar 2 guidance (P2G); and
- the combined buffer requirement (CBR).

Total minimum and supervisory capital requirements comprise the total SREP capital requirement (TSCR), while the total minimum and supervisory capital requirements and the combined buffer requirement comprise the overall capital requirement (OCR) that must be met by the Group. Amongst the ECB's measures relating to COVID-19, the Group must meet the following since 12 March 2020: the P2R of at least 56.25% via the Common Equity Tier 1 ratio (CET1 ratio) and of at least 75% via the Tier 1 ratio (T1 ratio). The Group must also meet the combined buffer requirement via the CET1 ratio. In that context, the Group must also comply with P2G, likewise via the CET1 ratio.

Table 8: Minimum capital requirements as at 31 December 2023

Indicator	OTP Luxembourg Group	Nova KBM Group
Total SREP capital requirement (TSCR)	10.25%	10.25%
Overall capital requirement (OCR)	13.30%	13.95%
Overall capital requirement (OCR) and Pillar 2 Guidance (P2G)	14.80%	15.45%

* The difference between groups is 0.75% and derives from the capital buffer for other systemically important institutions and the sectoral systemic risk buffer, which are only binding at the level of the Nova KBM Group.

The groups fulfil all requirements set out in the law and by supervisory authorities: as at 31 December 2023, Common Equity Tier 1 capital (CET1 capital) exceeded the required minimum TSCR, which must comprise CET1 capital, by €484 million at the OTP Luxembourg Group level and by €511 million at the Nova KBM Group level.

Table 9: Regulatory buffer requirements

SREP requirement	2023	2024**
Pillar 2 capital requirements (P2R)	2.25%	2.00%
Pillar 2 Guidance (P2G)	1.50%	1.50%
Institution specific countercyclical capital buffer (CCyB)	0.55%	0.62%
Other Systemically Important Institution buffer (OSIB)*	0.50%	0.50%
Sectoral systemic risk buffer (SSyRB)*	0.15%	0.12%

*The capital buffer for OSIIs (other systemically important institutions) and the SSyRB (sectoral systemic risk buffer) are only binding at the level of the Nova KBM Group.
** Data for 2024 do not take into account the merger with SKB banka.

The total capital ratio (TC ratio) of the OTP Luxembourg Group was 19.81% as of 31 December 2023, while the Common Equity Tier 1 capital ratio (CET1 ratio) stood at 18.46%, as evident from Template 8. The TC ratio and CET1 ratio were 277 and 284 basis points higher, respectively, relative to the situation as of 31 December 2022 due to a decrease in the total risk exposure amount of €407 million (the main reason for that reduction was the sale of the subsidiary Summit Leasing Slovenija and its Croatian subsidiary Mobil Leasing, and the resulting exclusion of their portfolios) and an increase in regulatory own funds by €71 million (primarily due to the inclusion of a portion of net profit from the 2023 financial year).

Template 8: EU KM1 – Key metrics template for the OTP Luxembourg Group

€000

		a	c	e
		31 December 2023	30 June 2023	31 December 2022
Available own funds (amounts)				
1	Common Equity Tier 1 capital	933,701	862,508	853,831
2	Tier 1 capital	933,701	862,508	853,831
3	Total capital	1,002,285	931,389	931,545
Risk-weighted exposure amounts				
4	Total risk exposure amount	5,059,052	4,826,458	5,466,054
Capital ratios (as a percentage of risk-weighted exposure amount)				
5	Common Equity Tier 1 ratio (%)	18.46%	17.87%	15.62%
6	Tier 1 ratio (%)	18.46%	17.87%	15.62%
7	Total capital ratio (%)	19.81%	19.30%	17.04%
Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)				
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	2.25%	2.25%	2.30%
EU 7b	of which: to be made up of CET1 capital (percentage points)	1.27%	1.27%	1.29%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	1.69%	1.69%	1.73%
EU 7d	Total SREP own funds requirements (%)	10.25%	10.25%	10.30%
Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)				
8	Capital conservation buffer (%)	2.50%	2.50%	2.50%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0.00%	0.00%	0.00%
9	Institution specific countercyclical capital buffer (%)	0.55%	0.16%	0.05%
EU 9a	Systemic risk buffer (%)	0.00%	0.00%	0.00%

		a	c	e
		31 December 2023	30 June 2023	31 December 2022
10	Global Systemically Important Institution buffer (%)	0.00%	0.00%	0.00%
EU 10a	Other Systemically Important Institution buffer* (%)	0.00%	0.00%	0.00%
11	Combined buffer requirement (%)	3.05%	2.66%	2.55%
EU 11a	Overall capital requirements (%)	13.30%	12.91%	12.85%
12	CET1 available after meeting the total SREP own funds requirements	9.56%	9.05%	6.74%
Leverage ratio				
13	Total exposure measure	11,276,909	11,046,836	10,835,484
14	Leverage ratio (%)	8.28%	7.81%	7.88%
Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)				
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	0.00%	0.00%	0.00%
EU 14b	of which: to be made up of CET1 capital (percentage points)	0.00%	0.00%	0.00%
EU 14c	Total SREP leverage ratio requirements (%)	3.00%	3.00%	3.00%
Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)				
EU 14d	Leverage ratio buffer requirement (%)	0.00%	0.00%	0.00%
EU 14e	Overall leverage ratio requirement (%)	3.00%	3.00%	3.00%
Liquidity coverage ratio				
15	Total high-quality liquid assets (HQLA) (weighted value-average)	4,477,887	3,894,524	3,575,244
EU 16a	Cash outflows – total weighted value	1,264,158	1,303,902	1,356,412
EU 16b	Cash inflows – total weighted value	264,689	264,504	305,601
16	Total net cash outflows (adjusted value)	999,469	1,039,398	1,050,811
17	Liquidity coverage ratio (%)	453.63%	377.25%	341.26%
Net stable funding ratio				
18	Total available stable funding	9,013,495	9,223,694	8,834,847
19	Total required stable funding	4,706,214	4,425,931	4,994,544
20	NSFR (%)	191.52%	208.40%	176.89%

The capital buffer for OSIB and SSyRB are only binding at the level of the Nova KBM Group.

5.3 UPON DEMAND FROM THE RELEVANT COMPETENT AUTHORITY, THE RESULT OF THE INSTITUTION'S INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

(Article 438(c) of the CRR)

The Group is not obliged to disclose the results of the Internal Capital Adequacy Assessment Process.

5.4 TOTAL RISK-WEIGHTED EXPOSURE AMOUNT AND THE CORRESPONDING TOTAL OWN FUNDS REQUIREMENT DETERMINED IN ACCORDANCE WITH ARTICLE 92, AND AN EXPLANATION OF THE EFFECT ON THE CALCULATION OF OWN FUNDS AND RISK-WEIGHTED EXPOSURE AMOUNTS THAT RESULTS FROM APPLYING CAPITAL FLOORS AND NOT DEDUCTING ITEMS FROM OWN FUNDS

(Article 438(d) of the CRR)

The Group uses the Standardised Approach to calculate own funds requirements for credit and market risks, while the Basic Indicator Approach is used to calculate own funds for operational risk.

The OTP Luxembourg Group's total risk exposure amount as of 31 December 2023 was down by €407 million relative to 31 December 2022, as a result of:

- decreases in the risk-weighted exposure amount for credit risk (excluding counterparty risk) in the amount of €535 million as detailed below;
- increase in the risk-weighted exposure amount for counterparty credit risk (€10 million) due to new transactions and increased volatility in the interest rate curve on the market
- an increase in the risk-weighted exposure amount for operational risk (€118 million), which was primarily affected by changes in income statement items over the last three years, and the application of the clarification of the EBA Q&A (2018_3969)

Decrease of credit risk-weighted exposure amount on the reporting date of 31 December 2023 relative to 31 December 2022 derive primarily from:

- the sale of the subsidiary Summit Leasing Slovenija and its Croatian subsidiary Mobil leasing, and the resulting exclusion of the portfolios of those companies;
- additional activities to improve the eligibility of collateral; and
- the dynamics of changes in the overall portfolio.

Changes in the total risk exposure of the OTP Luxembourg Group are also reflected in changes in the total risk exposure of the Nova KBM Group.

Template EU OV1 below discloses the structure of the total risk exposure of the OTP Luxembourg Group and the Nova KBM Group as at 31 December 2023 and 31 December 2022.

Template 9: EU OV1 – Overview of total risk exposure amounts of the OTP Luxembourg Group

€000

		Total risk exposure amount (TREA)		Total own funds requirements
		a	b	c
		31 December 2023	31 December 2022	31 December 2023
1	Credit risk (excluding CCR)	4,411,362	4,945,982	352,909
2	of which the Standardised Approach	4,411,362	4,945,982	352,909
3	of which the foundation IRB (F-IRB) approach	0	0	0
4	of which: slotting approach	0	0	0
EU 4a	of which: equities under the simple risk-weighted approach	0	0	0
5	of which the advanced IRB (A-IRB) approach	0	0	0
6	Counterparty credit risk – CCR	45,629	35,823	3,650
7	of which the Standardised Approach	0	0	0
8	of which internal model method (IMM)	0	0	0
EU 8a	of which exposures to a CCP	35,785	14,912	2,863
EU 8b	of which credit valuation adjustment – CVA	7,414	14,310	593
9	of which other CCR	2,430	6,601	194
10	Not applicable	0	0	0
11	Not applicable	0	0	0
12	Not applicable	0	0	0
13	Not applicable	0	0	0
14	Not applicable	0	0	0
15	Settlement risk	0	0	0
16	Securitisation exposures in the non-trading book (after the cap)	0	0	0
17	of which SEC-IRBA approach	0	0	0
18	of which SEC-ERBA (including IAA)	0	0	0
19	of which SEC-SA approach	0	0	0
EU 19a	of which 1250% weight/deduction	0	0	0
20	Position, foreign exchange and commodities risks (market risk)	79	120	6
21	of which the Standardised Approach	79	120	6
22	of which IMA	0	0	0
EU 22a	Large exposures	0	0	0
23	Operational risk	601,982	484,129	48,159
EU 23a	of which Basic Indicator Approach	601,982	484,129	48,159
EU 23b	of which standardised approach	0	0	0
EU 23c	of which advanced measurement approach	1,457	166	117
24	Amounts below the thresholds for deduction (250% risk weighting)	0	0	0
25	Not applicable	0	0	0
26	Not applicable	0	0	0
27	Not applicable	0	0	0
28	Not applicable	0	0	0
29	**Total**	**5,059,052**	**5,466,054**	**404,724**

Template 10: EU OV1 – Overview of total risk exposure amounts of the Nova KBM Group

€000

		Total risk exposure amount (TREA)		Total own funds requirements
		a	b	c
		31 December 2023	31 December 2022	31 December 2023
1	Credit risk (excluding CCR)	4,404,858	4,934,983	352,389
2	of which the Standardised Approach	4,404,858	4,934,983	352,389
3	of which the foundation IRB (F-IRB) approach	0	0	0
4	of which: slotting approach	0	0	0
EU 4a	of which: equities under the simple risk-weighted approach	0	0	0
5	of which the advanced IRB (A-IRB) approach	0	0	0
6	Counterparty credit risk – CCR	45.629	35,823	3,650
7	of which the Standardised Approach	0	0	0
8	of which internal model method (IMM)	0	0	0
EU 8a	of which exposures to a CCP	35,785	14,912	2,863
EU 8b	of which credit valuation adjustment – CVA	7,414	14,310	593
9	of which other CCR	2,430	6,601	194
10	Not applicable	0	0	0
11	Not applicable	0	0	0
12	Not applicable	0	0	0
13	Not applicable	0	0	0
14	Not applicable	0	0	0
15	Settlement risk	0	0	0
16	Securitisation exposures in the non-trading book (after the cap)	0	0	0
17	of which SEC-IRBA approach	0	0	0
18	of which SEC-ERBA (including IAA)	0	0	0
19	of which SEC-SA approach	0	0	0
EU 19a	of which 1250% weight/deduction	0	0	0
20	Position, foreign exchange and commodities risks (market risk)	79	120	6
21	of which the Standardised Approach	79	120	6
22	of which IMA	0	0	0
EU 22a	Large exposures	0	0	0

		Total risk exposure amount (TREA)		Total own funds requirements
		a	b	c
		31 December 2023	31 December 2022	31 December 2023
23	Operational risk	602,727	485,080	48,218
EU 23a	of which Basic Indicator Approach	602,727	485,080	48,218
EU 23b	of which standardised approach	0	0	0
EU 23c	of which advanced measurement approach	0	0	0
24	Amounts below the thresholds for deduction (250% risk weighting)	1,457	166	117
25	Not applicable	0	0	0
26	Not applicable	0	0	0
27	Not applicable	0	0	0
28	Not applicable	0	0	0
29	**Total**	**5,053,294**	**5,456,006**	**404,264**

5.5 THE ON- AND OFF-BALANCE-SHEET EXPOSURES, THE RISK-WEIGHTED EXPOSURE AMOUNTS AND ASSOCIATED EXPECTED LOSSES FOR EACH CATEGORY OF SPECIALISED LENDING REFERRED TO IN TABLE 1 OF ARTICLE 153(5) AND THE ON- AND OFF-BALANCE- SHEET EXPOSURES AND RISK-WEIGHTED EXPOSURE AMOUNTS FOR THE CATEGORIES OF EQUITY EXPOSURES SET OUT IN ARTICLE 155(2)

(Article 438 (e) of the CRR)

This disclosure is not relevant for the Group because it does not use the IRB Approach to calculate own funds requirements for credit risk.

5.6 EXPOSURE VALUE AND THE RISK-WEIGHTED EXPOSURE AMOUNT OF OWN FUNDS INSTRUMENTS HELD IN ANY INSURANCE UNDERTAKING, REINSURANCE UNDERTAKING OR INSURANCE HOLDING COMPANY THAT THE INSTITUTIONS DO NOT DEDUCT FROM THEIR OWN FUNDS IN ACCORDANCE WITH ARTICLE 49 WHEN CALCULATING THEIR CAPITAL REQUIREMENTS ON AN INDIVIDUAL, SUB-CONSOLIDATED AND CONSOLIDATED BASIS

(Article 438(f) of the CRR)

The OTP Luxembourg Group and Nova KBM Group have the same capital investment portfolio, as the OTP Luxembourg Group does not hold authorisations or licences to perform any type of banking activity. The two groups did not hold a material capital investment in the own funds instruments of insurance undertakings, reinsurance undertakings or insurance holding companies that they did not deduct from their own funds as at 31 December 2023, but do hold an immaterial investment for which they calculate risk-weighted assets for credit risk using a risk weight of 100%.

Template EU INS1 below discloses the insurance participations of the OTP Luxembourg Group and Nova KBM Group as at 31 December 2023.

Template 11: EU INS1 – Insurance participations of the OTP Luxembourg Group and Nova KBM Group

€000

		a	b
		Exposure value	Risk exposure amount
1	Own fund instruments held in insurance or re-insurance undertakings or insurance holding company not deducted from own funds	103	103

5.7 SUPPLEMENTARY OWN FUNDS REQUIREMENT AND THE CAPITAL ADEQUACY RATIO OF THE FINANCIAL CONGLOMERATE CALCULATED IN ACCORDANCE WITH ARTICLE 6 OF DIRECTIVE 2002/87/EC AND ANNEX I TO THAT DIRECTIVE WHERE METHOD 1 OR 2 SET OUT IN THAT ANNEX IS APPLIED

(Article 438(g) of the CRR)

This disclosure is not relevant for the Group.

5.8 VARIATIONS IN THE RISK-WEIGHTED EXPOSURE AMOUNTS OF THE CURRENT DISCLOSURE PERIOD COMPARED TO THE IMMEDIATELY PRECEDING DISCLOSURE PERIOD THAT RESULT FROM THE USE OF INTERNAL MODELS, INCLUDING AN OUTLINE OF THE KEY DRIVERS EXPLAINING THOSE VARIATIONS

(Article 438(h) of the CRR)

This disclosure is not relevant for the Group because it does not use the IRB Approach to calculate own funds requirements for credit risk.

6 EXPOSURE TO COUNTERPARTY CREDIT RISK

This section defines the disclosure requirements set out in Article 439 of Part Eight of the CRR and Section 4.11 of the Guidelines.

6.1 DESCRIPTION OF THE METHODOLOGY USED TO ASSIGN INTERNAL CAPITAL AND CREDIT LIMITS FOR COUNTERPARTY CREDIT EXPOSURES, INCLUDING THE METHODS TO ASSIGN THOSE LIMITS TO EXPOSURES TO CENTRAL COUNTER-PARTIES

(Article 439(a) of the CRR)

The Bank manages counterparty credit risk using the appropriate processes (daily monitoring and valuation, and margin calls) and the limit system, while the own funds to cover those risks are allocated in the scope of the allocation of own funds for credit risk (default risk).

The calculation of the allocation of internal capital for derivatives, repo transactions and securities lending transactions is performed in accordance with an internal methodology that defines the method used to calculate the allocation of internal capital. The Bank's exposure to counterparty credit risk is rather immaterial due to the small scope of such business transactions. For this reason, the Bank allocated own funds in the amount of Pillar 1 own funds requirement for such exposures in the scope of the allocation of internal capital.

The Bank's portfolio does not include any repo transactions or securities lending transactions.

Under Pillar 1, own funds requirements for derivatives are calculated using the original exposure method in accordance with Article 282 of the CRR.

The Group has a limit system in place to monitor exposure to counterparty credit risk. Exposure to customers and the usage of limits are monitored daily. The limit system defines the maximum permitted exposure to an individual counterparty. That exposure depends on the customer's credit rating and other parameters that are subject to the customer's risk assessment, and the size and type of financial instrument.

6.2 DESCRIPTION OF POLICIES RELATED TO GUARANTEES AND OTHER CREDIT RISK MITIGANTS, SUCH AS THE POLICIES FOR SECURING COLLATERAL AND ESTABLISHING CREDIT RESERVES

(Article 439(b) of the CRR)

The parent bank of the Group has concluded an ISDA (International Swaps and Derivatives Association) master agreement with financial institutions for the purpose of concluding derivatives transactions outside the regulated market. For the purpose of mitigating credit risk, the Bank has signed a credit support annex (CSA) to the aforementioned ISDA Master Agreement with certain banks. That annex governs coverage in the event of unfavourable movements on the market, and thus mitigates credit risk.

The parent bank of the Group has entered into a framework agreement on derivatives transactions with non-financial counterparties. That agreement ensures the netting of claims and liabilities from derivatives transactions in the event of counterparty default.

The Bank only provides derivatives transactions without collateral to customers with the highest credit rating, while it includes the respective exposure to credit risk from such transactions in the calculation of the total exposure. The Bank only provides derivatives transactions to other customers with the approval of the competent body of the Bank or if the latter receives prime collateral.

6.3 DESCRIPTION OF POLICIES WITH RESPECT TO GENERAL WRONG-WAY RISK AND SPECIFIC WRONG-WAY RISK

(Article 439(c) of the CRR)

If exposure to a counterparty increases due to unfavourable market movements, the Bank asks the counterparty to provide additional prime collateral. The Bank has the option of closing the position if the counterparty does not provide that prime collateral. The Bank monitors counterparty credit risk daily on the basis of available market prices or prices calculated according to an internal model, the input data for which are prevailing market prices.

The Bank has defined the minimum acceptable credit quality of assets that it accepts as collateral for repo transactions.

6.4 AMOUNT OF COLLATERAL THE INSTITUTION WOULD HAVE TO PROVIDE IF ITS CREDIT RATING WAS DOWNGRADED

(Article 439(d) of the CRR)

Given the low stock of derivatives in the Group's portfolio, the downgrading of the Bank would not lead to an increase of the stock of collateral.

6.5 AMOUNT OF SEGREGATED AND UNSEGREGATED COLLATERAL RECEIVED AND POSTED PER TYPE OF COLLATERAL, FURTHER BROKEN DOWN BETWEEN COLLATERAL USED FOR DERIVATIVES AND SECURITIES FINANCING TRANSACTIONS

(Article 439(e) of the CRR)

The Bank exchanges collateral in accordance with concluded CSAs.

The Group does not use contractual netting. The gross positive value of contracts equals to the net credit exposure from derivatives.

Template EU CCR5 below presents the composition of assets received as collateral for the OTP Luxembourg Group's exposures as of 31 December 2023.

Template 12: EU CCR5 – Composition of collateral for CCR exposures of the OTP Luxembourg Group

€000

		a	b	c	d	e	f	g	h
		Collateral used in derivative transactions				Collateral used in SFTs			
	Collateral used in SFTs	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received		Fair value of posted collateral	
		Segrega-ted	Unsegrega-ted	Segrega-ted	Unsegrega-ted	Segrega-ted	Unsegrega-ted	Segrega-ted	Unsegrega-ted
1	Cash – domestic currency	0	22,292	0	4,080	0	0	0	0
2	Cash – other currencies	0	0	0	0	0	0	0	0
3	Domestic sovereign debt	0	0	0	0	0	0	0	0
4	Other sovereign debt	0	0	0	0	0	0	0	0
5	Government agency debt	0	0	0	0	0	0	0	0
6	Corporate bonds	0	0	0	0	0	0	0	0
7	Equity securities	0	0	0	0	0	0	0	0
8	Other collateral	0	0	0	0	0	0	0	0
9	**Total**	**0**	**22,292**	**0**	**4,080**	**0**	**0**	**0**	**0**

6.6 EXPOSURE VALUES BEFORE AND AFTER THE EFFECT OF THE CREDIT RISK MITIGATION, WHICHEVER METHOD IS APPLICABLE, AND THE ASSOCIATED RISK EXPOSURE AMOUNTS BROKEN DOWN BY APPLICABLE METHOD

(Article 439(f), (g) and (m) of the CRR)

The Group monitors exposure to counterparty credit risk for derivatives using the original exposure method in accordance with the provisions of Article 282 of the CRR (Section 5 of Chapter 6 of Part Three, Title II).

The template below discloses relevant data at the level of the OTP Luxembourg Group as at 31 December 2023.

Template 13: EU CCR1 – Analysis of CCR exposure by approach for the OTP Luxembourg Group

€000

		a	b	c	d	e	f	g	h
		Replacement cost (RC)	Potential future exposure (PFE)	EEPE	Alpha used for computing regulatory exposure value	Exposure value pre-CRM	Exposure value post-CRM	Exposure value	RWEA
EU-1	EU - Original Exposure Method (for derivatives)	21,027	11,881		1.4	46,071	46,071	46,071	38,216
EU–2	EU – Simplified SA-CCR (for derivatives)	-	-		1.4	-	-	-	-
1	SA-CCR (for derivatives)	-	-		1.4	-	-	-	-
2	IMM (for derivatives and SFTs)			-	-	-	-	-	-
2a	Of which securities financing transactions netting sets			-		-	-	-	-
2b	Of which derivatives and long settlement transactions netting sets			-		-	-	-	-
2c	Of which from contractual cross-product netting sets			-		-	-	-	-
3	Financial collateral simple method (for SFTs)					-	-	-	-
4	Financial collateral comprehensive method (for SFTs)					-	-	-	-
5	VaR for SFTs					-	-	-	-
6	**Total**					**46,071**	**46,071**	**46,071**	**38,216**

6.7 ESTIMATE OF ALPHA WHERE THE INSTITUTION HAS RECEIVED THE PERMISSION OF THE COMPETENT AUTHORITIES TO USE ITS OWN ESTIMATE OF ALPHA

(Article 439(k) of the CRR)

Because the Group does not use an internal model method to calculate exposure, this disclosure is not relevant.

6.8 EXPOSURE VALUES AFTER CREDIT RISK MITIGATION EFFECTS AND THE ASSOCIATED RISK EXPOSURES FOR CREDIT VALUATION ADJUSTMENT (CVA) CAPITAL CHARGE

(Article 439(h) of the CRR)

Credit valuation adjustment (CVA) means the adjustment of the portfolio of transactions with a counterparty to valuation according to the mean market value. The aforementioned adjustment reflects the current market value of counterparty credit risk for an institution, but does not reflect the current market value of the institution's credit risk for the counterparty. The template below discloses relevant data at the OTP Luxembourg Group level as at 31 December 2023.

Template 14: EU CCR2 – Transactions subject to own funds requirements for CVA risk for the OTP Luxembourg Group

€000

		Exposure value	Risk-weighted assets
1	Total transactions subject to the Advanced method	-	-
2	(i) VaR component (including the 3× multiplier)		-
3	(ii) stressed VaR component (including the 3× multiplier)		-
4	Transactions subject to the standardised method	9,645	7,414
EU-4	Transactions subject to the Alternative approach (based on the Original Exposure Method)	-	-
5	**Total transactions subject to own funds requirements for CVA risk**	**9,645**	**7,414**

6.9 EXPOSURE TO CENTRAL COUNTERPARTIES

(Article 439(i) of the CRR)

The Bank concludes certain transactions with the central counterparty LCH Limited. Since 1 January 2021 (i.e. following Brexit), LCH is treated as a third-country central counterparty and is approved by the ESMA. The Bank accesses the clearing house LCH via a clearing member and is subject to mandatory clearing. The Bank performs clearing with LCH for interest rate swaps. In addition to the initial margin and exposure calculated in accordance with Article 282 of CRR, the Bank also has a floating margin of € 16.942thousand at LCH Limited.

Template 15: EU CCR8 – Exposures to CCPs of the OTP Luxembourg Group

€000

		Exposure value	Risk-weighted assets
1	**Exposures to QCCPs (total)**		35,785
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	32,106	32,106
3	(i) OTC derivatives	32,106	32,106
4	(ii) Exchange-traded derivatives	0	0
5	(iii) SFTs	0	0
6	(iv) Netting sets where cross-product netting has been approved	0	0
7	Segregated initial margin	0	
8	Non-segregated initial margin	3,680	3,680
9	Prefunded default fund contributions	0	0
10	Unfunded default fund contributions	0	0
11	**Exposures to non-QCCPs (total)**		**0**
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	0	0
13	(i) OTC derivatives	0	0
14	(ii) Exchange-traded derivatives	0	0
15	(iii) SFTs	0	0
16	(iv) Netting sets where cross-product netting has been approved	0	0
17	Segregated initial margin	0	
18	Non-segregated initial margin	0	0
19	Prefunded default fund contributions	0	0
20	Unfunded default fund contributions	0	0

6.10 NOTIONAL AMOUNTS AND FAIR VALUE OF CREDIT DERIVATIVE TRANSACTIONS

(Article 439(j) of the CRR)

This disclosure is not relevant. The OTP Luxembourg Group’s portfolio does not include credit derivatives.

6.11 VARIATIONS IN THE RISK-WEIGHTED EXPOSURE AMOUNTS OF THE CURRENT DISCLOSURE PERIOD COMPARED TO THE IMMEDIATELY PRECEDING DISCLOSURE PERIOD THAT RESULT FROM THE USE OF INTERNAL MODELS, INCLUDING AN OUTLINE OF THE KEY DRIVERS EXPLAINING THOSE VARIATIONS

(Article 438(h) of the CRR)

Because the Group does not use an internal model method to calculate exposure, this disclosure is not relevant.

6.12 DISCLOSURES INCLUDED IN POINT (E) OF ARTICLE 444 AND POINT (G) OF ARTICLE 452

(Article 439(l) of the CRR)

The disclosures are presented in Sections 11.5 and 19.

7 COUNTERCYCLICAL CAPITAL BUFFERS

(Article 440 of the CRR)

This section defines the disclosure requirements set out in Article 440 of Part Eight of the CRR, in Chapter 4 of Title VII of the CRD and in the templates prescribed in Article 5 of Commission Implementing Regulation (EU) 2021/637.

In 2016, the Bank of Slovenia also adopted for use countercyclical capital buffer, which is currently set at 0%. The aim of the buffer is to protect the banking sector against losses that could arise as the result of cyclical economic risks. The value of the buffer may range from 0% to 2.5% of the total risk exposure amount, and depends on the level of risk in the system. Institutions must meet the internal countercyclical capital buffer requirement via the CET1 – Common Equity Tier 1 capital ratio (CET1 ratio).

In its press release dated 7 December 2022, the Bank of Slovenia stated that it was raising the countercyclical buffer for exposures to the Republic of Slovenia from 0% to 0.5% of the total risk exposure amount due to increasing uncertainties in the economic environment. Since 31 December 2023, inclusive, the Group must provide additional capital for exposures to the domestic economy.

7.1 GEOGRAPHICAL DISTRIBUTION OF THE EXPOSURE AMOUNTS AND RISK-WEIGHTED EXPOSURE AMOUNTS OF ITS CREDIT EXPOSURES USED AS A BASIS FOR THE CALCULATION OF THEIR COUNTERCYCLICAL CAPITAL BUFFER

(Article 440(a) of the CRR)

Template EU CCyB1 discloses credit exposures according to the Standardised Approach, calculated in accordance with Article 111 of the CRR, for the relevant credit exposures for credit risk set out in Article 140(4)(a) of the CRD and the relevant credit exposures set out in Article 140(4)(b) of the CRD. Exposures based on a direct obligor are taken into account for the determination of geographical location in accordance with Commission Delegated Regulation (EU) No 1152/2014.

The institution-specific countercyclical capital buffer rate comprises the weighted average of countercyclical buffer rates that apply in countries in which the related credit exposures of the institution are located.

Template 16: EU CCyB1 – Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer of the OTP Luxembourg Group

€000

31 December 2023	a	c	f	g	h	j	k	l	m
	General and relevant credit exposures under the Standardised Approach			Own fund requirements (relevant credit exposures)			Risk-weighted exposure amounts	Own funds requirements weights (%)	Countercyclical buffer rate (%)
Breakdown by country:	credit risk	market risk	Total	credit risk	market risk	Total			
Slovenia	4,380,659	79	4,380,738	237,927	6	237,933	2,974,161	73.08%	0.50%
Netherlands	252,644	0	252,644	15,849	0	15,849	198,107	4.87%	1.00%
Hungary	212,633	0	212,633	4,216	0	4,216	52,696	1.29%	0.00%
Germany	154,710	0	154,710	11,427	0	11,427	142,832	3.51%	0.75%
United States of America	136,158	0	136,158	10,551	0	10,551	131,892	3.24%	0.00%
France	124,535	0	124,535	8,231	0	8,231	102,887	2.53%	0.50%
United Kingdom	98,485	0	98,485	7,636	0	7,636	95,456	2.35%	2.00%
Luxembourg	90,777	0	90,777	7,047	0	7,047	88,089	2.16%	0.50%
Croatia	56,204	0	56,204	4,400	0	4,400	55,000	1.35%	1.00%
Austria	55,337	0	55,337	4,012	0	4,012	50,155	1.23%	0.00%
Spain	49,067	0	49,067	3,924	0	3,924	49,051	1.21%	0.00%
Norway	41,049	0	41,049	1,607	0	1,607	20,084	0.49%	2.50%
Italy	39,886	0	39,886	3,357	0	3,357	41,957	1.03%	0.00%
Gibraltar	23,849	0	23,849	1,908	0	1,908	23,849	0.59%	0.00%
Sweden	19,077	0	19,077	1,267	0	1,267	15,838	0.39%	2.00%
Belgium	10,271	0	10,271	344	0	344	4,305	0.11%	0.00%
Czech Republic	5,819	0	5,819	462	0	462	5,769	0.14%	2.00%
Ireland	4,958	0	4,958	397	0	397	4,957	0.12%	1.00%
Denmark	4,034	0	4,034	323	0	323	4,034	0.10%	2.50%
Finland	2,745	0	2,745	22	0	22	275	0.01%	0.00%
Switzerland	2,695	0	2,695	103	0	103	1,285	0.03%	0.00%
Bosnia and Herzegovina	1,471	0	1,471	91	0	91	1,137	0.03%	0.00%
Serbia	1,331	0	1,331	77	0	77	965	0.02%	0.00%
Japan	833	0	833	67	0	67	833	0.02%	0.00%
Poland	720	0	720	53	0	53	656	0.02%	0.00%
Kosovo	613	0	613	39	0	39	487	0.01%	0.00%
Slovakia	596	0	596	32	0	32	399	0.01%	1.50%
Brazil	545	0	545	32	0	32	405	0.01%	0.00%
Romania	533	0	533	43	0	43	533	0.01%	1.00%
China	424	0	424	25	0	25	318	0.01%	0.00%
Turkey	411	0	411	14	0	14	181	0.00%	0.00%
India	351	0	351	27	0	27	342	0.01%	0.00%
South Korea	324	0	324	26	0	26	324	0.01%	0.00%
Macedonia	257	0	257	15	0	15	182	0.00%	0.00%
Australia	158	0	158	12	0	12	156	0.00%	1.00%
Ukraine	114	0	114	4	0	4	46	0.00%	0.00%

31 December 2023	a	c	f	g	h	j	k	l	m
	General and relevant credit exposures under the Standardised Approach			Own fund requirements (relevant credit exposures)			Risk-weighted exposure amounts	Own funds requirements weights (%)	Countercyclical buffer rate (%)
Breakdown by country:	credit risk	market risk	Total	credit risk	market risk	Total			
Bulgaria	25	0	25	2	0	2	21	0.00%	2.00%
Montenegro	17	0	17	1	0	1	13	0.00%	0.00%
Nepal	14	0	14	1	0	1	10	0.00%	0.00%
Russian Federation	11	0	11	1	0	1	8	0.00%	0.00%
Other	46	0	46	3	0	3	35	0.00%	0.00%
Total	**5,774,382**	**79**	**5,774,461**	**325,572**	**6**	**325,579**	**4,069,731**	**100.00%**	

Template 17: EU CCyB1 – Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer of the Nova KBM Group

€000

31 December 2023	a	c	f	g	h	j	k	l	m
	General and relevant credit exposures under the standardised approach			Own fund requirements (relevant credit exposures)			Risk-weighted exposure amounts	Own funds requirements weights (%)	Countercyclical buffer rate (%)
Breakdown by country:	credit risk	market risk	Total	credit risk	market risk	Total			
Slovenia	4,385,915	79	4,385,994	238,347	6	238,353	2,979,415	73.13%	0.50%
Netherlands	252,644	0	252,644	15,849	0	15,849	198,107	4.86%	1.00%
Hungary	212,633	0	212,633	4,216	0	4,216	52,696	1.29%	0.00%
Germany	154,710	0	154,710	11,427	0	11,427	142,832	3.51%	0.75%
United States of America	136,158	0	136,158	10,551	0	10,551	131,892	3.24%	0.00%
France	124,535	0	124,535	8,231	0	8,231	102,887	2.53%	0.50%
United Kingdom	98,485	0	98,485	7,636	0	7,636	95,456	2.34%	2.00%
Luxembourg	90,197	0	90,197	7,001	0	7,001	87,510	2.15%	0.50%
Croatia	56,204	0	56,204	4,400	0	4,400	55,000	1.35%	1.00%
Austria	55,337	0	55,337	4,012	0	4,012	50,155	1.23%	0.00%
Spain	49,067	0	49,067	3,924	0	3,924	49,051	1.20%	0.00%
Norway	41,049	0	41,049	1,607	0	1,607	20,084	0.49%	2.50%
Italy	39,886	0	39,886	3,357	0	3,357	41,957	1.03%	0.00%
Gibraltar	23,849	0	23,849	1,908	0	1,908	23,849	0.59%	0.00%
Sweden	19,077	0	19,077	1,267	0	1,267	15,838	0.39%	2.00%
Belgium	10,271	0	10,271	344	0	344	4,305	0.11%	0.00%

	a	c	f	g	h	j	k	l	m
31 December 2023	General and relevant credit exposures under the standardised approach			Own fund requirements (relevant credit exposures)			Risk-weighted exposure amounts	Own funds requirements weights (%)	Countercyclical buffer rate (%)
Breakdown by country:	credit risk	market risk	Total	credit risk	market risk	Total			
Czech Republic	5,819	0	5,819	462	0	462	5,769	0.14%	2.00%
Ireland	4,958	0	4,958	397	0	397	4,957	0.12%	1.00%
Denmark	4,034	0	4,034	323	0	323	4,034	0.10%	2.50%
Finland	2,745	0	2,745	22	0	22	275	0.01%	0.00%
Switzerland	2,695	0	2,695	103	0	103	1,285	0.03%	0.00%
Bosnia and Herzegovina	1,471	0	1,471	91	0	91	1,137	0.03%	0.00%
Serbia	1,331	0	1,331	77	0	77	965	0.02%	0.00%
Japan	833	0	833	67	0	67	833	0.02%	0.00%
Poland	720	0	720	53	0	53	656	0.02%	0.00%
Kosovo	613	0	613	39	0	39	487	0.01%	0.00%
Slovakia	596	0	596	32	0	32	399	0.01%	1.50%
Brazil	545	0	545	32	0	32	405	0.01%	0.00%
Romania	533	0	533	43	0	43	533	0.01%	1.00%
China	424	0	424	25	0	25	318	0.01%	0.00%
Turkey	411	0	411	14	0	14	181	0.00%	0.00%
India	351	0	351	27	0	27	342	0.01%	0.00%
South Korea	324	0	324	26	0	26	324	0.01%	0.00%
Macedonia	257	0	257	15	0	15	182	0.00%	0.00%
Australia	158	0	158	12	0	12	156	0.00%	1.00%
Ukraine	114	0	114	4	0	4	46	0.00%	0.00%
Bulgaria	25	0	25	2	0	2	21	0.00%	2.00%
Montenegro	17	0	17	1	0	1	13	0.00%	0.00%
Nepal	14	0	14	1	0	1	10	0.00%	0.00%
Russian Federation	11	0	11	1	0	1	8	0.00%	0.00%
Other	46	0	46	3	0	3	35	0.00%	0.00%
Total	**5,779,058**	**79**	**5,779,137**	**325,946**	**6**	**325,953**	**4,074,406**	**100.00%**	

7.2 AMOUNT OF INSTITUTION SPECIFIC COUNTERCYCLICAL CAPITAL BUFFER

(Article 440(b) of the CRR)

Template EU CCyB2 illustrates the calculation of the amount of the institution specific countercyclical capital buffer of the Group as at 31 December 2023.

Template 18: EU CCyB2 - Amount of institution specific countercyclical capital buffer of the OTP Luxembourg Group and Nova KBM Group

€000

	a	a
	31 December 2023	
	OTP Luxembourg Group	Nova KBM Group
Total risk exposure amount	5,059,052	5,053,294
Institution specific countercyclical capital buffer rate	0.55%	0.55%
Institution specific countercyclical capital buffer requirement	27,825	27,793

8 INDICATORS OF GLOBAL SYSTEMIC IMPORTANCE

(Article 441 of the CRR)

This disclosure is not relevant. Nova KBM d.d. is not deemed a global systemically important bank.

9 EXPOSURE TO CREDIT RISK AND DILUTION RISK

9.1 GENERAL QUALITATIVE INFORMATION REGARDING CREDIT RISK

9.1.1 DEFINITION OF 'PAST DUE' AND 'IMPAIRED' FOR ACCOUNTING PURPOSES

(Article 442(a) of the CRR)

The Group treats as past due all on- and off-balance-sheet assets where the counterparty has failed to settle its contractual obligations in a timely manner and in the contractually agreed amount.

Impaired items for accounting purposes are all on- and off-balance-sheet exposures to defaulters and non-defaulters for which the Group has created impairments or provisions.

The Group calculates impairments in accordance with IFRS 9, which requires accounting for expected credit losses (ECLs) from the initial recognition of financial instruments and the earlier recognition of expected losses for the entire lifetime of those instruments.

ECLs represent the probability-weighted assessment of credit losses over a specific period (12 months or the expected duration) of a financial instrument. Given that ECLs take into account the amount and timing of payments, credit losses also arise if the Bank expects to receive full payment but that payment is received later than set out in the associated contract. Financial instruments measured at amortised costs (AC) and those measured at fair value through other comprehensive income (FVOCI) are subject to the assessment of ECLs. Financial instruments measured at fair value through profit or loss (FVTPL) are not subject to impairment via the calculation of ECLs; rather fair value is assessed for them in accordance with the Methodology for Determining the Fair Value of Loans.

When calculating ECLs via the risk parameters PD, LGD, EAD and CCF, the Group takes the relevant macroeconomic variables into account, where possible.

9.1.2 DESCRIPTION OF THE APPROACHES AND METHODS ADOPTED FOR DETERMINING SPECIFIC AND GENERAL CREDIT RISK ADJUSTMENTS

(Article 442(b) of the CRR)

General credit risk adjustments are not recognised under the IFRS. For this reason, the Group does not calculate or disclose such adjustments. The Group calculates and discloses specific credit risk adjustments, which are defined as adjustments to carrying value due to credit risk and relate to both on- and off-balance-sheet exposures.

The Group classifies financial instruments to the following categories:

- at amortised cost (AC) – when the objective of holding a financial asset is to receive contractual cash flows, and cash flows received are exclusively payments of principal and interest on the outstanding amount of principal;
- at fair value through other comprehensive income (FVOCI) – when the objective of holding a financial asset is to receive contractual cash flows and to sell financial assets, and cash flows received are exclusively payments of principal and interest on the outstanding amount of principal;
- at fair value through profit or loss; and
- purchased or originated credit-impaired (POCI) assets at the time of initial recognition.

The Group calculates impairments in accordance with IFRS 9, which requires accounting for expected credit losses (ECLs) from the initial recognition of financial instruments and the earlier recognition of expected losses for the entire lifetime of those instruments.

Financial instruments measured at amortised cost and at fair value through other comprehensive income are subject to the assessment of expected credit losses.

The Group classifies financial assets for which it assesses expected credit losses to the three groups set out in IFRS 9:

- Stage 1: exposures where there has not been a significant increase in credit risk in the period since initial recognition and risk is low;
- Stage 2: exposures where there has been a significant increase in credit risk in the period since initial recognition and exposures derive from claims against customers for which credit losses are calculated according to the simplified approach; POCI assets are also classified to Stage 2 if the associated obligor is classified to a non-default rating grade; and
- Stage 3: exposures in default and exposures classified as POCI.

In accordance with IFRS 9 and guidelines on the management of credit risk and the calculation of expected credit losses, the Group takes into account forward-looking information (FLI) that it has identified as relevant for the assessment of expected credit losses based on reasonable judgement, generally accepted methods of economic analysis and forecasting, and that is supported by a sufficient set of data.

Besides taking into account regulatory criteria such as 30 days past due, the Group acts in accordance with the Customer Classification Methodology of the Nova KBM Group when determining whether there has been a significant increase in credit risk (SICR) in connection with an individual asset since initial recognition. In that regard, it believes that a significant increase in credit risk is primarily reflected in a relative change in a customer's credit rating in the period since initial recognition.

When classifying customers to rating grades, the Group uses all available quantitative information in the scope of the model-based and expert analyses of the financial statements and projections, based on clearly defined criteria and on qualitative or soft information relating to an individual customer, as well as factors linked to the sector in which the customer operates and the general macroeconomic environment. The Bank also uses an early warning system (EWS) to monitor credit risk.

The Group has developed internal models for calculating key parameters used to measure credit losses:

- exposure at default (EAD),
- probability of default (PD), and
- loss given default (LGD).

Expected credit losses are equal to the product of probability of default, loss given default and exposure at default.

Expected credit losses represent the probability-weighted assessment of credit losses over a specific period with respect to a specific macroeconomic scenario. The Bank assesses 12-month expected losses for Stage 1 exposures set out in IFRS 9, and lifetime losses or losses for the entire duration of contractual obligations for exposures from the other two stages.

Stage 3 exposures set out in IFRS 9, where total exposure to a small group of connected clients exceeds €300,000, are impaired individually based on an assessment of the sustainability of the Bank's business plan and strategy vis-à-vis a customer and thus on all expected cash flows from both operations and the redemption of collateral. The Bank uses a collective or automated calculation of expected credit losses for other Stage 3 exposures.

Through-the-cycle (TTC) probability of default (PD) is used to classify clients to rating grades. TTC PD represents the average probability of default for a customer during a period of 12 months over the entire economic cycle and is stable over time, as it is not affected by current macroeconomic conditions.

The calculation of expected credit losses is based on point-in-time (PIT) probability of default (PD) based on credit ratings assigned with the help of TTC PD.

In calculating PIT PD, the Bank takes into account all available relevant information about a customer, such as financial and behavioural data that differ with respect to customer type. It also takes into account the current macroeconomic environment and expected changes thereto.

9.1.3 NON-PERFORMING AND FORBORNE EXPOSURES

(Article 442(c) of the CRR)

The Group designates as non-performing exposures (NPE) those exposures where it justifiably expects that an obligor will be unable to settle its obligations in full by the contractual deadline.

The Group deems exposures to be non-performing if any of the following criteria are met:

- the exposure has the status of 'defaulted' or is classified as Stage 3 in accordance with IFRS 9 and the Group's Methodology for Assessing Expected Credit Losses;
- a material exposure to an obligor is more than 90 days past due;
- an exposure has been forborne, whereby the Group has experienced a material economic loss or assesses that an obligor's liabilities will probably not be repaid – forbearance with a low probability of payment;
- the exposure has already been treated as non-performing and the exit criteria are not met; and
- the customer is in insolvency proceedings.

The Group applies the definition of default implemented in November 2020 for all Nova KBM Group companies, which is in line with EBA/RTS guidelines according to Article 178 of Regulation (EU) No 575/2013 (Capital Requirements Regulation or CRR).

The reclassification to non-performing exposures after forbearance is carried out if, during the two-year probationary period, a debtor is 30 days in arrears with respect to any exposure or if forbearance is repeated.

The Group applies a standardised definition of default and non-performing exposures (for the purpose of supervisory reporting in accordance with implementing standards). Gaps between the definitions default and the broader definition of non-performing exposures are filled by rules that define the status of default:

- if an obligor is part of a group of connected clients, it is assessed whether other entities in that group are deemed defaulters, provided that they are not already considered impaired or defaulters in accordance with Article 178 of the CRR, except for entities affected by individual disputes that are not linked to capital adequacy of a counterparty;
- based on individual assessment, an analyst may reclassify an obligor to a non-default rating grade early if they assess that all the reasons for the default status have been resolved, under the condition that at least three months have passed since the occurrence of the last default event and it can be applied to all default events, except for a default and forbearance event

  In such cases, the reasons for such a decision or reclassification must be justified in detail. The possible early reclassification of an obligor to a non-default rating grade does not apply to retail clients and business entities in the small enterprise segment, and to obligors with a default event due to arrears in payment and forbearance, regardless of segment.

- when an obligor has been classified to a non-default rating grade after forbearance, it is subject to a two-year observation period following restructuring if it is more than 30 days past due in the settlement of an obligation.

Taken into account in this regard is a material past due amount at the customer level. When this happens, the obligor is downgraded to at least rating grade 10.

The Group has precisely defined criteria for exit from default status. When those criteria are met, it deems that the risk associated with a customer has been mitigated and default status can be discontinued. When a customer is reclassified to a non-default rating grade, the associated exposure in a given observation period is reclassified as Stage 2 in accordance with IFRS 9.

When the reasons that resulted in a significant increase in the credit risk associated with the specific financial asset of a performing obligor no longer exist and the Bank has sound reason to believe that there will not be another significant increase in the credit risk associated with such exposures over the short term, that financial asset is reclassified from Stage 2 to Stage 1, and expected credit losses are recalculated for a 12-month period.

The Workout Department and Legal Office manage the portfolio of customers in default who are classified to default rating grades.

9.2 GENERAL QUANTITATIVE INFORMATION ABOUT CREDIT RISK

This section defines the requirements set out in Article 442(c) of Part Eight of the CRR and implementing technical standards with regard to the public disclosure of the information referred to in Part Eight of Regulation (EU) No 575/2013.

The definition of exposure classes is in line with the definition of exposure classes in accordance with Article 112 of the CRR – Standardised Approach.

9.2.1 PERFORMING AND NON-PERFORMING EXPOSURES AND RELATED PROVISIONS

(Articles 442(c) and 442(f) of the CRR)

Template 19: EU CR1 - Performing and non-performing exposures and related provisions for the OTP Luxembourg

€000

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount / nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
005	**Cash balances at central banks and other demand deposits**	**2,581,298**	**2,581,298**	**0**	**0**	**0**	**0**	**-78**	**-78**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
010	**Loans and advances**	**4,591,200**	**4,027,252**	**563,949**	**110,642**	**0**	**110,642**	**-36,653**	**-11,575**	**-25,078**	**-50,070**	**0**	**-50,070**	**-618**	**2,132,139**	**44,752**
020	*Central banks*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
030	*General governments*	*34,806*	*28,963*	*5,842*	*1*	*0*	*1*	*-851*	*-136*	*-716*	*-1*	*0*	*-1*	*0*	*8*	*0*
040	*Credit institutions*	*214,882*	*214,882*	*0*	*0*	*0*	*0*	*-161*	*-161*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
050	*Other financial corporations*	*419,956*	*402,410*	*17,546*	*2,093*	*0*	*2,094*	*-3,755*	*-2,934*	*-821*	*-484*	*0*	*-484*	*0*	*4,123*	*31*
060	*Non-financial corporations*	*1,791,069*	*1,575,427*	*215,642*	*60,505*	*0*	*60,505*	*-17,259*	*-5,427*	*-11,832*	*-20,732*	*0*	*-20,733*	*0*	*797,928*	*30,545*
070	*Of which SMEs*	*769,512*	*644,269*	*125,242*	*20,115*	*0*	*20,115*	*-3,274*	*-951*	*-2,323*	*-8,348*	*0*	*-8,347*	*0*	*509,104*	*10,271*
080	*Households*	*2,130,487*	*1,805,569*	*323,713*	*48,043*	*0*	*48,043*	*-14,627*	*-2,917*	*-11,709*	*-28,853*	*0*	*-28,854*	*-618*	*1,330,080*	*14,176*
090	**Debt securities**	**3,267,250**	**3,264,146**	**3,104**	**0**	**0**	**0**	**-3,115**	**-3,021**	**-93**	**0**	**0**	**0**	**0**	**93,289**	**0**
100	Central banks	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
110	General governments	1,892,739	1,892,739	0	0	0	0	-1,236	-1,236	0	0	0	0	0	0	0

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount / nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collaterals and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
120	*Credit institutions*	*958,013*	*954,909*	*3,104*	*0*	*0*	*0*	*-1,195*	*-1,101*	*-93*	*0*	*0*	*0*	*0*	*37,932*	*0*
130	*Other financial corporations*	*213,577*	*213,577*	*0*	*0*	*0*	*0*	*-295*	*-295*	*0*	*0*	*0*	*0*	*0*	*34,768*	*0*
140	*Non-financial corporations*	*202,921*	*202,921*	*0*	*0*	*0*	*0*	*-388*	*-388*	*0*	*0*	*0*	*0*	*0*	*20,589*	*0*
150	**Off-balance-sheet exposures**	**1,949,594**	**1,867,036**	**82,558**	**7,564**	**0**	**7,564**	**2,356**	**1,187**	**1,169**	**3,678**	**0**	**3,677**		**200,690**	**2,109**
160	*Central banks*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*		*0*	*0*
170	*General governments*	*4,644*	*4,621*	*24*	*0*	*0*	*0*	*8*	*7*	*0*	*0*	*0*	*0*		*465*	*0*
180	*Credit institutions*	*29,465*	*29,465*	*0*	*0*	*0*	*0*	*8*	*8*	*0*	*0*	*0*	*0*		*0*	*0*
190	*Other financial corporations*	*60,298*	*60,222*	*76*	*0*	*0*	*0*	*98*	*98*	*0*	*0*	*0*	*0*		*4,609*	*0*
200	*Non-financial corporations*	*1,414,628*	*1,365,296*	*49,333*	*6,890*	*0*	*6,889*	*1,360*	*813*	*547*	*3,190*	*0*	*3,190*		*191,951*	*2,107*
210	*Households*	*440,559*	*407,432*	*33,126*	*674*	*0*	*674*	*885*	*261*	*622*	*488*	*0*	*488*		*3,665*	*2*
220	***Total***	**12,389,342**	**11,739,732**	**649,611**	**118,206**	**0**	**118,206**	**-42,202**	**-15,861**	**-26,340**	**-53,748**	**0**	**-53,747**	**-618**	**2,426,118**	**46,861**

POCI assets are taken into account between categories.

Template 20: EU CR1 - Performing and non-performing exposures and related provisions for the Nova KBM Group

€000

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount / nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collaterals and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
005	**Cash balances at central banks and other demand deposits**	**2,525,406**	**2,525,406**	**0**	**0**	**0**	**0**	**-78**	**-78**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
010	**Loans and advances**	**4,591,214**	**4,027,265**	**563,948**	**110,642**	**0**	**110,643**	**-36,653**	**-11,575**	**-25,078**	**-50,070**	**0**	**-50,072**	**-618**	**2,132,139**	**44,752**
020	*Central banks*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
030	*General governments*	*34,806*	*28,963*	*5,842*	*1*	*0*	*1*	*-851*	*-136*	*-716*	*-1*	*0*	*-1*	*0*	*8*	*0*
040	*Credit institutions*	*214,882*	*214,882*	*0*	*0*	*0*	*0*	*-161*	*-161*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
050	*Other financial corporations*	*419,970*	*402,424*	*17,546*	*2,093*	*0*	*2,094*	*-3,755*	*-2,934*	*-821*	*-484*	*0*	*-484*	*0*	*4,123*	*31*
060	*Non-financial corporations*	*1,791,069*	*1,575,427*	*215,642*	*60,505*	*0*	*60,505*	*-17,259*	*-5,427*	*-11,832*	*-20,732*	*0*	*-20,733*	*0*	*797,928*	*30,545*
070	*Of which SMEs*	769,512	644,269	125,242	20,115	0	20,115	-3,274	-951	-2,323	-8,348	0	-8,347	0	509,104	10,271
080	*Households*	*2,130,487*	*1,805,569*	*324,918*	*48,043*	*0*	*48,043*	*-14,627*	*-2,917*	*-11,709*	*-28,853*	*0*	*-28,854*	*-618*	*1,330,080*	*14,176*
090	**Debt securities**	**3,267,130**	**3,264,026**	**3,104**	**0**	**0**	**0**	**-3,114**	**-3,020**	**-93**	**0**	**0**	**0**	**0**	**93,289**	**0**
100	*Central banks*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
110	*General governments*	*1,892,739*	*1,892,739*	*0*	*0*	*0*	*0*	*-1,236*	*-1,236*	*0*	*0*	*0*	*0*	*0*	*0*	*0*

		a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
		Gross carrying amount / nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collaterals and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
120	*Credit institutions*	*958,013*	*954,909*	*3,104*	*0*	*0*	*0*	*-1,195*	*-1,101*	*-93*	*0*	*0*	*0*	*0*	*37,932*	*0*
130	*Other financial corporations*	*213,577*	*213,577*	*0*	*0*	*0*	*0*	*-295*	*-295*	*0*	*0*	*0*	*0*	*0*	*34,768*	*0*
140	*Non-financial corporations*	*202,801*	*202,801*	*0*	*0*	*0*	*0*	*-388*	*-388*	*0*	*0*	*0*	*0*	*0*	*20,589*	*0*
150	**Off-balance-sheet exposures**	**1,949,594**	**1,867,036**	**82,559**	**7,564**	**0**	**7,563**	**2,359**	**1,187**	**1,169**	**3,678**	**0**	**3,677**		**200,690**	**2,109**
160	*Central banks*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*		*0*	*0*
170	*General governments*	*4,644*	*4,621*	*24*	*0*	*0*	*0*	*8*	*7*	*0*	*0*	*0*	*0*		*465*	*0*
180	*Credit institutions*	*29,465*	*29,465*	*0*	*0*	*0*	*0*	*8*	*8*	*0*	*0*	*0*	*0*		*0*	*0*
190	*Other financial corporations*	*60,298*	*60,222*	*76*	*0*	*0*	*0*	*98*	*98*	*0*	*0*	*0*	*0*		*4,609*	*0*
200	*Non-financial corporations*	*1,414,628*	*1,365,296*	*49,333*	*6,890*	*0*	*6,889*	*1,360*	*813*	*547*	*3,190*	*0*	*3,189*		*191,951*	*2,107*
210	*Households*	*440,559*	*407,432*	*33,126*	*674*	*0*	*674*	*885*	*261*	*622*	*488*	*0*	*488*		*3,665*	*2*
220	***Total***	**12,333,344**	**11,683,733**	**649,611**	**118,206**	**0**	**118,206**	**-37,486**	**-13,486**	**-24,002**	**-46,392**	**0**	**-46,395**	**-618**	**2,426,118**	**46,861**

POCI assets are taken into account between categories.

The figures for non-performing exposures relate to undertakings in the Nova KBM Group, as OTP Luxembourg does not hold any non-performing or forborne exposures, because they do not undertake any commercial activities. The Nova KBM Group's holdings of non-performing exposures declined from €154.4 million to €118.2 million in 2023. The decrease in non-performing exposures is the result of the sale of Summit Leasing Slovenija in February 2023. Between 1 January and 31 December 2023, the Group continued its workout of clients' non-performing exposures on the basis of collateral liquidation via ordinary procedures and extra-judicial settlement, and through the restructuring of loans.

9.2.2 MATURITY OF EXPOSURES

(Article 442(g) of the CRR)

As at 31 December 2023 the Group discloses its largest net exposure in the residual maturity bucket of one to five years, namely 46.89% of the total, followed by the maturity bucket of more than five years, with 37.94%. The maturity bucket of up to one year accounts for 14.02%, and the demand bucket accounts for 1.15%.

Template 21: EU CR1-A – Maturity of exposures for the OTP Luxembourg Group

€000

		a	b	c	d	e	f
		Net exposure value					
		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
1	Loans and advances	90,552	702,380	1,638,394	2,183,794	0	4,615,120
2	Debt securities	0	399,186	2,045,708	796,987	0	3,241,881
3	***Total***	**90,552**	**1,101,566**	**3,684,102**	**2,980,781**	**0**	**7,857,001**

Template 22: EU CR1-A – Maturity of exposures for the Nova KBM Group

€000

		a	b	c	d	e	f
		Net exposure value					
		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
1	Loans and advances	90,566	702,380	1,638,394	2,183,793	0	4,615,133
2	Debt securities	0	399,186	2,045,588	796,987	0	3,241,761
3	***Total***	**90,566**	**1,101,566**	**3,683,982**	**2,980,780**	**0**	**7,856,894**

9.2.3 CHANGES IN THE STOCK OF NON-PERFORMING LOANS AND ADVANCES

(Article 442(f) of the CRR)

The Group continued with the intensive collection of the unsettled liabilities of clients in 2023. Despite new transfers of significant exposures, the amount of non-performing loans decreased by €37 million at the Nova KBM Group level due to the divestment of Summit Leasing Slovenia and the Croatian subsidiary Mobil Leasing in the total amount of €64.9 million.

Template 23: EU CR2 – Changes in the stock of non-performing loans and advances for the OTP Luxembourg Group and the Nova KBM Group

€000

		a
		Gross carrying amount
010	**Initial stock of non-performing loans and advances**	147,917
020	Inflows to non-performing portfolios	51,965
030	Outflows from non-performing portfolios	-89,240
040	Outflows due to write-offs	-3,950
050	Outflow due to other situations	-85,290
060	**Final stock of non-performing loans and advances**	110,642

9.2.4 CREDIT QUALITY OF FORBORNE EXPOSURES

(Article 442(c) of the CRR)

The table below presents the disclosures at the level of the OTP Luxembourg Group, where there is no difference between the forborne exposures of the OTP Luxembourg Group and those of the Nova KBM Group. The total amount of forborne exposures was €64.5 million as at 31 December 2023.

Template 24: EU CQ1 – Credit quality of forborne exposures for the OTP Luxembourg Group and the Nova KBM Group

€000

		a	b	c	d	e	f	g	h
		Gross carrying amount / nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
				Of which defaulted	Of which impaired				
005	**Cash balances at central banks and other demand deposits**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
010	**Loans and advances**	**14,793**	**49,494**	**49,494**	**49,494**	**-895**	**-14,334**	**37,954**	**27,671**
020	*Central banks*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
030	*General governments*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
040	*Credit institutions*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
050	*Other financial corporations*	*0*	*5*	*5*	*5*	*0*	*0*	*4*	*4*

		a	b	c	d	e	f	g	h
		Gross carrying amount / nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
				Of which defaulted	Of which impaired				
060	*Non-financial corporations*	*11,056*	*43,319*	*43,319*	*43,319*	*-717*	*-10,752*	*33,065*	*25,418*
070	*Households*	*3,737*	*6,170*	*6,170*	*6,170*	*-178*	*-3,582*	*4,884*	*2,249*
080	**Debt securities**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
090	**Loan commitments given**	**94**	**117**	**117**	**117**	**2**	**104**	**45**	**1**
100	**Total**	14,887	49,611	49,611	49,611	-897	-14,438	37,999	27,672

9.2.5 CREDIT QUALITY OF PERFORMING AND NON-PERFORMING EXPOSURES BY PAST DUE DAYS

(Articles 442(c) and 442(d) of the CRR)

Template 25: EU CQ3 – Credit quality of performing and non-performing exposures by past due days for the OTP Luxembourg Group

€000

		a	b	c	d	e	f	g	h	i	j	k	l
		Gross carrying amount / nominal amount											
		Performing exposures			Non-performing exposures								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
005	**Cash balances at central banks and other demand deposits**	**2,581,298**	**2,581,298**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
010	**Loans and advances**	**4,591,200**	**4,570,557**	**20,644**	**110,642**	**73,571**	**7,214**	**4,203**	**7,562**	**3,873**	**780**	**13,439**	**110,642**
020	*Central banks*	0	0	0	0	0	0	0	0	0	0	0	0
030	*General governments*	34,806	34,802	3	1	1	0	0	0	0	0	0	1
040	*Credit institutions*	214,882	214,882	0	0	0	0	0	0	0	0	0	0
050	*Other financial corporations*	419,956	419,956	0	2,093	2,092	1	0	0	1	0	0	2,093
060	*Non-financial corporations*	1,791,069	1,788,207	2,862	60,505	45,952	1,266	836	3,786	710	100	7,856	60,505
070	*Of which SMEs*	769,512	767,654	1,858	20,115	12,306	1,262	836	3,779	562	72	1,298	20,115
080	*Households*	2,130,487	2,112,709	17,778	48,043	25,526	5,948	3,366	3,776	3,162	680	5,584	48,043
090	**Debt securities**	**3,267,250**	**3,267,250**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
100	*Central banks*	0	0	0	0	0	0	0	0	0	0	0	0
110	*General governments*	1,892,739	1,892,739	0	0	0	0	0	0	0	0	0	0
120	*Credit institutions*	958,013	958,013	0	0	0	0	0	0	0	0	0	0
130	*Other financial corporations*	213,577	213,577	0	0	0	0	0	0	0	0	0	0

		a	b	c	d	e	f	g	h	i	j	k	l
		Gross carrying amount / nominal amount											
		Performing exposures			Non-performing exposures								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
140	*Non-financial corporations*	202,921	202,921	0	0	0	0	0	0	0	0	0	0
150	**Off-balance-sheet exposures**	**1,949,594**			**7,564**								**7,564**
160	*Central banks*	0			0								0
170	*General governments*	4,644			0								0
180	*Credit institutions*	29,465			0								0
190	*Other financial corporations*	60,298			0								0
200	*Non-financial corporations*	1,414,628			6,890								6,890
210	*Households*	440,559			674								674
220	***Total***	**12,389,342**	**10,419,105**	**20,644**	**118,206**	**73,571**	**7,214**	**4,203**	**7,562**	**3,873**	**780**	**13,439**	**118,206**

Template 26: EU CQ3 – Credit quality of performing and non-performing exposures by past due days for the Nova KBM Group

€000

		a	b	c	d	e	f	g	h	i	j	k	l
		Gross carrying amount / nominal amount											
		Performing exposures			Non-performing exposures								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
005	**Cash balances at central banks and other demand deposits**	**2,525,406**	**2,525,406**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
010	**Loans and advances**	**4,591,215**	**4,570,571**	**20,644**	**110,642**	**73,571**	**7,214**	**4,203**	**7,562**	**3,873**	**780**	**13,439**	**110,642**
020	*Central banks*	0	0	0	0	0	0	0	0	0	0	0	0
030	*General governments*	34,806	34,802	3	1	1	0	0	0	0	0	0	1
040	*Credit institutions*	214,882	214,882	0	0	0	0	0	0	0	0	0	0
050	*Other financial corporations*	419,970	419,970	0	2,093	2,092	1	0	0	1	0	0	2,093
060	*Non-financial corporations*	1,791,069	1,788,207	2,862	60,505	45,952	1,266	836	3,786	710	100	7,856	60,505
070	*Of which SMEs*	769,512	767,654	1,858	20,115	12,306	1,262	836	3,779	562	72	1,298	20,115
080	*Households*	2,130,487	2,112,709	17,778	48,043	25,526	5,948	3,366	3,776	3,162	680	5,584	48,043
090	**Debt securities**	**3,267,130**	**3,267,130**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
100	*Central banks*	0	0	0	0	0	0	0	0	0	0	0	0
110	*General governments*	1,892,739	1,892,739	0	0	0	0	0	0	0	0	0	0
120	*Credit institutions*	958,013	958,013	0	0	0	0	0	0	0	0	0	0
130	*Other financial corporations*	213,577	213,577	0	0	0	0	0	0	0	0	0	0

		a	b	c	d	e	f	g	h	i	j	k	l
		Gross carrying amount / nominal amount											
		Performing exposures			Non-performing exposures								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
140	*Non-financial corporations*	202,801	202,801	0	0	0	0	0	0	0	0	0	0
150	**Off-balance-sheet exposures**	**1,949,594**			**7,564**								**7,564**
160	*Central banks*	0			0								0
170	*General governments*	4,644			0								0
180	*Credit institutions*	29,465			0								0
190	*Other financial corporations*	60,298			0								0
200	*Non-financial corporations*	1,414,628			6,890								6,890
210	*Households*	440,559			674								674
220	***Total***	**12,333,345**	**10,363,107**	**20,644**	**118,206**	**73,571**	**7,214**	**4,203**	**7,562**	**3,873**	**780**	**13,439**	**118,206**

9.2.6 QUALITY OF NON-PERFORMING EXPOSURES BY GEOGRAPHY

(Articles 442(c) and 442(e) of the CRR)

In the table below the Group discloses its five largest exposures by individual country for on-balance-sheet and off-balance-sheet exposures in the OTP Luxembourg Group and the Nova KBM Group. Other exposures are aggregated under "other countries". Given that the NPL ratio does not exceed 5% as at 31 December 2023, the Group makes no disclosure under columns b and d. Exposure in Slovenia accounts for 62.44% of the total at the OTP Luxembourg Group and the Nova KBM Group.

Template 27: EU CQ4 – Quality of non-performing exposures by geography for the OTP Luxembourg Group

€000

		a	b	c	d	e	f	g
		Gross carrying amount / nominal amount				Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which subject to impairment			
				Of which defaulted				
010	***On-balance-sheet exposures***	**7,969,092**		**110,642**		**-89,837**		***0***
020	*SI*	4,292,043		106,972		-69,146		*0*
030	*DE*	490,129		2,185		-5,403		*0*
040	*NL*	387,231		1		-4,273		*0*
050	*FR*	354,224		0		-1,046		*0*
060	*HU*	323,852		2		-644		*0*
070	*Other countries*	2,121,613		1,482		-9,325		*0*
080	***Off-balance-sheet exposures***	**1,957,157**		**7,564**			**6,035**	
090	*SI*	1,906,276		7,560			5,761	
100	*FR*	25,164		0			41	
110	*AT*	3,578		0			8	
120	*HR*	3,187		1			3	
130	*NL*	2,791		0			42	
140	*Other countries*	16,161		3			180	
150	***Total***	**9,926,249**		**118,206**		**-89,837**	**6,035**	***0***

Template 28: EU CQ4 – Quality of non-performing exposures by geography for the Nova KBM Group

€000

		a	b	c	d	e	f	g
		Gross carrying amount / nominal amount				Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which subject to impairment			
				Of which defaulted				
010	***On-balance-sheet exposures***	**7,968,987**		**110,642**		**-89,837**		**0**
020	*SI*	4,291,924		106,972		-69,146		0
030	*DE*	490,129		2,185		-5,403		0
040	*NL*	387,231		1		-4,273		0
050	*FR*	354,224		0		-1,046		0
060	*HU*	323,852		2		-644		0
070	*Other countries*	2,121,627		1,482		-9,325		0
080	***Off-balance-sheet exposures***	**1,957,157**		**7,564**			**6,035**	
090	*SI*	1,906,276		7,560			5,761	
100	*FR*	25,164		0			41	
110	*AT*	3,578		0			8	
120	*HR*	3,187		1			3	
130	*NL*	2,791		0			42	
140	*Other countries*	16,161		3			180	
150	***Total***	**9,926,144**		**118,206**		**-89,837**	**6,035**	**0**

9.2.7 CREDIT QUALITY OF LOANS AND ADVANCES TO NON-FINANCIAL CORPORATIONS BY INDUSTRY

(Articles 442(c) and 442(e) of the CRR)

The Group discloses its largest gross exposure as at 31 December 2023 to the manufacturing sector, 31.7% of the total. The NPL ratio does not exceed 5% at the OTP Luxembourg Group or the Nova KBM Group, and therefore the Group makes no disclosure under columns b and d.

Template 29: EU CQ5 – Credit quality of loans and advances to non-financial corporations by industry for the OTP Luxembourg Group and the Nova KBM Group

€000

		a	b	c	d	e	f
		Gross carrying amount				Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which loans and advances subject to impairment		
				Of which defaulted			
010	Agriculture, forestry and fishing	11,694		1		-31	0
020	Mining and quarrying	13,949		0		-12	0
030	Manufacturing	586,324		42,104		-109,97	0
040	Electricity, gas, steam and air conditioning supply	56,518		0		15	0
050	Water supply	28,728		32		-39	0
060	Construction	184,738		1,455		-968	0
070	Wholesale and retail trade	249,270		4,751		-5,880	0
080	Transport and storage	64,928		776		-649	0
090	Accommodation and food service activities	76,792		7,927		-7,189	0
100	Information and communication	50,714		1,312		-1,208	0
110	Financial and insurance activities	47,558		0		-274	0
120	Real estate activities	148,958		11		-591	0
130	Professional, scientific and technical activities	205,204		1,367		-6,578	0
140	Administrative and support service activities	39,570		614		-1,467	0
150	Public administration and defence, compulsory social security	0		0		0	0
160	Education	5,780		3		-89	0

		a	b	c	d	e	f
		Gross carrying amount				Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which loans and advances subject to impairment		
				Of which defaulted			
170	Human health services and social work activities	45,598		1		-1,666	0
180	Arts, entertainment and recreation	32,031		89		-264	0
190	Other services	3,220		61		-106	0
200	***Total***	**1,851,574**		**60,504**		**-37,993**	**0**

9.2.8 COLLATERAL OBTAINED BY TAKING POSSESSION AND EXECUTION PROCESSES

(Article 442(c) of the CRR)

Template 30: EU CQ7 – Collateral obtained by taking possession and execution processes for the OTP Luxembourg Group and the Nova KBM Group

€000

		a	b
		Collateral obtained by taking possession	
		Value at initial recognition	Accumulated negative changes
010	**Property, plant and equipment (PP&E)**	**0**	**0**
020	**Other than PP&E**	**118**	**0**
030	*Residential immovable property*	*71*	*0*
040	*Commercial immovable property*	*0*	*0*
050	*Movable property (auto, shipping, etc.)*	*47*	*0*
060	*Equity and debt instruments*	*0*	*0*
070	*Other collateral*	*0*	*0*
080	***Total***	**118**	**0**

10 ENCUMBERED AND UNENCUMBERED ASSETS

(Article 443 of the CRR)

This section defines the disclosure requirements set out in Article 443 of Part Eight of the CRR and Commission Implementing Regulation (EU) 2021/637.

Template 31: EU AE4

The Group pledges assets as collateral for counterparty claims from derivatives, for providing liquid assets to the bank resolution fund (in accordance with the provisions of the Bank Resolution Authority and Fund Act), for ensuring obligatory reserves on its cash account at the Bank of Slovenia and for collateral paid into clearing systems (SEPA DD).

Template 32: EU AE1 – Encumbered and unencumbered assets

€000

		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			of which notionally elligible EHQLA and HQLA		of which notionally elligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	050	060	080	090	100
010	Assets of the disclosing institution	132,212	40,603			10,547,246	4,582,434		
030	Equity instruments	0	0			60,208	0		
040	Debt securities	41,302	40,603	42,175	41,476	2,515,296	1,845,898	2,550,593	1,877,434
050	of which: covered bonds	0	0	0	0	0	0	0	0
060	of which: securitisations	0	0	0	0	0	0	0	0
070	of which: issued by general governments	38,439	38,439	39,211	39,211	1,515,788	1,500,909	1,539,267	1,524,388
080	of which: issued by financial corporations	2,878	2,180	2,944	2,244	807,378	180,343	818,628	187,823
090	of which: issued by non-financial corporations	0	0	0	0	216,515	164,662	217,365	165,223
120	Other assets	90,836	0			7,744,857	2,602,815		

Template 33: EU AE2 – Collateral received and own debt securities issued

€000

		Fair value of encumbered collateral received or own debt securities issued		Unencumbered	
				Fair value of collateral received or own debt securities issued available for encumbrance	
			of which notionally elligible EHQLA and HQLA		of which EHQLA and HQLA
		010	030	040	060
130	Collateral received by the disclosing institution				
240	Own debt securities issued other than own covered bonds or securitisations				
241	Own covered bonds and securitisations issued and not yet pledged				
250	**TOTAL COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED**	132,212	40,603		

Template 34: EU AE3 – Sources of encumbrance

€000

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered
		010	030
010	**Carrying amount of selected financial liabilities**	**3,331**	**3,331**

11 USE OF ECAIS

This section defines the disclosure requirements set out in Article 444 of Part Eight of the CRR and Section 4.9 of the Guidelines.

11.1 NAMES OF THE NOMINATED ECAIS AND ECAS AND THE REASONS FOR ANY CHANGES

(Article 444(a) of the CRR)

In 2023, the Bank did not change nominated external credit assessment institutions for the purpose of calculating capital requirements. It nominated Moody's as an external credit assessment institution for the exposure classes set out section 11.2.

11.2 EXPOSURE CLASSES FOR WHICH EACH ECAI OR ECA IS USED

(Article 444(b) of the CRR)

The Group calculates capital requirements for credit risk according to the Standardised Approach. The parent bank of the Group nominated Moody's as an external credit assessment institution for the assignment of risk weights to the following exposure classes:

- exposures to central governments and central banks;
- exposures to regional governments or local authorities;
- exposures to public sector entities;
- exposures to institutions;
- exposures to corporates; and
- exposures in the form of investments in covered bonds.

11.3 DESCRIPTION OF THE PROCESS USED TO TRANSFER THE ISSUER AND ISSUE CREDIT ASSESSMENTS ONTO ITEMS NOT INCLUDED IN THE TRADING BOOK

(Article 444(c) of the CRR)

For exposure classes for which an ECAI has been nominated, risk weights are assigned depending on the long-term rating of the financial instrument or obligor, and the issuer of the financial instrument. When assigning risk weights to exposures, the Bank first takes the long-term external rating of the financial instrument or exposure. If the latter is not rated, the long-term credit rating of the obligor is used. If the long-term external rating of the obligor is not available, the long-term sovereign rating of the country is used, or the risk weight for unrated exposures to the obligor is assigned.

11.4 ASSOCIATION OF THE EXTERNAL RATING OF EACH NOMINATED ECAI OR ECA WITH THE CREDIT QUALITY STEPS PRESCRIBED IN PART THREE, TITLE II, CHAPTER 2, TAKING INTO ACCOUNT THAT THIS INFORMATION NEEDS NOT BE DISCLOSED IF THE INSTITUTION COMPLIES WITH THE STANDARD ASSOCIATION PUBLISHED BY EBA

(Article 444(d) of the CRR)

This disclosure is not relevant. The relevant association is in line with the standard association.

11.5 EXPOSURE VALUES AND EXPOSURE VALUES AFTER CREDIT RISK MITIGATION ASSOCIATED WITH EACH CREDIT QUALITY STEP AS SET OUT IN CHAPTER 2 OF TITLE II OF PART THREE, BY EXPOSURE CLASS, AS WELL AS EXPOSURE VALUES DEDUCTED FROM OWN FUNDS

(Article 444(e) of the CRR)

The net values of on-balance-sheet and off-balance-sheet exposures are allocated on the basis of the rules of the standardised approach.

The EU CR5 and EU CCR3 templates below disclose the allocation of exposure value after consideration of credit risk mitigation techniques and the corresponding conversion factors in the case of off-balance-sheet exposures across exposure classes and risk weights for the OTP Luxembourg Group as at 31 December 2023.
There are three weights prevalent in the EU CR5 template: 0% in the central governments segment, 75% in the retail exposures segment, and 100% in the corporates segment. There was a change in their ratio to the total exposure amount relative to the previous year: exposures carrying a 0% weight rose from 36% to 39% of the total, while the share carrying weights of 75% and 100% decreased from 42% to 33%.
There are also three weights prevalent in the EU CCR3 template: 20% and 50% in the institutions segment and 100% in the corporates segment. There was a change in their ratio to the total exposure amount relative to the previous year: exposures carrying a 100% weight rose from 48% to 75% of the total, while the share carrying a weight of 20% increased from 6% to 15% and the share carrying a weight of 50% decreased from 45% to 9%.

Template 35: EU CR5 – Standardised Approach for the OTP Luxembourg Group

€000

	Exposure classes	Risk weight															Total	Of which unrated
		0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others		
1	Central governments or central banks	3,808,419	0	118,852	100,485	27,107	0	0	0	0	0	0	583	0	0	0	4,055,445	2,459,722
2	Regional governments or local authorities	182,142	0	0	0	50,945	0	0	0	0	0	0	0	0	0	0	233,087	98,815
3	Public sector entities	10,854	0	0	0	0	0	1,847	0	0	0	0	0	0	0	0	12,701	2,703
4	Multilateral development banks	3,717	0	0	0	0	0	0	0	0	0	0	0	0	0	0	3,717	0
5	International organisations	226,522	0	0	0	0	0	0	0	0	0	0	0	0	0	0	226,522	0
6	Institutions	0	0	0	0	393,826	0	518,571	0	0	5,669	0	0	0	0	0	918,065	100,103
7	Corporates	0	0	0	0	59,670	0	138,481	0	0	1,933.787	54,300	0	0	0	0	2,186,239	1,397,485
8	Retail exposures	0	0	0	0	0	707	0	0	1,483,516	0	0	0	0	0	0	1,484,223	1,484,223
9	Exposures secured by mortgages on immovable property	0	0	0	0	0	918,730	316,113	0	0	7,655	0	0	0	0	0	1,242,499	1,242,499
10	Exposures in default	0	0	0	0	0	0	0	0	0	49,799	5,658	0	0	0	0	55,457	55,457
11	Exposures associated with particularly high risk	0	0	0	0	0	0	0	0	0	0	123,708	0	0	0	0	123,708	123,708
12	Covered bonds	0	0	0	47,801	200,850	0	0	0	0	0	0	0	0	0	0	248,650	0
13	Exposures to institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
14	Units or shares in collective investment undertakings	0	0	0	0	0	0	0	0	0	0	0	0	0	0	49,783	49,783	0
15	Equity exposures	0	0	0	0	0	0	0	0	0	56,313	0	0	0	0	0	56,313	12,765
16	Other items	100,090	0	0	0	74,331	0	0	0	0	118,005	0	0	0	0	0	292,425	3,332
17	**TOTAL**	**4,331,743**	**0**	**118,852**	**148,285**	**806,727**	**919,437**	**975,012**	**0**	**1,483,516**	**2,171,229**	**183,666**	**583**	**0**	**0**	**49,783**	**11,188,834**	**6,980,811**

Template 36: EU CCR3 – Standardised Approach – CCR exposures by regulatory exposure class and risk weights for the OTP Luxembourg Group

€000

	Exposure classes	Risk weight											Total exposure value
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	
1	Central governments or central banks	0	0	0	0	0	0	0	0	0	0	0	**0**
2	Regional governments or local authorities	0	0	0	0	0	0	0	0	0	0	0	**0**
3	Public sector entities	0	0	0	0	0	275	0	0	0	0	0	**275**
4	Multilateral development banks	0	0	0	0	0	0	0	0	0	0	0	**0**
5	International organisations	0	0	0	0	0	0	0	0	0	0	0	**0**
6	Institutions	0	0	0	0	6,933	3,778	0	0	0	0	0	**10,711**
7	Corporates	0	0	0	0	0	0	0	0	34,549	0	0	**34,549**
8	Retail	0	0	0	0	0	0	0	536	0	0	0	**536**
9	Institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0	0	0	0	0	**0**
10	Other items	0	0	0	0	0	0	0	0	0	0	0	**0**
11	**Total exposure value**	**0**	**0**	**0**	**0**	**6,933**	**4,053**	**0**	**536**	**34,549**	**0**	**0**	**46,071**

12 EXPOSURE TO MARKET RISK

(Article 445 of the CRR)

This section defines the disclosure requirements set out in Article 445 of Part Eight of the CRR and Section 4.13 of the Guidelines.

The Group uses the Standardised Approach to calculate own funds requirements for market risk. Own funds requirements are calculated for the following in the scope of market risk:

- Interest rate risk (general). The Group calculates own funds requirements for derivatives (interest rate swaps) in the scope of interest rate risk.
- Equity risk (general and specific). The Group calculates own funds requirements for own funds instruments and derivatives on own funds instruments in the scope of equity risk. The Group also discloses own funds requirements for exposure to collective investment undertakings included in the trading book in the scope of equity risk.
- Foreign exchange risk. The Group calculates own funds requirements for the open foreign exchange position, which includes capital requirements for derivatives on foreign currencies, in the scope of foreign exchange risk.

The template below discloses risk-weighted exposure to market risk as at the reporting date of 31 December 2023.

Template 37: EU MR1 – Market risk under the standardised approach for the OTP Luxembourg Group

€000

		RWEA 31 December 2023
Outright products		
1	Interest rate risk (general and specific)	79
2	Equity risk (general and specific)	0
3	Foreign exchange risk	0
4	Commodity risk	-
Options		
5	Simplified approach	-
6	Delta-plus approach	-
7	Scenario approach	-
8	Securitisation (specific risk)	-
9	**Total**	**79**

13 OPERATIONAL RISK MANAGEMENT

(Article 446 of the CRR)

Operational risk at the OTP Luxembourg Group level does not differ from operational risk management within the Nova KBM Group. For this reason, management of the aforementioned risk by the Nova KBM Group is presented in this section.

Operational risk is the risk of loss arising from inappropriate or failed internal processes, people and systems, or external events. This definition includes legal risk (in accordance with the CRR), but excludes strategic risk and the risk of reputation loss. However, certain operational risks could have a major impact on reputation loss. The Nova KBM Group thus addresses the following risks in the scope of general operational risk: reputation risk, model risk, risks in connection with employee conduct, system/IT risk, project risk, compliance risk, the risk of fraud (external and internal), the risk of cybercrime, human resource risk, legal risk, outsourcing risk and risk associated with data quality.

The Bank separates operational risk events to:

- legal risk events;
- loss events;
- non-financial events; and
- potential events

Legal risk events comprise all lawsuits received.

Operational risk loss events resulting either in financial loss (impact on the profit and loss account – PLA) or misstatement of PLA items (more than one financial year). The Bank defined as loss events all events from Category Internal and External fraud and the events where the gross loss reached or exceeded €50.

A non-financial event arising from operational risk is an event that produced no direct financial impact on the PLA, but produced an effect of regulatory nature, or an effect relating to customers, the market/competition and/or reputation.

A potential operational risk event is an event that had no financial effects on the PLA as it was prevented in a timely manner, but had the potential to cause financial/non-financial effects.

The Nova KBM Group calculates capital requirements for operational risk in accordance with Pillar I using the Basic Indicator Approach (BIA), and in accordance with Pillar 2 using internal models that take into account data regarding loss events, non-financial and potential events, the results of the analysis of operational risk and the status of operational risk indicators. The Nova KBM Group classifies all events and threats from the questionnaire for the self-assessment of operational risk, risk indicators and audit recommendations in accordance with the standard categorisation of loss events set out in the Basel II Capital Accord, and by business area, which facilitates the linking and comparison thereof, and thus higher-quality analyses of operational risk. To ensure improved risk management, the Bank also has in place an operational risk appetite system and the monitoring of key risk indicators (KRI). Key risk indicators for self-assessment purposes and analyses of operational risk scenarios make it possible for the Bank to identify potential future risks, which it mitigates using a system to manage the necessary security and organisational corrective measures.

The Nova KBM Group records operational risk events centrally. All employees at the Bank and across the entire Nova KBM Group are included in reporting on actual operational risk events. Regular reporting regarding operational risk events to senior management is carried out on a monthly and quarterly basis. CRO reports are discussed monthly by the Bank's Supervisory Board and quarterly by the Operational Risk Committee. Operational risk reports for the entire Nova KBM Group are discussed by the Operational Risk Committee, which is an advisory body to the Bank's Management Board whose role is to study, discuss and make decisions regarding operational risk issues. The presence of the Management Board, the directors of sectors and department heads who play an important role in the management of operational risks also ensures that appropriate measures can be taken when high-level risks are identified.

The net loss from loss events incurred by the Nova KBM Group accounts for a very low proportion of own funds requirements of operational risk.

OPERATIONAL RISK UNDER PILLAR 1 FOR THE OTP LUXEMBOURG GROUP AND NOVA KBM GROUP

The Group calculates own funds requirements for operational risk under Pillar 1 in accordance with Article 315 of the CRR using the Basic Indicator Approach. In accordance with the aforementioned approach, own funds requirements for operational risk are equal to 15% of the average over three years of the relevant indicator as set out in Article 316 of the CRR. When calculating own funds requirements for operational risk, the Group also takes into account explanation EBA Q&A ID 2018_3969, according to which a three-year average must be taken into account for the calculation of own funds requirements for operational risk at the end of the year. The Group calculates the relevant indicator once a year as the sum of the relevant profit and loss account items set out in Table 1 of Article 316 of the CRR.

Template 38: EU OR1 – Operational risk own funds requirements and risk-weighted exposure amounts for the OTP Luxembourg Group

€000

		a	b	c	d	e
		Relevant indicator			Own funds requirements	Risk exposure amount
		2021	2022	2023		
1	Banking activities subject to Basic Indicator Approach (BIA)	247,686	281,379	434,107	48,159	601,982
2	Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches	-	-	-	-	-
3	Subject to TSA:					
4	Subject to ASA:					
5	Banking activities subject to advanced measurement approaches AMA	-	-	-	-	-

14 KEY METRICS

This section defines the requirements relating to the disclosures set out in Article 447 of Part Eight of the CRR, which are presented in Template EU KM1 in section 5.2 of this document.

15 EXPOSURE TO INTEREST RATE RISK ON POSITIONS NOT INCLUDED IN THE TRADING BOOK

(Article 448 of the CRR)

This section defines the disclosure requirements set out in Article 448 of Part Eight of the CRR.

Interest rate risk is managed at the OTP Luxembourg Group level in the same way as at the Nova KBM Group level, as only the Nova KBM Group is exposed to this type of risk. For this reason, the required information is disclosed at the level of the Nova KBM Group.

15.1 CHANGES IN THE ECONOMIC VALUE OF EQUITY CALCULATED UNDER THE SIX SUPERVISORY SHOCK SCENARIOS REFERRED TO IN ARTICLE 98(5) OF DIRECTIVE 2013/36/EU FOR THE CURRENT AND PREVIOUS DISCLOSURE PERIODS

(Article 448(a) of the CRR)

The Group carries out stress testing for the calculation of capital requirements for interest rate risk and with the aim of measuring vulnerability in stressful market conditions. In accordance with the relevant EBA guidelines, the Group employs the prescribed upward and downward shifts in the yield curve of various dimensions set out in point 15.5 in the third indent, and to that end takes into account the interest rate floor by individual product.

Table 10: Calculations and impact of changes in interest rates on the economic value of equity and net interest income

€000

	Supervisory stress scenarios	a	b	c	d
		changes in the economic value of equity		changes in net interest income	
		current period	previous period	current period	previous period
1	Parallel growth	(81,694)	36,128	75,514	86,191
2	Parallel decline	95,698	(40,943)	(91,037)	(61,909)
3	Steep growth	(11,628)	5,954		
4	Steep decline	(2,337)	(303)		
5	Increase in short-term interest rates	(24,661)	12,309		
6	Decrease in short-term interest rates	25,983	(13,618)		

The result with the most significant negative change in the economic value of equity of the six stress testing scenarios on 31 December 2023 was an upward parallel shift in the yield curve, under which the economic value of equity would decrease by €81,694 thousand or 9.63% of the Group's Tier 1 capital, while that figure was 4.80% of the Group's Tier 1 capital as of 31 December 2022.

In addition to the above-presented shifts in the yield curve, the Group also performs a stress test in the form of a parallel shift in the yield curve for +/-200 basis points.

Standardised stress scenarios €000	31 December 2023 Δ in economic value of equity	31 December 2022 Δ in economic value of equity
+200 b.p.	(81,748)	36,065
-200 b.p.	95,755	(40,873)

The Group's stress test of a 200 basis point rise in interest rates would result in a decrease in the economic value of equity as of 31 December 2023 of €81,748 thousand and a potential loss equal to 9.64% of the Group's regulatory own funds, while the increase in the economic value of equity as of 31 December 2022 represented 3.87% of the Group's regulatory own funds. A drop in interest rates by 200 basis points would result in an increase in the economic value of equity as of 31 December 2023 of €95,755 thousand or 11.29% of the Group's regulatory own funds, while that figure was a decrease of 4.39% of the Group's regulatory own funds as of 31 December 2022.

Having the most significant negative effect on the sensitivity of EVE relative to the previous year are scenarios with parallel upward shifts as the result of the revised investment strategy that includes bond purchases, which reversed the sensitivity of EVE to scenarios with a parallel upward shift.

15.2 CHANGES IN THE NET INTEREST INCOME CALCULATED UNDER THE TWO SUPERVISORY SHOCK SCENARIOS REFERRED TO IN ARTICLE 98(5) OF DIRECTIVE 2013/36/EU FOR THE CURRENT AND PREVIOUS DISCLOSURE

(Article 448(b) of the CRR)

In accordance with the relevant EBA guidelines, the Group performs a monthly standardised stress test in the form of a parallel shift in the yield curve of +/–200 basis points for all key currencies and calculates the impact on net interest income (NII).

Table 11: Calculations and impact of changes in interest rates on net interest income

Standardised stress scenarios	31 December 2023	31 December 2022
€000	Δ in net interest income	Δ in net interest income
Standardised stress test		
+200 b.p.	76,000	86,718
-200 b.p.	(91,526)	(62,438)

15.3 DESCRIPTION OF KEY MODELLING AND PARAMETRIC ASSUMPTIONS, OTHER THAN THOSE REFERRED TO IN POINTS (B) AND (C) OF ARTICLE 98(5A) OF DIRECTIVE 2013/36/EU USED TO CALCULATE CHANGES IN THE ECONOMIC VALUE OF EQUITY AND IN THE NET INTEREST INCOME REQUIRED UNDER POINTS (A) AND (B) OF THIS PARAGRAPH

(Article 448(c) of the CRR)

The Group assesses exposure to interest rate risk based on the assumptions set out in the Interest Rate Risk Management Methodology of the Nova KBM Group and monitors that risk in accordance with the Interest Rate Risk Management Policy of the Nova KBM Group.

The Group recognised the following as key assumptions:

- Demand deposits

The Group divides euro-denominated demand deposits into stable and unstable deposits based on a model for defining stable and unstable demand deposits separately for the household and corporate sectors. It further divides stable deposits into core and non-core deposits based on a model for defining core and non-core deposits separately for the household and corporate sectors.

Based on models, the Group classified 70% of household demand deposits and 50% of corporate demand deposits to core deposits as at 31 December 2023. Non-core demand deposits remain classified to the demand time bucket, while core deposits are classified to time buckets based on the aforementioned models. Demand deposits denominated in other currencies remain classified to the demand time bucket.

- Options

The Group used a loan prepayment model and loan refinancing model in the monitoring and management of interest rate risk. In the relevant calculation, those models take into account the amount of prepayments, depending on movements in interest rates. Both models were developed separately for the household and corporate segments, and separately for loans with a fixed interest rate and those with a variable interest rate. The corporate segment is further broken down into large and medium-sized enterprises, and small and micro enterprises. In the household segment, the percentage of prepaid and refinanced loans is calculated separately for consumer loans and housing loans. The result of an individual model is a forecast of the percentage of prepaid and refinanced loans, which differ in terms of segment and type of interest rate.

The Group takes into account an early call option by the issuer in the management of interest rate risk in connection with investments in financial instruments.

The Group allows its customers to call deposits early in accordance with the valid document 'General instructions for savings, deposits and savings accounts_VA-02', and charges those customers fees in accordance with the valid documents 'List of fees for transactions with consumers' and 'List of fees for transactions with legal entities, entrepreneurs and sole traders' The Group monitors early calls of deposits monthly and finds that they are immaterial (less than 1% of approved deposits), and thus does not take them into account in the management of interest rate risk.

- Off-balance-sheet items
- The Group applies a 20% conversion factor to off-balance-sheet items with a maturity of up to one year, and a 50% conversion factor to off-balance-sheet items with a maturity of more than one year, while the full amount of interest rate swaps (IRS) is taken into account.
- Non-performing loans

The Group treats overdue principal in non-performing loans as a non-interest-sensitive item, meaning it has no impact on interest rate risk.

- Foreign currencies

The majority of the Group's portfolio is denominated in euros. Other currencies thus have an immaterial impact on the monitoring and management of interest rate risk.

- Interest rate floor on the reference or overall interest rate on loans and deposits

In its calculations, the Group takes into account an interest rate floor for loans and deposits with a variable interest rate, where so defined, in the form of an interest rate floor on the overall or reference interest rate.

15.4 EXPLANATION OF THE SIGNIFICANCE OF THE RISK MEASURES DISCLOSED UNDER POINTS (A) AND (B) OF THIS PARAGRAPH AND OF ANY SIGNIFICANT VARIATIONS OF THOSE RISK MEASURES SINCE THE PREVIOUS DISCLOSURE REFERENCE DATE

(Article 448(d) of the CRR)

When calculating the change in NII, the Group takes into account the impact of a change in interest rates on demand deposits; in defining shocks, it uses pass-through factors for households and corporate clients, which are assessed based on models for defining core and non-core deposits for households and corporate clients. The Group takes interest rate shocks into account in continuous internal management scenarios and in supervisory reporting scenarios, where the average shock of each scenario over a one-year period multiplied by a pass-through factor for demand deposits and balances with the central bank is taken into account.

For more complex debt securities that, at the time of purchase, are expected to be redeemed prior to the original maturity date, the Group takes into account the expected date of redemption and not the original maturity date in calculations.

15.5 DESCRIPTION OF HOW INSTITUTIONS DEFINE, MEASURE, MITIGATE AND CONTROL THE INTEREST RATE RISK OF THEIR NON-TRADING BOOK ACTIVITIES FOR THE PURPOSES OF THE COMPETENT AUTHORITIES' REVIEW IN ACCORDANCE WITH ARTICLE 84 OF DIRECTIVE 2013/36/EU, INCLUDING:

A) DESCRIPTION OF THE SPECIFIC RISK MEASURES THAT THE INSTITUTIONS USE TO EVALUATE CHANGES IN THEIR ECONOMIC VALUE OF EQUITY AND IN THEIR NET INTEREST INCOME

(Article 448(e)(i) of the CRR)

The Group manages interest rate risk based on operational limits linked to the Bank's risk interest rate risk appetite, which is defined in the risk appetite framework (RAF).

To support the interest rate risk appetite, the Group updated existing limits and set additional limits in 2023, including a limit on the maximum negative change in the economic value of equity, a limit on the maximum negative change in net interest income, and a limit on the maximum negative change in NII and the fair value of the FVOCI portfolio in continuous internal management scenarios and stress scenarios, and introduced a new limit on the maximum negative change in NII due to basis risk.

On a monthly basis, the Group implements the interest rate scenarios for continuous internal management described below, and interest rate scenarios for stress testing and the calculation of the impact of a shift in the interest rate yield curve on the economic value of equity and net interest income over a period of one year. For that purpose, the Group takes into account a model of prepaid and refinanced loans, and uses a model for defining stable and unstable deposits and a model for defining core and non-core deposits for the purpose of classifying demand deposits.

The Group uses the basis point value method to monitor and manage interest rate risk. The basis point value method indicates to what extent the value of the portfolio of interest-sensitive instruments will decrease if the general level of interest rates rises by 1 basis point of 0.01%.

B) DESCRIPTION OF THE KEY MODELLING AND PARAMETRIC ASSUMPTIONS USED IN THE INSTITUTIONS' INTERNAL MEASUREMENT SYSTEMS THAT WOULD DIFFER FROM THE COMMON MODELLING AND PARAMETRIC ASSUMPTIONS REFERRED TO IN ARTICLE 98(5A) OF DIRECTIVE 2013/36/EU FOR THE PURPOSE OF CALCULATING CHANGES TO THE ECONOMIC VALUE OF EQUITY AND TO THE NET INTEREST INCOME, INCLUDING THE RATIONALE FOR THOSE DIFFERENCES

(Article 448(e)(ii) of the CRR)

The Group uses standard modelling and parametric assumptions in the monitoring of interest rate risk.

C) DESCRIPTION OF THE INTEREST RATE SHOCK SCENARIOS THAT INSTITUTIONS USE TO ESTIMATE THE INTEREST RATE RISK

(Article 448(e)(iii) of the CRR)

For its internal needs and to calculate own funds requirements for interest rate risk, the Group calculates the impact of a change on the economic value of equity and net interest income, taking into account an interest rate floor for individual products in the event of the following shifts in the yield curve (continuous internal management scenarios):

- a shock based on past market data;
- a shock based on forecasted market data;
- a shock based on an upward or downward shift in VaR (a shift in the yield curve based on the curve's volatility during the previous year, with a 95% confidence interval);
- an upward or downward parallel shift (a sudden parallel shift in the yield curve, which is defined by a preliminary analysis of movements in market interest rates);
- a flatter yield curve scenario (the Group identified two scenarios: a scenario of an increase in short-term interest rates and a decrease in long-term interest rates, and a scenario of an increase in short-term interest rates in the context of a slight increase in long-term interest rates); and

- a steeper yield curve scenario (an increase in long-term interest rates in the context of a slight increase in short-term interest rates).

The Group performs stress testing for the purpose of calculating capital requirements for interest rate risk and with the aim of measuring its sensitivity in stressful market conditions, and for that purpose takes into account the interest rate floor for individual products. In addition to a stress test in the form of a +/-200 basis point parallel shift in the yield curve, the Bank also performs other upward and downward shifts in the yield curve of various dimensions (regulatory scenarios), which it summarised in accordance with the relevant EBA guidelines.

The Group calculates the impact of a change in the economic value of equity (EVE) and net interest income (NII) as the result of the following shifts in the yield curve (regulatory scenarios):

- an upward parallel shift in the yield curve;
- a downward parallel shift in the yield curve;
- the shock of a steeper yield curve (a decrease in short-term interest rates and an increase in long-term interest rates);
- the shock of a flatter yield curve (an increase in short-term interest rates and a decrease in long-term interest rates);
- the shock of an increase in short-term interest rates; and
- the shock of a decrease in short-term interest rates.

The result of the scenario with the most adverse impact on a change in the economic value of equity, NII, changes in the market value of instruments and the total effect on NII, changes in market values and the risk premium represents the capital requirement for interest rate risk.

The Group implements interest rate scenarios for the continuous management of interest rate risk and performs stress tests separately for euros, US dollars and Swiss francs.

D) RECOGNITION OF THE EFFECT OF HEDGES AGAINST THOSE INTEREST RATE RISKS, INCLUDING INTERNAL HEDGES THAT MEET THE REQUIREMENTS LAID DOWN IN ARTICLE 106(3)

(Article 448(e)(iv) of the CRR)

In addition to the natural hedging of its interest rate position, the Group has introduced hedge accounting.

The Group applies IFRS 9 for hedge accounting purposes. The Group introduced the Hedge Accounting policy in December 2021. It also developed a methodology for the calculation of hedge effectiveness, which has been in place since July 2022. The Group applies interest rate hedging as a form of micro fair value hedging. The Group executed several micro hedges of the fair value of investments in bonds in the FVOCI portfolio in 2022, as well as the fair value hedging of its own issued bonds in 2023.

E) OUTLINE OF HOW OFTEN THE EVALUATION OF THE INTEREST RATE RISK OCCURS

(Article 448(e)(v) of the CRR)

The Group monitors exposure to interest rate risk monthly, and reports to the ALCO monthly in the scope of the CRO report. The Group reports quarterly to the ECB regarding exposure to interest rate risk in the scope of STE reporting.

15.6 DESCRIPTION OF THE OVERALL RISK MANAGEMENT AND MITIGATION STRATEGIES FOR THOSE RISKS

(Article 448(f) of the CRR)

The Group monitors and manages interest rate risk in the banking book in accordance with the Interest Rate Risk Management Policy of the Nova KBM Group and the Interest Rate Risk Management Methodology of the Nova KBM Group.

The Group has in place a risk appetite framework that defines its appetite to take up certain types of risk. The Interest Rate Risk Management Policy is part of the risk appetite framework. The interest rate risk appetite statement (RAS) is defined in that strategy.

The Group manages interest rate risk based on operational limits linked to the Bank's risk interest rate risk appetite, which is defined in the risk appetite framework.

To prevent a significant increase in interest rate risk, and to prevent the breach of regulatory limits and the interest rate risk appetite limit, the Group has in place a limit system that is defined in the Operational Limits Handbook of the Nova KBM Group. The Group monitors the utilisation of limits monthly.

15.7 AVERAGE AND LONGEST REPRICING MATURITY ASSIGNED TO NON-MATURITY DEPOSITS

(Article 448(g) of the CRR)

The Group divides euro-denominated demand deposits into stable and unstable deposits based on a model for defining stable and unstable demand deposits separately for the household and corporate sectors. It further divides stable deposits into core and non-core deposits based on a model for defining core and non-core deposits separately for the household and corporate sectors. The maximum maturity of demand deposit allocation is 20 years, while the average maturity of demand deposit allocation is between 1.5 and 1.8 years.

16 EXPOSURE TO SECURITISATION POSITIONS

(Article 449 of the CRR)

This disclosure is not relevant. The Nova KBM Group does not have securitisation positions.

17 REMUNERATION POLICY

This section defines the disclosure requirements set out in Article 450 of Regulation (EU) No 575/2013.

The Remuneration Policy, including information regarding the criteria used for the measurement of performance and risk adjustment, are presented at the Nova KBM Group level. The OTP Luxembourg Group has no employees. Disclosure at the aforementioned level is thus not relevant.

17.1 INFORMATION CONCERNING THE DECISION-MAKING PROCESS USED FOR DETERMINING THE REMUNERATION POLICY, AS WELL AS THE NUMBER OF MEETINGS HELD BY THE MAIN BODY OVERSEEING REMUNERATION DURING THE FINANCIAL YEAR, INCLUDING, IF APPLICABLE, INFORMATION ABOUT THE COMPOSITION AND THE MANDATES OF THE REMUNERATION COMMITTEE, THE EXTERNAL CONSULTANT WHOSE SERVICES HAVE BEEN USED FOR THE DETERMINATION OF THE REMUNERATION POLICY AND THE ROLE OF THE RELEVANT STAKEHOLDERS

(Article 450 (1a) of the CRR)

The Bank has had a Remuneration Policy in place since 2012 for the purpose of implementing remuneration practices. The Remuneration Policy applies to all employees, is gender-neutral and takes into account the principle of equal pay for equal work, or work of equal value, regardless of gender. It defines different groups of employees, including a group of employees with respect to the materiality of their impact on the Bank's risk profile in accordance with the criteria set out by EU regulations or in accordance with the Bank's own criteria.

The Bank's Remuneration Policy defines all forms of remuneration to which employees are entitled, general and specific principles for adjusting remuneration to risks, those responsible for establishing, amending and supervising the implementation of the Remuneration Policy, and reporting. The Remuneration Policy is based on the link between remuneration and the prudent acceptance of risks, and is designed so as not to encourage the increased willingness to accept risks or to act in contravention of the Bank's interests. This is ensured by defining appropriate ratios between the fixed and variable components of remuneration of staff whose activities have a material impact on the Bank's risk profile, taking into account the fact that the total remuneration of those employees may not be highly dependent on the variable component of remuneration.

The Remuneration Policy sets the variable component of the remuneration of staff, who through their activities have a material impact on the risk profile in such a way that ensures and promotes the effective management of all material risks (risks that the Bank identifies as material in the scope of the regular assessment of the risk profile and that are defined in the risk management strategy) that are taken up by the aforementioned staff in the performance of their work and exercising of their powers. The remuneration of identified staff is set on the basis of the annual assessment of employee performance, and comprises the objectives of the Bank and organisational unit and, to a lesser degree, the personal objectives of an employee. Qualitative objectives (competences) are also taken into account in the setting of remuneration. The objectives of the Bank derive from its business strategy and long-term interests. The setting of the remuneration of identified staff is discussed and confirmed by the Bank's Management Board, Remuneration Committee and Supervisory Board.

The payment of remuneration to employees who are not deemed identified staff under the Remuneration Policy may be carried out at any time in accordance with valid regulations and the bylaws of the Bank. The criteria for setting variable remuneration for those persons are described in the Rules on the Performance management process in Nova KBM d.d., which are an integral part of the policy.

Responsibility for the creation, approval and supervision of the Remuneration Policy

The Bank's Management Board, Remuneration Committee, Risk Committee and Supervisory Board work closely in the implementation of remuneration policies and practices, and ensure the necessary harmonisation with the general corporate governance framework of the Bank, its corporate culture, risk appetite and associated management processes.

In the scope of their competences, the Remuneration Committee and the Bank's Supervisory Board regularly verify the appropriateness of adopted remuneration policies and practices, and control the implementation thereof. They also approve material exemptions for individual employees and changes to the Remuneration Policy, and carefully study and monitor their effects.

Role of independent control functions

In accordance with their competences, the Bank's individual expert departments are involved in the creation, supervision and review of the appropriateness of the Remuneration Policy.

The Strategic Risk Management Department participates in and reports on the definition of performance criteria that take into account taken-up risks (including subsequent adjustments), and assesses how the structure of the variable components of remuneration affect the Bank's risk profile and the risk take-up culture. The Strategic Risk Management Department confirms and assesses information regarding adjustments due to risks and cooperates regularly with the Remuneration Committee in this area.

The Compliance Office analyses how the Remuneration Policy affects the Bank's compliance with laws, regulations, internal policies and the risk take-up culture, and reports all identified compliance risks and issues of non-compliance to the Management Board and Supervisory Board. The findings of the Compliance Office are considered by the Supervisory Board in the approval, review and supervision of the Remuneration Policy.

At least once a year, the Internal Audit Department carries out an independent review of the bases, implementation and effects of the Bank's Remuneration Policy on its risk profile and the treatment of those effects, in accordance with the Guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013.

Remuneration Committee

Composition of the Remuneration Committee in 2023:
Sándor István Pataki, chair (since 6 February 2023)
Tamás Bernáth, deputy chair (since 6 February 2023)
Marko Košak, member (since 6 February 2023)
Dorothea Nikolaeva Nikolova-Iltcheva, member (since 6 February 2023)

Andrzej Klesyk, chair (until 5 February 2023)
Kristina Žagar, deputy chair (until 5 February 2023)
Michele Rabà, member (until 5 February 2023)

All members of the Remuneration Committee are also members of the Supervisory Board. The Remuneration Committee did not use the services of external advisors in 2023.

In accordance with the Banking Act (ZBan-3), the Remuneration Committee is an advisory body of Nova KBM's Supervisory Board and has the following competences in that regard:

- responsibility for drafting remuneration-related decisions that are adopted by the Supervisory Board, in particular with regard to the remuneration of Management Board members and other staff whose professional activities have a material impact on the Bank's risk profile;
- provision of support and advice to the Supervisory Board in connection with the formulation of a gender-neutral Remuneration Policy;

- provision of support to the Supervisory Board with regard to control over the remuneration-related policy, practices and processes, with regard to compliance with the Remuneration Policy, and implementation of and compliance with a gender-neutral policy;
- verification of whether the existing Remuneration Policy is still appropriate, and proposal of amendments as required;
- assessment of the appointment of external advisors that the Supervisory Board might hire for advisory services or support with regard to remuneration;
- assurance of the relevance of information provided to shareholders regarding the Remuneration Policy and practices, in particular regarding the proposed raising of the maximum ratio between the fixed and variable components of remuneration;
- assessment of mechanisms and systems in place to ensure that the remuneration system takes appropriate account of all types of risks, and the level of liquidity and capital, and that the overall Remuneration Policy is in line with and promotes prudent and effective risk management, and is in line with the business strategy, objectives, corporate culture and values, risk culture and long-term interests of the Bank; and
- assessment of the achievement of performance objectives and the need for subsequent adjustments to risks, including through malus or clawback arrangements;
- review of different potential scenarios to verify how remuneration policies and practices respond to external and internal events, and the back-testing of criteria used to define the apportionment and preliminary adjustment of variable remuneration to risks based on the results of realised risks;
- direct control over the remuneration of identified staff in independent control functions, including the member of the Management Board and Chief Risk Officer, Internal Audit Department and Compliance Office, and the drafting of recommendations for the Supervisory Board concerning the formulation of a remuneration package and remuneration amounts paid to senior employees in control functions; and
- ensure the appropriate inclusion of the HR Management, Process and Organisation Department, Strategic Risk Management Department and the department responsible for accounting and controlling in the relevant professional areas, and search for external advisors, as required.

In the scope of its competences, the Remuneration Committee ensures that a centralised and independent review of the Remuneration Policy and practices is carried out at least once a year, in accordance with regulations, policies, procedures and internal rules, by the Internal Audit Department in cooperation with the Bank's expert departments, taking into account the latter's competences. The Supervisory Board is responsible for reviewing the Remuneration Policy.

The Remuneration Committee met at three regular and seven correspondence sessions in 2023, and reported on the content it discussed at sessions of the Supervisory Board.

Amendments to the Remuneration Policy were discussed by the Management Board and Remuneration Committee in 2023, and then confirmed by the Supervisory Board at correspondence session held on 1 February 2023.

Definition of staff whose professional activities have a material impact on the Bank's risk profile

In accordance with the law, the Bank performs, at a minimum, an annual self-assessment of the appropriateness of the identification of staff whose professional activities have a material impact on the Bank's risk profile based on the qualitative and quantitative criteria set out in Commission Delegated Regulation (EU) 2021/923 and the Bank's additional internal criteria. The list of staff whose professional activities have a material impact on the Bank's risk profile is an integral part (as an enclosure) of Nova KBM d.d.'s Remuneration Policy.

Also taken into account in the identification of staff whose professional activities have a material impact on the Bank's risk profile is the additional condition that those staff be treated as such for at least three months during the financial year.

In accordance with their responsibilities, the Remuneration Committee and Risk Committee are actively included in the process of defining the aforementioned staff, in cooperation with the Bank's expert departments (Strategic Risk Management Department, Compliance Office and HR Management, Processes and Organisation Department), in accordance with their tasks. An assessment of the list of staff whose professional activities have a material impact on the Bank's risk profile is also carried out in the event of major changes to the Bank's organisational structure and legislative changes.

The category of staff whose professional activities have a material impact on the risk profile at subsidiaries includes the directors of subsidiaries, as well as employees, if subsidiaries define them as such in their bylaws. The Bank ensures that the Remuneration Policy is implemented and taken into account by the entire group on a consolidated and sub-consolidated basis.

17.2 INFORMATION ON LINK BETWEEN PAY AND PERFORMANCE

(Article 450 (1b) of the CRR)

In accordance with the Banking Act (ZBan-3), the Regulation on internal governance arrangements, the management body and the internal capital adequacy assessment process for banks and savings banks, the Regulation on the application of the Guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013, and the EBA guidelines of 2 July 2021 (EBA/GL/2021/04), the Bank is obliged to establish and implement a Remuneration Policy at the Group level for categories of identified staff that promotes sound and effective risk management.

The Remuneration Policy relates to all forms of employee remuneration at the Bank (fixed and variable), with an emphasis on staff whose professional activities have a material impact on the Bank's risk profile.

The Remuneration Policy is in line with performance targets for the Bank (which is evident from the Bank's annual business plan, which is deemed an integral part of the Remuneration Policy), business areas and employees, the Bank's business and risk management strategies, including environmental, social and governance risks and objectives in connection with those risks, the corporate culture and values, the Bank's long-term interests and measures for the prevention of conflicts of interests. To that end, the objective is to ensure at the Bank a structure and payment of remuneration that provides for the appropriate motivation of employees, while not encouraging employees to irresponsibly take disproportionately large risks in the course of their work, or risks that exceed the Bank's risk absorption capacity.

Variable remuneration is based on the performance of the Bank, business units and employees, and takes account of the take-up of risks. The Remuneration Policy in connection with variable remuneration and the appraisal of performance clearly distinguishes between the effects of the work of business units and the corporate and control functions. The Remuneration Policy helps the Bank achieve and maintain the target level of own funds and liquidity.

Also forming an integral part of the Remuneration Policy are documents that govern performance bonuses for employees of Nova KBM d.d., in particular the Rules on the Performance management process in Nova KBM d.d., with the following addenda: Rules of Sales incentive scheme for employees in Retail and Micro, Rules of Sales incentive scheme for employees in Contact centre, Rules of Sales incentive scheme for employees in SME and Large Corporate segment, and Directives for non-financial rewards for employees in Nova KBM d.d.

The principles of the Remuneration Policy are captured in the remuneration policy of the subsidiary.

The Bank includes the effect of variable remuneration (up-front and deferred amounts) in the planning of own funds and liquidity, and in its internal capital adequacy assessment process. The total variable remuneration apportioned by the Bank may not limit its ability to maintain or re-establish the target level of own funds and liquidity in accordance with the Group's Risk Appetite Strategy, and must take into account the interests of shareholders, owners, depositors, investors and other stakeholders. Variable remuneration may not be apportioned or paid if this would cause a drop in the target level of own funds below the minimum capital requirement set out in the relevant SREP decision, or a drop in key liquidity ratios, defined in accordance with the risk appetite statement, below the acceptable thresholds set out in the same document. If the Bank does not have a sound capital and liquidity base or that soundness is at risk, it must adapt and implement the appropriate measures in connection with variable remuneration in accordance with the Remuneration Policy.

17.3 MOST IMPORTANT DESIGN CHARACTERISTICS OF THE REMUNERATION SYSTEM, INCLUDING INFORMATION ON THE CRITERIA USED FOR PERFORMANCE MEASUREMENT AND RISK ADJUSTMENT, DEFERRAL POLICY AND VESTING CRITERIA

(Article 450 (1c) of the CRR)

The Bank has in place since 2017 a performance management system, in which the organisation's objectives for the implementation of its five strategic pillars (Growth and profitability, Client excellence, Strong risk management and compliance, Operational efficiency and Organisational culture and talent development), which also include environmental aspects with the aim of increasing the level of sustainable operations (ESG [2]strategy), the objectives of organisational units and the personal objectives of individuals for 2023 were included. The objectives of employees at managerial levels B-1 and B-2 are set and assessed annually, while the personal objectives of other employees are amended quarterly. The assessment of key competences is also part of an employee's annual performance assessment, while managerial competences are additionally assessed for managers.

The Bank uses various remuneration policies and mechanisms for adjusting variable remuneration to risks for different employee categories. Those policies and mechanisms are defined by the performance assessment criteria for the payment of variable remuneration, which serve as an enclosure to the Remuneration Policy. The amount of apportioned variable remuneration is adjusted to changes in the performance of an employee, organisational unit and the Bank. The Bank takes into account the ZBan-3, which states that 50% of variable remuneration comprises ordinary and preference shares of the Bank, or share-linked instruments or equivalent non-cash instruments, where the acquirer may only transfer such shares or instruments with the Bank's permission, which may not be granted for at least two years following acquisition.

Criteria used for performance assessment for the payment of variable remuneration, and ratio between the fixed and variable remuneration of staff whose professional activities have a significant impact on the Bank's risk profile

The apportionment of variable remuneration for identified staff is the responsibility of the Remuneration Committee and the Supervisory Board, and is based on a performance assessment that takes into account the risk management strategy and is in line with the Bank's business strategy. When apportioning the variable element of remuneration to identified staff, the Bank takes appropriate account of the need to maintain or re-establish the target level of own funds and liquidity, the potential influences of external and internal stakeholders, and the regulatory body's recommendations and guidelines. In special circumstances, the amount of apportioned variable remuneration can be lower than defined for a specific assessment in the Remuneration Policy.

The members of the Supervisory Board only receive fixed remuneration. They may also be paid variable remuneration in exceptional cases.

The criteria used to assess performance for the payment of variable remuneration, and ratio between the fixed and variable remuneration are broken down into three categories:

1. MANAGEMENT BOARD

The remuneration of Management Board members is in line with their powers, tasks, knowledge and responsibilities. It is assessed by the Supervisory Board, whereby the proposal issued by the President of the Management Board, based on performance management indicators, is taken into account for Management Board members. The amount of variable remuneration of Management Board members is discussed by the Remuneration Committee and set by means of Supervisory Board resolution following confirmation of the Annual Report.

Depending on achieved objectives, the amount of variable remuneration of identified staff under this point is given below (percentage of gross annual wages of the employee to which the criteria relate):

[2] ESG is an acronym that describes the way a company operates and manages its impacts in three areas: environmental, social and governance.

Table 12: Amount of variable remuneration of Management Board (except Chief Risk Officer)

	Amount of variable remuneration
Exceptional, excellent, best possible (achievement of 96%–100% of objectives)	90%–100%
Very good, above expectations (achievement of 86%–95% of objectives)	60%-90%
Good, expected, successful (achievement of 76%–85% of objectives)	20%–80%
Average, certain elements below expectations (achievement of 64%–75% of objectives)	0%–20%
Modest, unsatisfactory (achievement of <64% of objectives)	0%
Not assessed (less than 3 months of regular employment)	0%

** Under special circumstances, the apportioned amount of variable remuneration may also be lower than the remuneration set according to the above criteria.*

2. CONTROL FUNCTIONS: MEMBER OF THE MANAGEMENT BOARD AND CHIEF RISK OFFICER, AND DIRECTORS OF THE COMPLIANCE OFFICE AND INTERNAL AUDIT DEPARTMENT

The remuneration of identified staff in control functions is primarily fixed. Identified staff in control functions have the appropriate powers and receive remuneration with respect to the achievement of objectives linked to their functions, independent of the performance of the business areas they control.

Depending on achieved objectives, the amount of variable remuneration of identified staff under this point is given below (percentage of gross annual wages of the employee to which the criteria relate):

Table 13: Amount of variable remuneration of identified staff in control functions

	Amount of variable remuneration
Exceptional, excellent, best possible (achievement of 96%–100% of objectives)	30%–80%
Very good, above expectations (achievement of 86%–95% of objectives)	20%–70%
Good, expected, successful (achievement of 76%–85% of objectives)	3%-60%
Average, certain elements below expectations (achievement of 64%–75% of objectives)	0%–3%
Modest, unsatisfactory (achievement of <64% of objectives)	0%
Not assessed (less than 3 months of regular employment)	0%

** Under special circumstances, the apportioned amount of variable remuneration may also be lower than the remuneration set according to the above criteria.*

A total of 80% of variable remuneration represents the upper limit for exceptional performance of identified staff in control functions.

The actual amount of variable remuneration apportioned to identified staff in control functions (except the member of the Management Board and Chief Risk Officer) is set by means of Management Board resolution, while the proposed amount of apportioned remuneration is sent to the Remuneration Committee for discussion and confirmed by the Bank's Supervisory Board.

Notwithstanding the provisions of this point, the member of Management Board and Chief Risk Officer is assessed by the Supervisory Board. Similar to other members of the Management Board, provisions regarding the deferral of payment and payment in the form of ordinary or preference shares of the Bank or in the form of share-linked instruments or equivalent non-cash instruments apply to the above-mentioned person.

3. PROCURATORS AND OTHER IDENTIFIED STAFF ON INDIVIDUAL EMPLOYMENT CONTRACTS IN ACCORDANCE WITH THE ADDITIONAL CRITERIA OF THE BANK, AND COMMITTEE MEMBERS[3] (CC, CCHRI, IILC, ALCO AND LIQUIDITY COMMISSION)

Depending on achieved objectives, the amount of variable remuneration of identified staff under this point is given below (percentage of gross annual wages of the employee to which the criteria relate):

[3] Bank Credit Committee (CC), Problem Loan Committee (PLC), Investment and International Lending Committee (IILC) and Asset-Liability Committee (ALCO).

Table 14: Amount of variable remuneration of procurators and other identified staff on individual contracts

	Amount of variable remuneration
Exceptional, excellent, best possible (achievement of 96%–100% of objectives)	40%–100%
Very good, above expectations (achievement of 86%–95% of objectives)	20%–90%
Good, expected, successful (achievement of 76%–85% of objectives)	3%–60%
Average, certain elements below expectations (achievement of 64%–75% of objectives)	0%–3%
Modest, unsatisfactory (achievement of <64% of objectives)	0%
Not assessed (less than 3 months of regular employment)	0%

** Under special circumstances, the apportioned amount of variable remuneration may also be lower than the remuneration set according to the above criteria.*

The actual amount of variable remuneration apportioned to procurators and other identified staff under individual employment contracts is set by means of a Management Board resolution, while the proposed amount of apportioned remuneration is sent to the Remuneration Committee for discussion and confirmed by the Bank's Supervisory Board.

Deferral of payment and payment in the form of ordinary or preference shares of the Bank or in the form of share-linked instruments or equivalent non-cash instruments – deferral scheme

Nova KBM's Remuneration Policy includes provisions regarding the required deferral of payment, and required payment in the form of financial or non-cash instruments as variable remuneration for identified staff. In the event of the apportionment of variable remuneration in excess of the gross amount of €50,000.00 or remuneration in excess of one-third of an employee's total annual remuneration, the Bank uses a deferral scheme created as follows (principle of proportionality):

- 60% of the amount of remuneration is paid immediately (up-front payment);
- 40% of the amount of remuneration is deferred and paid proportionately over a period of four to five years on a pro-rata basis, taking into account the fact that 80% of remuneration apportioned in the form of equity instruments or equivalent non-cash instruments is deferred;
- a two-year deferral period applies for shares and instruments, where that deferral period begins following the maturity of instruments that were apportioned as variable remuneration. During that period, those instruments may not be sold or accessed (applying the formula n+x+2, where 'n' represents the moment when the up-front part of apportioned variable remuneration is paid and 'x' represents the year of each year of deferral).
- in the event of high amounts (i.e. in excess of €250,000.00), the payment of at least 60% of variable remuneration is deferred.

Performance must be reassessed prior to payment of the deferred portion of cash or the maturity of deferred instruments for payment, and a preliminary risk adjustment made to variable remuneration, as required, to ensure that variable remuneration is in line with newly identified risks or risks that were realised following apportionment.

The process of adjusting variable remuneration to risks includes the process of measuring performance and risks, the process of apportionment and the process of payment. In all phases of risk adjustment, variable remuneration is adjusted for all current risks (ICAAP) and risks taken-up in the future (stress tests). An appropriate combination of quantitative and qualitative criteria, in the form of absolute and relative criteria, is applied in the process of adjusting variable remuneration to risks in order to ensure that all risks, performance and the necessary risk adjustments are taken into account.

The Bank sets the planned amount of variable remuneration and variable remuneration that will be apportioned on the basis of an assessment of performance and accepted risks. The adjustment of variable remuneration to risks prior to apportionment ('ex-ante risk adjustment') is based on risk indicators, and ensures that apportioned variable remuneration takes full account of risks assumed. Preliminary adjustments in the calculation of risk-adjusted variable remuneration are made at the level of the Bank and at the level of organisational unit where possible.

The highest amount that can be apportioned to employees as severance pay is 12 salaries, unless otherwise stated by the law, sectoral collective agreement or company-level collective agreement.

Severance pay may not represent a disproportionate benefit, but rather appropriate compensation for employees in the event of contract termination. It must reflect performance achieved in a given period, and may not reward an employee for non-performance or breaches. Severance pay may not be apportioned when employees terminate their employment voluntarily (ordinary termination of an employment contract by an employee) because they have accepted a job at a different legal entity.

The Bank did not provide discretionary pension benefits in 2023.

Malus and clawback

The Remuneration Policy defines cases when the cash element of the deferred portion of variable remuneration or the number or value of instruments comprising the deferred portion of variable remuneration is reduced (including to zero) by the Bank's Supervisory Board for a member of the Management Board or by the Management Board for other identified staff on account of a subsequent risk adjustment prior to maturity for payment. The factors that affect decisions regarding changes to, and the reduction and non-payment of variable remuneration include:

- the finding that the Annual Report is null and void, and the reasons for such a finding relate to items or facts that served as the basis for the setting of variable remuneration;
- the finding, based on a special auditor's report, that the criteria for setting variable remuneration were applied incorrectly or that, in that process, the decisive accounting, financial and other data and indicators were incorrectly determined or taken into account;
- a wilful act that results in a breach of the limits set out in the Nova KBM Group's Operative Limits Handbook;
- an intentional act in contravention of authorisations that are assigned by the competent body, as set out in the Bank's bylaws and instructions;
- a breach of Nova KBM's valid Code of Conduct, including conduct that is in contravention of the ethical principles and values pursued by the Bank; and
- regular or repeated refusal to participate in obligatory education and training organised by the Bank.

Moreover, the Bank's Management Board, Remuneration Committee and Supervisory Board may take into account other potential variables when making decisions regarding variable remuneration, decisions regarding final changes to variable remuneration (either current or deferred) and decisions regarding the use of clawback.

17.4 RATIOS BETWEEN FIXED AND VARIABLE REMUNERATION SET IN ACCORDANCE WITH POINT (G) OF ARTICLE 94(1) OF DIRECTIVE 2013/36/EU

(Article 450 (1d) of the CRR)

The Bank classifies remuneration to fixed or variable.

The criteria for classification to fixed remuneration are as follows:

- the level of professional experience and years of service are taken into account in a uniform manner;
- remuneration is transparent with regard to the individual amount apportioned to a specific employee;
- remuneration is constant, i.e. it is maintained for a period linked to a specific role and organisational responsibilities;
- remuneration is irrevocable; a constant amount is only changed based on collective negotiations;
- the Bank may not reduce, terminate or recall remuneration;
- remuneration does not encourage the take-up of risks;
- remuneration is not dependent on the performance of the Bank, organisational unit and employees;
- remuneration is apportioned in a form that cannot be deferred;
- remuneration is part of a typical employment package;
- remuneration is linked to a role or organisational responsibility, and is apportioned until there is no material change in connection with the responsibilities and competences of that role and such a change could lead to an employee's entirely different role or organisational responsibility;
- the amount is not dependent on other factors, but solely on the performance of a specific role or organisational responsibility; and
- all other employees who perform the same role or have the same organisational responsibility and hold a comparable position would be entitled to comparable compensation.

Remuneration that the Bank is unable to define as fixed remuneration in accordance with the criteria set out in the previous paragraphs is defined as variable remuneration.

The Bank follows the principle of proportionality when formulating and implementing the Remuneration Policy. This means that the Remuneration Policy and the implementation thereof are in line with the Bank's risk profile, risk appetite and strategy. When assessing proportionality, the Bank takes into account criteria in connection with the specific circumstances of the Bank's operations, such as size and internal organisational structure, and the nature, scope and complexity of the Bank's activities, including risk factors that derive from the amount of variable remuneration of specific identified staff.

The Remuneration Policy is a reflection of the close link between remuneration and the prudent take-up of risks, and is not designed to encourage the increased willingness to take-up risks or to act in contravention of interests. This is ensured by defining appropriate ratios between the fixed and variable components of employee remuneration, taking into account the fact that variable component of remuneration is not directly linked to the scope or value of executed transactions or with the associated risk exposure.

The fixed component of remuneration represents the contractually defined base wage, which is based on the complexity and scope of work, and correlates with assumed responsibilities, set objectives and risks.

The Bank defines the entire variable component of remuneration on the basis of the performance of an employee, an employee's organisational unit and the general operating results of the bank.

The total variable remuneration apportioned by the Bank may not limit its ability to maintain or re-establish a sound level of own funds and liquidity, and must take into account the interests of shareholders, owners, depositors, investors and other stakeholders. Variable remuneration may not be apportioned or paid if this would threaten the Bank's sound level of the own funds and liquidity.

In the scope of its Remuneration Policy, the Bank defined the maximum ratio between the variable and fixed elements of total remuneration for identified staff. That ratio is 1:1. The actual amount of apportioned variable remuneration is confirmed by the predetermined decision-making body.

The maximum ratios between fixed and variable remuneration and the bodies responsible for decisions regarding actual apportioned variable remuneration are as follows:

- **for members of the Bank's Management Board, except Chief Risk Officer**

The maximum ratio between the fixed and variable components of remuneration is 1:1.

- **for control functions (member of the Bank's Management Board and Chief Risk Officer; directors of the Compliance Office and Internal Audit Department)**

The maximum ratio between the fixed and variable components of remuneration is 1:0.8.

- **Procurators and other identified staff on individual employment contracts in accordance with the additional criteria of the Bank, and committee members (CC, CCHRI, IILC, ALCO and Liquidity Commission)**

The maximum ratio between the fixed and variable components of remuneration is 1:1.

Staff whose professional activities have a material impact on the Bank's risk profile must strive to avoid the use of personal insurance to hedge against risks, or remuneration- and liability-related insurance to undermine the risk alignment effects embedded in their variable remuneration.

17.5 INFORMATION ON THE PERFORMANCE CRITERIA ON WHICH THE ENTITLEMENT TO SHARES, OPTIONS OR VARIABLE COMPONENTS OF REMUNERATION IS BASED

(Article 450 (1e) of the CRR)

For determining variable remuneration for the purposes set out in points 3 and 4 of the second paragraph of Article 190 of the ZBan-3, the Bank set the lower threshold for the definition of variable remuneration, such that the total variable remuneration of identified staff that does not exceed €50,000.00 gross in a given year and that does not exceed one-third of their total annual remuneration does not constitute variable remuneration for the purposes of the aforementioned provision. The limits defined by the fundamental principles of points 3 and 4 of the second paragraph of Article 190 of the ZBan-3 (the apportionment of the variable element in shares or relevant instruments, and the deferral of payment of a portion of variable remuneration) thus do not apply to variable remuneration under the lower threshold.

In accordance with the guidance referred to in the previous point, the amount of variable remuneration does not represent a material risk factor at the level of identified staff or such variable remuneration is negligible with respect to the risk posed to the Bank.

17.6 MAIN PARAMETERS AND RATIONALE FOR ANY VARIABLE COMPONENT SCHEME AND ANY OTHER NON-CASH BENEFITS

(Article 450 (1f) of the CRR)

The main parameters and rationale for each variable component scheme are disclosed in point 17.3. Other non-cash benefits are defined in individual employment contracts, which are approved by the Supervisory Board for members of the Management Board, and by the Management Board for staff whose professional activities have a material impact on the Bank's risk profile and for others on individual employment contracts. A range of non-cash benefits is part of a typical employment package, and depends on the standard package for senior management, key function holders, identified staff and directors with respect to the scope of employee's responsibilities. They relate to:

- a company car (for business/private use),
- a mobile phone,
- the payment of rent for living quarters,
- a Nova KBM payment card,
- accident and health insurance,
- supplementary pension insurance,
- managerial medical examinations,
- education and training,
- the payment of education costs for minor children
- liability insurance,
- representation costs,
- parking space, and
- other reasonable work-related costs.

17.7 AGGREGATED QUANTITATIVE INFORMATION ON REMUNERATION OF STAFF WHOSE PROFESSIONAL ACTIVITIES HAVE A MATERIAL IMPACT ON THE BANK'S RISK PROFILE

The template disclosed in this section do not include rows that are not relevant for the Group. The data are presented in euros.

Template 39: EU REM1 – Remuneration awarded for the 2023 financial year
(Article 450 (1)(h)(i) and (ii) of the CRR)

			a	b	c	d
			MB Supervisory function	MB Management function	Other senior management	Other identified staff
1	**Fixed remuneration**	Number of identified staff	7.00	4.00	18.00	12.80
2		Total fixed remuneration	**267,373.84**	**2,351,841.05**	**2,702,859.46**	**1,039,004.28**
3		Of which: cash-based	267,373.84	2,183,282.91	2,575,332.10	1,009,628.66
7		Of which: other forms	0.00	168,558.14	127,527.36	29,375.62
9	**Variable remuneration**	Number of identified staff	7.00	4.00	18.00	11.80
10		Total variable remuneration	**0.00**	**1,899,216.00**	**1,420,794.34**	**366,386.17**
11		Of which: cash-based	0.00	949,608.00	929,023.84	287,761.17
12		Of which: deferred	0.00	335,606.40	83,002.86	0.00
EU-13a		Of which: shares or equivalent ownership interests	0.00	949,608.00	491,770.50	78,625.00
EU-14a		Of which: deferred	0.00	759,686.40	393,416.40	62,900.00
17	**Total remuneration (2 + 10)**		**267,373.84**	**4,251,057.05**	**4,123,653.80**	**1,405,390.45**

Template 40: EU REM2 – Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)
(Article 450 (1)(h)(v) to (vii) of the CRR)

		a	b	c	d
		MB Supervisory function	MB Management function	Other senior management	Other identified staff
	Severance payments awarded during the financial year				
6	Severance payments awarded during the financial year - Number of identified staff			1	
7	Severance payments awarded during the financial year - Total amount			193,673.34	
8	Of which paid during the financial year			110,670.48	
9	Of which deferred			83,002.86	
10	Of which severance payments paid during the financial year, that are not taken into account in the bonus cap			110,670.48	
11	Of which highest payment that has been awarded to a single person			193,673.34	

Template 41: EU REM 3 – Deferred remuneration
(Article 450 (1)(h)(iii) and (iv) of the CRR)

		a	b	c	d	e	f	EU - g	EU - h
	Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e.changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
7	**MB Management function**	**3,974,448.38**	**752,088.90**	**3,102,455.48**			**1,237,693.51**	**935,820.46**	**1,574,454.50**
8	Cash-based	1,816,747.39	376,044.45	1,380,750.94				435,996.46	
9	Shares or equivalent ownership interests	2,157,700.99	376,044.45	1,721,704.54			1,237,693.51	499,824.00	1,574,454.50
13	**Other senior management**	**458,193.74**	**36,166.66**	**422,027.06**			**20,960.33**	**18,083.33**	**41,509.60**
14	Cash-based	69,166.67	18,083.33	51,083.33				18,083.33	
15	Shares or equivalent ownership interests	389,027.07	18,083.33	370,943.73			20,960.33	0.00	41,509.60
25	**Total amount**	**4,432,642.12**	**788,255.56**	**3,524,482.54**	**0.00**	**0.00**	**1,258,653.84**	**953,903.79**	**1,615,964.10**

The figures in the table do not include legal entities which, due to a change of ownership in 2023, are no longer part of the OTP Luxembourg Group.

Template 42: EU REM4 – Remuneration of €1 million or more per year
(Article 450 (1)(i) of the CRR)

		a
	EUR	Identified staff that are high earners as set out in Article 450(i) CRR
3	2 000 000 to below 2 500 000	1

Template 43: EU REM5 – Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)
(Article 450 (1)(g) of the CRR)

		a	b	c	d	e	f	g	h	i	j
		Management body remuneration			Business areas						-
		MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total
1	**Total number of identified staff**										**41.8**
2	**Of which: members of the MB**	7	4	11							
3	**Of which: other senior management**				1	4	0	6	4	3	
4	**Of which: other identified staff**				2	2	0	5.8	3	0	
5	**Total remuneration of identified staff**	267,373.84	4,251,057.05	**4,518,430.89**	479,482.44	921,122.10	0.00	2,527,207.16	1,120,865.05	480,367.50	
6	**Of which: variable remuneration**	0.00	1,899,216.00	**1,899,216.00**	166,880.00	267,726.00	0.00	865,270.81	355,753.70	131,550.00	
7	**Of which: fixed remuneration**	267,373.84	2,351,841.05	**2,619,214.89**	312,602.44	653,396.10	0.00	1,661,936.35	765,111.35	348,817.50	

18 LEVERAGE RATIO

(Article 451 of the CRR)

This section defines the disclosure requirements set out in Article 451 of Part Eight of the CRR, and in the templates prescribed in Article 6 of Commission Implementing Regulation (EU) 2021/637.

18.1 LEVERAGE RATIO

(Article 451(a) to (c) of the CRR)

The Bank includes the following in the calculation of the total exposure measure for the purpose of calculating the leverage ratio:

- on-balance-exposures, without taking into account own funds deductions;
- the relevant portion of off-balance sheet exposures, i.e. taking into account conversion factors and excluding value adjustments; and
- the relevant exposures from derivatives.

Movements in the exposure measure and Tier 1 capital are explained in sections 4.4, 5.4 and 18.3 of this document.

18.1.1 LEVERAGE RATIO FOR THE OTP LUXEMBOURG GROUP

Template 44: EU LR1 – LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

€000

		a
		Applicable amount as at 31 December 2023
1	Total assets as per published financial statements	10,859,968
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0
3	(Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference)	-
4	(Adjustment for temporary exemption of exposures to central bank (if applicable))	-
5	(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 point (i) of Article 429a(1) CRR)	-
6	Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	-
7	Adjustment for eligible cash pooling transactions	-
8	Adjustments for derivative financial instruments	46,071
9	Adjustments for derivative financial instruments (SFTs)	-
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	480,896
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital)	-
EU-11a	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with point (c) of Article 429a(1) CRR)	-
EU-11b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with point (j) of Article 429a(1) CRR)	-
12	Other adjustments	(110,026)
13	**Total exposure measure**	**11,276,909**

Template 45: EU LR2 – LRCom: Leverage ratio common disclosure

€000

		CRR leverage ratio exposure	
		a	b
		31 December 2023	31 December 2022
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	10,839,422	10,419,310
2	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	-	-
5	(General credit risk adjustments to on-balance sheet items)	-	-
6	(Asset amounts deducted in determining Tier 1 capital)	(89,480)	(88,163)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**10,749,942**	**10,331,147**
Derivative exposures			
8	Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin)	-	-
EU-8a	Derogation for derivatives: replacement costs contribution under the simplified standardised approach	-	-
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	-	-
EU-9a	Derogation for derivatives: potential future exposure contribution under the simplified standardised approach	-	-
EU-9b	Exposure determined under Original Exposure Method	46,071	29,992
10	(Exempted CCP leg of client-cleared trade exposures) (SA-CCR)	-	-
EU-10a	(Exempted CCP leg of client-cleared trade exposures) (simplified standardised approach)	-	-

EU-10b	(Exempted CCP leg of client-cleared trade exposures) (original exposure method)	-	-
11	Adjusted effective notional amount of written credit derivatives	-	-
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
13	**Total derivative exposures**	**46,071**	**29,992**
Securities financing transaction (SFT) exposures			
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	-	-
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
16	Counterparty credit risk exposure for SFT assets	-	-
EU-16a	Derogation for SFTs: counterparty credit risk exposure in accordance with Articles 429e(5) and 222 CRR	-	-
17	Agent transaction exposures	-	-
EU-17a	(Exempted CCP leg of client-cleared SFT exposure)	-	-
18	**Total securities financing transaction exposures**	**-**	**-**
Other off-balance sheet exposures			
19	Off-balance sheet exposures at gross notional amount	1,957,157	1,818,107
20	(Adjustments for conversion to credit equivalent amounts)	(1,476,261)	(1,343,762)
21	(General provisions deducted in determining Tier 1 capital and specific provisions associated with off-balance sheet exposures)	-	-
22	**Off-balance-sheet exposures**	**480,896**	**474,345**
Excluded exposures			
EU-22a	(Exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) CRR)	-	-
EU-22b	(Exposures exempted in accordance with point (j) of Article 429a(1) CRR (on and off balance sheet))	-	-
EU-22c	(Excluded exposures of public development banks (or units) - Public sector investments)	-	-
EU-22d	(Excluded exposures of public development banks (or units) - Promotional loans)	-	-
EU-22e	(Excluded passing-through promotional loan exposures by non-public development banks (or units))	-	-
EU-22f	(Excluded guaranteed parts of exposures arising from export credits)	-	-
EU-22g	(Excluded excess collateral deposited at triparty agents)	-	-
EU-22h	(Excluded CSD related services of CSD/institutions in accordance with point (o) of Article 429a(1) CRR)	-	-
EU-22i	(Excluded CSD related services of designated institutions in accordance with point (p) of Article 429a(1) CRR)	-	-
EU-22j	(Reduction of the exposure value of pre-financing or intermediate loans)	-	-
EU-22k	**(Total exempted exposures)**	**-**	**-**
Capital and total exposure measure			
23	Tier 1 capital	933,701	853,831

24	Total exposure measure	11,276,909	10,835,484
Leverage ratio			
25	Leverage ratio (%)	8.28%	7.88%
EU-25	Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans) (%)	8.28%	7.88%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	8.28%	7.88%
26	Regulatory minimum leverage ratio requirement (%)	3.00%	3.00%
EU-26a	Additional own funds requirements to address the risk of excessive leverage (%)	0.00%	0.00%
EU-26b	of which: to be made up of CET1 capital	0.00%	0.00%
27	Leverage ratio buffer requirement (%)	0.00%	0.00%
EU-27a	Overall leverage ratio requirement (%)	3.00%	3.00%
Choice on transitional arrangements and relevant exposures			
EU-27b	Choice on transitional arrangements for the definition of the capital measure	yes	no
Disclosure of mean values			
28	Mean of daily values of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable	-	-
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	-	-
30	Total exposure measure (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	11,276,909	10,835,484
30a	Total exposure measure (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	11,276,909	10,835,484
31	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	8.28%	7.88%
31a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	8.28%	7.88%

Template 46: EU LR3 – LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

€000

		a
		CRR leverage ratio exposures as at 31 December 2023
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**10,839,422**
EU-2	Trading book exposures	20
EU-3	Banking book exposures, of which:	10,839,402
EU-4	Covered bonds	248,650
EU-5	Exposures treated as sovereigns	4,126,864
EU-6	Exposures to regional governments, MDB, international organisations and PSE, not treated as sovereigns	287,280
EU-7	Institutions	947,925
EU-8	Secured by mortgages on immovable properties	1,213,186
EU-9	Retail exposures	1,380,154
EU-10	Corporates	1,970,820
EU-11	Exposures in default	60,314
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	604,209

18.1.2 LEVERAGE RATIO FOR THE NOVA KBM GROUP

Template 47: EU LR1 – LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

€000

		a
		Applicable amount as at 31 December 2023
1	Total assets as per published financial statements	10,807,866
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0
3	(Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference)	-
4	(Adjustment for temporary exemption of exposures to central bank (if applicable))	-
5	(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 point (i) of Article 429a(1) CRR)	-
6	Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting	-
7	Adjustment for eligible cash pooling transactions	-
8	Adjustments for derivative financial instruments	46,071
9	Adjustments for derivative financial instruments (SFTs)	-
10	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	480,896

		a
		Applicable amount as at 31 December 2023
11	(Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital)	-
EU-11a	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with point (c) of Article 429a(1) CRR)	-
EU-11b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with point (j) of Article 429a(1) CRR)	-
12	Other adjustments	(109,139)
13	**Total exposure measure**	11,225,694

Template 48: EU LR2 – LRCom: Leverage ratio common disclosure

€000

		CRR leverage ratio exposure	
		a	b
		31 December 2023	31 December 2022
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	10,787,320	10,395,007
2	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
3	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	-	-
5	(General credit risk adjustments to on-balance sheet items)	-	-
6	(Asset amounts deducted in determining Tier 1 capital)	(88,593)	(87,271)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**10,698,727**	**10,307,736**
Derivative exposures			
8	Replacement cost associated with SA-CCR derivatives transactions (ie net of eligible cash variation margin)	-	-
EU-8a	Derogation for derivatives: replacement costs contribution under the simplified standardised approach	-	-
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	-	-
EU-9a	Derogation for derivatives: potential future exposure contribution under the simplified standardised approach	-	-

		CRR leverage ratio exposure	
		a	b
		31 December 2023	31 December 2022
EU-9b	Exposure determined under Original Exposure Method	46,071	29,992
10	(Exempted CCP leg of client-cleared trade exposures) (SA-CCR)	-	-
EU-10a	(Exempted CCP leg of client-cleared trade exposures) (simplified standardised approach)	-	-
EU-10b	(Exempted CCP leg of client-cleared trade exposures) (original exposure method)	-	-
11	Adjusted effective notional amount of written credit derivatives	-	-
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
13	**Total derivative exposures**	**46,071**	**29,992**
Securities financing transaction (SFT) exposures			
14	Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions	-	-
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
16	Counterparty credit risk exposure for SFT assets	-	-
EU-16a	Derogation for SFTs: counterparty credit risk exposure in accordance with Articles 429e(5) and 222 CRR	-	-
17	Agent transaction exposures	-	-
EU-17a	(Exempted CCP leg of client-cleared SFT exposure)	-	-
18	**Total securities financing transaction exposures**	**-**	**-**
Other off-balance sheet exposures			
19	Off-balance sheet exposures at gross notional amount	1,957,157	1,818,107
20	(Adjustments for conversion to credit equivalent amounts)	(1,476,261)	(1,343,762)
21	(General provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)	-	-
22	**Off-balance sheet exposures**	**480,896**	**474,345**
Excluded exposures			
EU-22a	(Exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) CRR)	-	-
EU-22b	(Exposures exempted in accordance with point (j) of Article 429a(1) CRR (on and off balance sheet))	-	-
EU-22c	(Excluded exposures of public development banks (or units) - Public sector investments)	-	-
EU-22d	(Excluded exposures of public development banks (or units) - Promotional loans)	-	-

		CRR leverage ratio exposure	
		a	b
		31 December 2023	31 December 2022
EU-22e	(Excluded passing-through promotional loan exposures by non-public development banks (or units))	-	-
EU-22f	(Excluded guaranteed parts of exposures arising from export credits)	-	-
EU-22g	(Excluded excess collateral deposited at triparty agents)	-	-
EU-22h	(Excluded CSD related services of CSD/institutions in accordance with point (o) of Article 429a(1) CRR)	-	-
EU-22i	(Excluded CSD related services of designated institutions in accordance with point (p) of Article 429a(1) CRR)	-	-
EU-22j	(Reduction of the exposure value of pre-financing or intermediate loans)	-	-
EU-22k	**(Total exempted exposures)**	**-**	**-**
Capital and total exposure measure			
23	Tier 1 capital	938,683	852,079
24	Total exposure measure	11,225,694	10,812,074
Leverage ratio			
25	Leverage ratio (%)	8.36%	7.88%
EU-25	Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans) (%)	8.36%	7.88%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	8.36%	7.88%
26	Regulatory minimum leverage ratio requirement (%)	3.00%	3.00%
EU-26a	Additional own funds requirements to address the risk of excessive leverage (%)	0.00%	0.00%
EU-26b	of which: to be made up of CET1 capital	0.00%	0.00%
27	Leverage ratio buffer requirement (%)	0.00%	0.00%
EU-27a	Overall leverage ratio requirement (%)	3.00%	3.00%
Choice on transitional arrangements and relevant exposures			
EU-27b	Choice on transitional arrangements for the definition of the capital measure	yes	no
Disclosure of mean values			
28	Mean of daily values of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable	-	-
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	-	-

		CRR leverage ratio exposure	
		a	b
		31 December 2023	31 December 2022
30	Total exposure measure (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	11,225,694	10,812,074
30a	Total exposure measure (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	11,225,694	10,812,074
31	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	8.36%	7.88%
31a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	8.36%	7.88%

Template 49: EU LR3 – LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

€000

		a
		CRR leverage ratio exposures as at 31 December 2023
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**10,787,320**
EU-2	Trading book exposures	20
EU-3	Banking book exposures, of which:	10,787,300
EU-4	Covered bonds	248,650
EU-5	Exposures treated as sovereigns	4,126,864
EU-6	Exposures to regional governments, MDB, international organisations and PSE, not treated as sovereigns	287,280
EU-7	Institutions	892,034
EU-8	Secured by mortgages on immovable properties	1,213,186
EU-9	Retail exposures	1,380,154
EU-10	Corporates	1,970,710
EU-11	Exposures in default	60,314
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	608,109

18.2 DESCRIPTION OF THE PROCESSES USED TO MANAGE THE RISK OF EXCESSIVE LEVERAGE

(Article 451(d) of the CRR)

The parent bank regularly monitors the level of the leverage ratio in the scope of own funds requirements. That monitoring was defined in The risk appetite framework and Recovery plan of the Nova KBM Group. The level of the ratio is reported to:

- Supervisory Board,
- Management Board,
- and various internal committees (e.g. the ALCO).

In The risk appetite framework and Recovery plan, the parent bank defined at the Group level red, yellow, and green threshold values for the leverage ratio. When the yellow threshold value is exceeded, the ALCO adopts decisions necessary for leverage. When the red threshold value is exceeded, decisions are made by the Crisis Committee, which is in line with the escalation process for the management of indicators set out in the recovery plan.

The leverage ratio was 8.28% at the OTP Luxembourg Group level and was 8.36% Nova KBM Group level as of 31 December 2023, which is in line with the Group's business plan, which focuses on traditional lending (including to the corporate segment to which higher risk-weights apply).

18.3 DESCRIPTION OF THE FACTORS THAT HAD AN IMPACT ON THE LEVERAGE RATIO DURING THE PERIOD TO WHICH THE DISCLOSED LEVERAGE RATIO REFERS

(Article 451(e) of the CRR)

The Group calculated the leverage ratio taking into account the relevant amount of on- and off-balance-sheet exposures, and the amount of its Tier 1 capital as at 31 December 2023. The following factors had the most significant impact on the calculation of the leverage ratio in 2023:

- changes in terms of Tier 1 capital are explained in section 4.4 of this document; and
- changes in terms of exposure measures are explained in section 5.4 of this document.

18.A LIQUIDITY REQUIREMENTS

(Article 451a of the CRR)

Template 50: EU LIQA: Liquidity risk management In accordance with Article 451a(4) of the CRR

Row number		Qualitative information
(a)	Strategies and processes in the management of the liquidity risk, including policies on diversification in the sources and tenor of planned funding.	The strategies and processes are set out in Section 2.2, and separately for the ILAAP in Section 2.2.1.2.2. The Bank defined the following risk management objectives at the Group level in its risk appetite framework: • moderate, yet stable and sustained profitability • the generation of profits while taking-up moderate credit risk • Take-up of diversified risk in investments vis-à-vis sovereigns and counterparties, and the maintenance of a high level of liquidity • maintenance of funding and liquidity risks at low levels • the integration of ESG risks in the business and management environment of the Bank and banking group with an emphasis on climate-related and environmental risks • the maintenance of other risks to which the Group is exposed at a moderate or low level.
(b)	The structure and organisation of the liquidity risk management function (authority, statute, other arrangements.)	The structure and organisation of the Group's risk management function is described in Section 2.2.2.
(c)	A description of the degree of centralisation of liquidity management and interaction between the group's units.	Liquidity risk is managed in accordance with the ILAAP Policy within the Nova KBM Group. The asset and liability management department manages operational liquidity, the strategic risk management department manages structural liquidity (including operations in normal circumstances and extraordinary circumstances), and the accounting and controlling department carries out regulatory reporting. The bodies responsible for deciding on liquidity management are the Liquidity Committee and the Asset-Liability Committee. The roles and responsibilities are allocated in accordance with the policy. The Group's funding is set out by its business plan. The scope and nature of liquidity risk reporting and measurement systems are described in Section 2.2.3.

Row number	Qualitative information	
(d)	Scope and nature of liquidity risk reporting and measurement systems.	The scope and nature of liquidity risk reporting and measurement systems are described in Section 2.2.3.
(e)	Policies for hedging and mitigating the liquidity risk and strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.	The policies and strategies for hedging against risk, including liquidity risk, are described in Section 2.2.4. The following are the most important for liquidity risk: • Risk Appetite Strategy, including the Risk Appetite Statement • Operating Limits Handbook • Asset and Liability Management (ALM) Strategy • Business Strategy • Refinancing Plan • ESG Strategy • ILAAP Policy within the Nova KBM Group • Stress Testing Policy • Recovery and Resolution Policy • Hedge Accounting Policy • ILAAP methodology • ILAAP methodology as it relates to the performance of stress tests • liquidity risk management contingency plan methodologies • methodology of transfer (opportunity) interest rates
(f)	An outline of the bank's contingency funding plans.	The Group has put in place a contingency plan to manage liquidity emergencies, the purpose of which is to define effective measures and activities for preventing and managing various liquidity difficulties, including appropriate measures for bridging and limiting the impact of liquidity emergencies and for restoring the bank's normal liquidity position. The Group has also put in place a recovery and resolution plan and a liquidity resolution plan.
(g)	An explanation of how stress testing is used.	Stress tests are described in Section 2.2.1.2.3. The performance of stress tests in the scope of the ILAAP is an integral part of the Group's overall risk management. It is set out in the Stress-Testing Policy and in the ILAAP methodology. The Group presents the results of stress tests to the Supervisory Board, the Bank's Management Board and to other relevant decision-making levels, in order to take into account the results and findings in the further operations of the Group. The aim of liquidity stress testing is to ensure sufficient liquidity even in stress conditions.
(h)	A declaration approved by the management body on the adequacy of liquidity risk management arrangements of the institution providing assurance that the liquidity risk management systems put in place are adequate with regard to the institution's profile and strategy.	The declaration of the management body regarding the adequacy of risk management arrangements is given in Section 2.2.5.

Row number		Qualitative information
(i)	A concise liquidity risk statement approved by the management body succinctly describing the institution's overall liquidity risk profile associated with the business strategy. This statement shall include key ratios and figures (other than those already covered in the EU LIQ1 template under this ITS) providing external stakeholders with a comprehensive view of the institution's management of liquidity risk, including how the liquidity risk profile of the institution interacts with the risk tolerance set by the management body. These ratios may include: • concentration limits on collateral pools and sources of funding (both products and counterparties), • customised measurement tools or metrics that assess the structure of the bank's balance sheet or that project cash flows and future liquidity positions, taking into account off-balance sheet risks which are specific to that bank, • iquidity exposures and funding needs at the level of individual legal entities, foreign branches and subsidiaries, taking into account legal, regulatory and operational limitations on the transferability of liquidity, • balance sheet and off-balance sheet items broken down into maturity buckets and the resultant liquidity gaps	The management body's concise risk statement is described in Section 2.2.5. Funding risk and market liquidity risk are low. Funding risk and market liquidity risk are low. The Group keeps funding risk at a low level by maintaining a highly diverse and stable portfolio of deposits by domestic retail and corporate customers, while wholesale funding also accounts for a certain proportion of funding. The Group intends to maintain a similar funding structure over the period covered by the financial plan, in the form of an extensive and diverse portfolio of retail and corporate operations, and funding obtained on the wholesale money market or the interbank market. The Group gives precedence to maintaining a significant stock of high-quality liquid assets, thereby maintaining liquidity ratios above the statutory requirements. The Group follows an investment strategy, which is approved by the Management Board and sets out the diversification of assets with a relatively low duration of the bond portfolio as a whole. Compliance with the liquidity risk appetite is monitored via the defined targets for the following key risk indicators: • liquidity coverage ratio (LCR) • net stable funding ratio (NSFR) • survival period • internal liquidity buffer Other indicators are monitored within the framework of the system of operational risk limits: • AER • 30 largest depositors • LTD ratio for the non-banking sector • breakdown of liabilities by maturity bucket • liquidity gap by maturity bucket as a ratio to total liabilities

Template 51: EU LIQ1: Quantitative information of LCR at the level of the OTP Luxembourg Group

Scope of consolidation (consolidated)		Total unweighted value				Total weighted value			
Currency and units (million)									
EU 1a	Quarter ending on (DD Month YYY)	31.12.2023	30.09.2023	30.06.2023	31.03.2023	31.12.2023	30.09.2023	30.06.2023	31.03.2023
EU 1b	**Number of data points used in the calculation of averages**								
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)					4,478	4,240	3,895	3,641
CASH-OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	7,150	7,123	7,060	6,981	441	435	427	420
3	*Stable deposits*	5,704	5,756	5,796	5,805	285	288	290	290
4	*Less stable deposits*	1,330	1,239	1,140	1,081	155	147	136	129
5	Unsecured wholesale funding	1,153	1,177	1,234	1,279	611	618	654	681
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	0	0	0	0	0	0	0	0
7	*Non-operational deposits (all counterparties)*	1,127	1,176	1,233	1,278	585	617	653	681
8	*Unsecured debt*	26	1	1	0	26	1	1	0
9	Secured wholesale funding					0	0	0	0
10	Additional requirements	1,136	1,131	1,147	1,192	120	122	126	137
11	*Outflows related to derivative exposures and other collateral requirements*	0	0	0	1	0	0	0	1
12	*Outflows related to loss of funding on debt products*	0	0	0	0	0	0	0	0
13	*Credit and liquidity facilities*	1,135	1,130	1,146	1,191	119	121	126	136
14	Other contractual funding obligations	78	76	76	72	71	69	69	65
15	Other contingent funding obligations	645	630	627	627	22	25	28	31
16	**TOTAL CASH OUTFLOWS**					1,264	1,268	1,304	1,335
CASH-INFLOWS									
17	Secured lending (eg reverse repos)	0	0	0	0	0	0	0	0
18	Inflows from fully performing exposures	336	322	337	358	259	240	254	276
19	Other cash inflows	6	8	11	11	6	8	11	11
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	0	0	0
EU-19b	(Excess inflows from a related specialised credit institution)					0	0	0	0
20	**TOTAL CASH INFLOWS**	342	330	348	369	265	248	265	287
EU-20a	***Fully exempt inflows***	0	0	0	0	0	0	0	0
EU-20b	***Inflows Subject to 90% Cap***	0	0	0	0	0	0	0	0
EU-20c	***Inflows Subject to 75% Cap***	342	330	348	369	265	248	265	287
TOTAL ADJUSTED VALUE									
EU-21	**LIQUIDITY BUFFER**					**4,478**	**4,240**	**3,895**	**3,641**
22	**TOTAL NET CASH OUTFLOWS**					**999**	**1,020**	**1,039**	**1,047**
23	**LIQUIDITY COVERAGE RATIO (%)**					453.63%	421.16%	377.25%	348.12%

Table 15: EU LIQB: Qualitative information on LCR, which complements template EU LIQ1
In accordance with Article 451a(2) of the CRR

Row number		Qualitative information
(a)	Explanations on the main drivers of LCR results and the evolution of the contribution of inputs to the LCR's calculation over time	The Bank's business model was unchanged during the observed period. For this reason, input data for the calculation of the ratio were mostly unchanged during that period.
(b)	Explanations on the changes in the LCR over time	The average LCR was up over the observed quarters. The reason for this lies primarily in an increase in liquid assets during the aforementioned period, in particular an increase in Level 1 assets (central bank reserves that can be released and the assets of central government units). The ratio of inflows to outflows is maintained from quarter to quarter.
(c)	Explanations on the actual concentration of funding sources	The Bank's business model is based on deposits by the non-banking sector, which account for 77.6% of total liabilities. Deposits by the non-banking sector are highly stable. The Bank also regularly monitors exposure to the largest depositors, and restricts concentration through limits set internally.
(d)	High-level description of the composition of the institution's liquidity buffer	The majority (97%) of the liquidity buffer consists of Level 1 extremely high-quality assets, of which 57% are held in a settlement account at the central bank. The remaining 3% consists of Level 2 assets.
(e)	Derivative exposures and potential collateral calls	The Bank is exposed to a lesser degree to derivatives. Derivatives are closed by counter transactions, and therefore do not pose a significant liquidity risk, and no material additional collateral is envisaged for them. The Bank uses derivatives to hedge against risks.
(f)	Currency mismatch in the LCR	Currency risk is defined as the risk of a loss caused by any change in the exchange rate of on-balance-sheet and off-balance-sheet foreign currency items. Currency risk is defined as financially immaterial at the Bank. Nova KBM maintains a closed currency position on a daily basis, and therefore has no need to calculate own funds requirements for currency risk in accordance with the CRR. Other members of the Group hold an immaterial position in foreign currencies.
(g)	Other items in the LCR calculation that are not captured in the LCR disclosure template but that the institution considers relevant for its liquidity profile	/

Template 52: EU LIQ2: Net Stable Funding Ratio at the level of the OTP Luxembourg Group
In accordance with Article 451a(3) of the CRR

The Group discloses its NSFR as at 31 December, 30 September, 30 June and 31 March 2023.

31.12.2023		a	b	c	d	e
Currency and units (million)		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Available stable funding (ASF) Items						
1	Capital items and instruments	934	0	0	69	1,002
2	*Own funds*	934	0	0	69	1,002
3	*Other capital instruments*		0	0	0	0
4	Retail deposits		**7,120**	**40**	**31**	**6,765**
5	*Stable deposits*		5,776	28	16	5,530
6	*Less stable deposits*		1,344	11	15	1,235
7	Wholesale funding:		**1,487**	**24**	**710**	**1,198**
8	*Operational deposits*		0	0	0	0
9	*Other wholesale funding*		1,487	24	710	1,198
10	Interdependent liabilities		**0**	**0**	**0**	**0**
11	Other liabilities:	**5**	**138**	**0**	**49**	**49**
12	*NSFR derivative liabilities*	5				
13	*All other liabilities and capital instruments not included in the above categories*		138	0	49	49
14	**Total available stable funding (ASF)**					**9,013**
Required stable funding (RSF) Items						
15	Total high-quality liquid assets (HQLA)					**117**
EU-15a	Assets encumbered for more than 12m in cover pool		**0**	**0**	**0**	**0**
16	Deposits held at other financial institutions for operational purposes		**89**	**0**	**0**	**45**
17	Performing loans and securities:		**774**	**500**	**4,341**	**4,153**
18	*Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut*		0	0	0	0
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		165	26	437	467
20	*Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:*		528	367	1,944	2,794
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		3	2	28	607
22	*Performing residential mortgages, of which:*		69	76	937	0
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		36	33	848	0
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		11	30	1,023	892
25	Interdependent assets		**0**	**0**	**0**	**0**
26	Other assets:		**166**	**10**	**240**	**299**
27	*Physical traded commodities*				0	0
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*		4	0	0	3
29	*NSFR derivative assets*		0			0
30	*NSFR derivative liabilities before deduction of variation margin posted*		5			0
31	*All other assets not included in the above categories*		157	10	240	295
32	Off-balance sheet items		**1,957**	**0**	**0**	**93**
33	**Total RSF**					**4,706**
34	**Net Stable Funding Ratio (%)**					191.52%

30.09.2023		a	b	c	d	e
Currency and units (million)		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Available stable funding (ASF) Items						
1	Capital items and instruments	**865**	**0**	**0**	**70**	**935**
2	*Own funds*	865	0	0	70	935
3	*Other capital instruments*		0	0	0	0
4	Retail deposits		**7,165**	**21**	**9**	**6,771**
5	*Stable deposits*		5,888	15	5	5,613
6	*Less stable deposits*		1,277	6	4	1,158
7	Wholesale funding:		**1,141**	**24**	**1,006**	**1,462**
8	*Operational deposits*		0	0	0	0
9	*Other wholesale funding*		1,141	24	1,006	1,462
10	Interdependent liabilities		**0**	**0**	**0**	**0**
11	Other liabilities:	**8**	**76**	**0**	**47**	**47**
12	*NSFR derivative liabilities*	8				
13	*All other liabilities and capital instruments not included in the above categories*		76	0	47	47
14	**Total available stable funding (ASF)**					**9,215**
Required stable funding (RSF) Items						
15	Total high-quality liquid assets (HQLA)					**199**
EU-15a	Assets encumbered for more than 12m in cover pool		**0**	**0**	**0**	**0**
16	Deposits held at other financial institutions for operational purposes		**87**	**0**	**0**	**44**
17	Performing loans and securities:		**784**	**600**	**4,060**	**3,988**
18	*Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut*		0	0	0	0
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		148	45	448	485
20	*Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:*		578	440	1,922	2,850
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		3	2	30	570
22	*Performing residential mortgages, of which:*		43	90	948	0
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		33	31	793	0
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		15	25	742	653
25	Interdependent assets		**0**	**0**	**0**	**0**
26	Other assets:		**33**	**2**	**200**	**221**
27	*Physical traded commodities*				0	0
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*		5	0	0	4
29	*NSFR derivative assets*		0			0
30	*NSFR derivative liabilities before deduction of variation margin posted*		11			1
31	*All other assets not included in the above categories*		18	2	200	217
32	Off-balance sheet items		**1,809**	**0**	**0**	**88**
33	**Total RSF**					**4,540**
34	**Net Stable Funding Ratio (%)**					202.96%

30.06.2023		a	b	c	d	e
Currency and units (million)		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Available stable funding (ASF) Items						
1	Capital items and instruments	**863**	**0**	**0**	**69**	**931**
2	*Own funds*	863	0	0	69	931
3	*Other capital instruments*		0	0	0	0
4	Retail deposits		**7,184**	**23**	**10**	**6,794**
5	*Stable deposits*		5,937	17	6	5,662
6	*Less stable deposits*		1,247	6	4	1,132
7	Wholesale funding:		**1,078**	**26**	**1,010**	**1,446**
8	*Operational deposits*		0	0	0	0
9	*Other wholesale funding*		1,078	26	1,010	1,446
10	Interdependent liabilities		**0**	**0**	**0**	**0**
11	Other liabilities:	**7**	**88**	**0**	**52**	**52**
12	*NSFR derivative liabilities*	7				
13	*All other liabilities and capital instruments not included in the above categories*		88	0	52	52
14	**Total available stable funding (ASF)**					**9,224**
Required stable funding (RSF) Items						
15	Total high-quality liquid assets (HQLA)					**196**
EU-15a	Assets encumbered for more than 12m in cover pool		**0**	**0**	**0**	**0**
16	Deposits held at other financial institutions for operational purposes		**57**	**0**	**0**	**29**
17	Performing loans and securities:		**789**	**561**	**3,913**	**3,895**
18	*Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut*		12	0	0	0
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		153	18	459	484
20	*Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:*		537	458	1,952	2,939
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		3	3	31	380
22	*Performing residential mortgages, of which:*		36	70	986	0
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		20	23	517	0
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		50	15	515	473
25	Interdependent assets		**0**	**0**	**0**	**0**
26	Other assets:		**26**	**5**	**201**	**220**
27	*Physical traded commodities*				0	0
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*		0	2	0	2
29	*NSFR derivative assets*		0			0
30	*NSFR derivative liabilities before deduction of variation margin posted*		8			0
31	*All other assets not included in the above categories*		18	3	200	217
32	Off-balance sheet items		**1,813**	**0**	**0**	**86**
33	**Total RSF**					**4,426**
34	**Net Stable Funding Ratio (%)**					208.40%

31.03.2023		a	b	c	d	e
Currency and units (million)			Unweighted value by residual maturity			Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Available stable funding (ASF) Items						
1	Capital items and instruments	**849**	**0**	**0**	**71**	**920**
2	*Own funds*	849	0	0	71	920
3	*Other capital instruments*		0	0	0	0
4	Retail deposits		**7,028**	**52**	**11**	**6,673**
5	*Stable deposits*		5,770	37	6	5,522
6	*Less stable deposits*		1,258	16	4	1,151
7	Wholesale funding:		**1,177**	**25**	**624**	**1,090**
8	*Operational deposits*		0	0	0	0
9	*Other wholesale funding*		1,177	25	624	1,090
10	Interdependent liabilities		**0**	**0**	**0**	**0**
11	Other liabilities:	**7**	**91**	**0**	**47**	**47**
12	*NSFR derivative liabilities*	7				
13	*All other liabilities and capital instruments not included in the above categories*		91	0	47	47
14	**Total available stable funding (ASF)**					**8,730**
Required stable funding (RSF) Items						
15	Total high-quality liquid assets (HQLA)					**201**
EU-15a	Assets encumbered for more than 12m in cover pool		**0**	**0**	**0**	**0**
16	Deposits held at other financial institutions for operational purposes		**47**	**0**	**0**	**24**
17	Performing loans and securities:		**907**	**533**	**3,942**	**3,951**
18	*Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut*		0	0	0	0
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		216	18	483	513
20	*Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:*		588	436	1,937	2,946
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		3	3	32	375
22	*Performing residential mortgages, of which:*		42	58	994	0
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		20	23	507	0
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		62	22	527	492
25	Interdependent assets		**0**	**0**	**0**	**0**
26	Other assets:		**28**	**5**	**228**	**249**
27	*Physical traded commodities*				0	0
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*		0	2	0	2
29	*NSFR derivative assets*		0			0
30	*NSFR derivative liabilities before deduction of variation margin posted*		8			0
31	*All other assets not included in the above categories*		20	3	228	246
32	Off-balance sheet items		**1,733**	**0**	**0**	**83**
33	**Total RSF**					**4,507**
34	**Net Stable Funding Ratio (%)**					193.70%

19 USE OF THE IRB APPROACH TO CREDIT RISK

(Article 452 of the CRR)

The Bank uses an internal credit rating system that is in line with the IRB approach for the purpose of determining obligor ratings and in other related processes.

The IRB approach is not used in the process of calculating Pillar 1 own funds requirements, where the standardised approach remains in use. An 'IRB-like' approach is used to calculate Pillar 2 own funds requirements.

20 USE OF CREDIT RISK MITIGATION TECHNIQUES

This section defines the disclosure requirements set out in Article 453 of Part Eight of the CRR and Section 4.8 of the Guidelines.

20.1 POLICIES AND PROCESSES FOR, AND AN INDICATION OF THE EXTENT TO WHICH THE ENTITY MAKES USE OF, ON- AND OFF-BALANCE-SHEET NETTING

(Article 453(a) of the CRR)

This disclosure is not relevant. The Nova KBM Group does not use on- and off-balance-sheet netting as a form of credit protection.

20.2 POLICIES AND PROCESSES FOR COLLATERAL VALUATION AND MANAGEMENT

(Article 453(b) of the CRR)

The Loan Collateral Policy of the Nova KBM Group (hereinafter: the policy) is the core document governing the collateralisation of the investments of the Bank and Group. The policy summarises basic guidelines regarding the acceptance, valuation, monitoring and the reporting on collateral, with the aim of mitigating credit risk. The policy also set out the conditions that must be met for a particular form of collateral to be acceptable by the Bank. The valuation of collateral is described in the policy and the Methodology for Loan Collateral Valuation and Allocation.

The main objective of the policy is to mitigate credit risk. Collateral represents a secondary source for the repayment of contractual obligations, if an obligor, for any reason, ceases to settle its obligations, or if there is a change in the circumstances that were known at the time of loan approval.

For collateral in the form of a lien on assets or property, in particular real estate, movable property or financial instruments, that lien must give highest priority to the Bank.

When concluding a transaction, the Bank and Group obtain, for each form of collateral, documentation required to ensure legal certainty if a secondary source of payment is used. In accordance with the applicable legislation, the Group has a system in place for the valuation, monitoring of and reporting on collateral. The valuation of collateral in the form of property is carried out prior to loan approval. The market value of the majority of real estate and movable property pledged as collateral is obtained from the valuation reports drawn up by certified external appraisers. The Group has prepared a list of external real estate and movable property appraisers, whose valuations are accepted by the Group and with whom it has entered into cooperation agreements. The valuation reports drawn up by external appraisers are reviewed by the competent expert department, primarily in terms of credibility and compliance with the International Valuation Standards. Reviewed and approved valuations serve as the basis for making the necessary collateral arrangements. The Group dedicates special attention to the legal certainty, integrity and saleability of the assets it accepts as collateral. To this end, the competent expert departments verify the suitability of an asset in terms of legal certainty, integrity and saleability before it is accepted as collateral. The market value of financial instruments is obtained from the regulated organised market (stock exchange), while the value of unquoted instruments is determined using internal instructions.

In the scope of the ESG strategy, risks in connection with the value of real estate collateral are also assessed. Subject to assessment is the impact of climate change, which includes physical risk (the financial impact of climate change, which includes more frequent extreme weather events, gradual climate change and environmental degradation) and transitional risk (financial loss incurred directly or indirectly by the Bank as the result of adaption to a low-carbon or more sustainable economy). Based on identified climate and environmental risk, the Bank classifies real estate to three risk categories. The Bank's general policy is to accept energy efficient real estate as collateral.

For the duration of a contractual relationship, the Group monitors the appropriateness of pledged collateral, ensures the necessary valuations and takes into account the criteria of maximum loan-to-value (LTV) ratio. The monitoring of the value of collateral during the loan repayment period is carried out in accordance with the legally prescribed periods and internal methodologies. For example, the Group verifies the value of real estate pledged as collateral at least once a year, either by obtaining a valuation report from an external appraiser or by using an internal methodology that is based on public data regarding real estate transactions and prices, which are published by or legally accessible on the portals the competent government institutions (the Surveying and Mapping Authority of the Republic of Slovenia and the Statistical Office of the Republic of Slovenia). Should the value of the collateral fall, the Bank requests additional collateral.

The basis for determining the value of collateral is the market value of a pledged asset, while in the processes of loan origination, the assessment of impairments of financial assets and reporting, the Group also uses expert adjustments to the value of assets that reflect expectations regarding cash flow in the event of the redemption of collateral. The Group uses the value adjustments prescribed by the regulator for individual types of assets in the calculation of own funds requirements.

Table 16: Haircuts to individual forms of collateral

Type of collateral	HC range, %
Bank deposits	0
Guarantees/sureties/insurers	0-100
Immovable property	30-50
Movable property	50-100
Securities	30-100
Participating interests	100
Receivables	75-100
Life insurance policies	50-100
Other collateral	100

20.3 DESCRIPTION OF THE MAIN TYPES OF COLLATERAL TAKEN BY THE INSTITUTION

(Article 453(c) of the CRR)

With the aim of mitigating credit risk, the Group accepts all types of collateral that meet the minimum requirements for recognising the effects of collateral. The Group accepts different types of funded and unfunded credit protection.

The Group accepts collateral in accordance with the provisions of the Regulation on credit risk management at banks and savings banks. Other forms of funded and unfunded protection are also accepted as collateral for loans to corporates and sole traders if it is assessed that they can generate cash flow as a secondary source of repayment, if required, and that the conditions regarding the legal certainty and operational requirements of those instruments are met. If it is assessed that it is unlikely that any such collateral instrument will generate cash flow, the Bank takes a conservative approach and does not accept it. The Bank only accepts other forms of funded and unfunded protection if they meet the following minimum requirements for recognising the effects of collateral:

- legal certainty,
- quality, and
- operational requirements for efficient redemption.

The Group accepts the following forms of funded collateral:

- collateral in the form of commercial and residential immovable property,
- collateral in the form of movable property,
- collateral in the form of monetary claims,
- financial collateral (e.g. bank deposits, debt securities of various issuers, investment fund units, equities and pledged participating interests),
- the pledging or assignment of claims as collateral,
- the pledging of other assets (e.g. inventories), and
- other funded protection (e.g. life insurance policies and cash at other institutions).

The Group accepts the following forms of unfunded credit protection:

- joint and several guarantees provided by individuals and legal entities,
- bank guarantees and the Slovene Enterprise Fund,
- guarantees of central governments, local governments and central banks, and
- insurance via an insurer.

Loans are frequently secured by a combination of various types of collateral.

The Group strives to have the highest-quality collateral for its portfolio in the sense of an adequate LTV and legal certainty in the event of liquidation. The general recommendations with regard to the security of loans are set out by internal instructions. The decision with regard to the type of collateral and the LTV depends on analysis of information about the obligor (the obligor's credit rating and creditworthiness) and the maturity of the loan asset, and distinguishes between loans approved for retail customers and corporate customers. Legal persons and sole traders are required to submit a bill of exchange and declaration of surety for each loan when it has been approved.

The largest share of the Group's portfolio is secured by real estate, followed by insurance from insurers, sureties, movable property, bank deposits and guarantees. A small part of the portfolio is secured by other forms of collateral.

Table 17: Exposure value by type of collateral:

€000

	Type of collateral	Amount	Breakdown
1	Deposits	50,461	1.97%
2	Guarantees	48,014	1.88%
3	Sureties	69,633	2.72%
4	Securities and pledge of receivables from mutual fund points	3,347	0.13%
5	Mortgages	1,958,019	76.58%
6	Pledge of inventories and movable property	63,594	2.49%
7	Pledge and assignment of receivables	0	0.00%
8	Pledge of equity interest	0	0.00%
9	Reserve fund assets	0	0.00%
10	Insurer	363,353	14.21%
11	Pledge of receivables from insurance with insurer	193	0.01%
12	Securities portfolio	0	0.00%
13	Other types of collateral	342	0.01%
	Total	**2,556,956**	**100.00%**

20.4 MAIN TYPES OF GUARANTOR AND CREDIT DERIVATIVE COUNTERPARTY AND THEIR CREDITWORTHINESS

(Article 453(d) of the CRR)

The Group accepts collateral in the form of sureties, guarantees and insurance via an insurer. The following are deemed eligible issuers of guarantees:

- central governments and central banks,
- regional governments or local authorities,
- multilateral development banks,
- international organisations, exposures to which are assigned a risk weight of 0% under the Standardised Approach,
- public sector entities, claims against which are treated as claims against central governments,
- export agencies and insurance companies, credit institutions and investment firms, and financial institutions, whose exposures to the financial institution (e.g. the Bank) are treated as exposures to institutions in accordance with Article 119(5) CRR,
- other companies, including those that are in control of the institution, or subordinated to or associated with the institution in another way, and
- central counterparties.

The Group also accepts the following as issuers of guarantees:

- individuals, provided that the repayment capability of the respective guarantor is ensured, and
- sole traders, provided that the value of the respective guarantor's assets is sufficient to cover the obligations of the obligor.

Table 18: Major guarantors by type of guarantee:

Guarantees €000

Issuer		Internal credit rating	Amount	Breakdown
Banks		1-3	1,681	23.14%
		4-7	5,581	76.86%
TOTAL			**7,262**	**100.00%**

Sureties

Issuer		Internal credit rating	Amount	Breakdown
Central government	Slovenia	2	144,564	67.03%
	other countries	1-13	3,061	1.42%
Slovene Enterprise Fund		3	66,741	30.94%
Others (municipalities, funds, etc.)		1-3	283	0.13%
		4-13	1,041	0.48%
TOTAL			**215,690**	**100.00%**

Insurance with insurer

Issuer	Internal credit rating	Amount	Breakdown
Insurer	1	347,401	99.89%
	6-13	371	0.11%
TOTAL		**347,772**	**100%**

The table does not include insurance held with an insurer by the subsidiary ALEJA finance.

20.5 INFORMATION ABOUT MARKET OR CREDIT RISK CONCENTRATIONS WITHIN THE CREDIT MITIGATION TAKEN

(Article 453(e) of the CRR)

In accordance with its policies, the Group approves loans, where expected cash flows represent the primary source of repayment, and collateral received represents a secondary source of payment and is used to a lesser extent in the event of default by obligor.

When monitoring large exposures, the Group monitors the concentration of credit risk that arises from unfunded sureties accepted as collateral.

The Group limits the amount of collateral in the form of sureties, where the amount of surety is included in the indirect exposure of the guarantor. That amount is weighted depending on the credit rating of the underlying obligor for whom the guarantor provides surety.

The Group monitors market risk concentration in the scope of accepted credit protection in terms of assessing the liquidity of securities received as collateral. With the support of expert departments, the Group assesses realisability and value adjustments due to reduced liquidity based on a comparison of normal turnover and the amount of securities received.

The Group monitors and reports on the value of collateral by individual type.

Table 19: Value of collateral by individual type

	Type of collateral	Amount, €000	Breakdown, %
1	Bank deposits	31,245	0.59%
2	Irrevocable Slovenian government guarantees	91,433	1.71%
3	Shares and participating interests	8,271	0.15%
4	Debt securities	0	0.00%
5	Units in collective investment undertakings	4,322	0.08%
6	Commercial immovable property	1,981,664	37.07%
7	Residential immovable property	2,586,778	48.39%
8	Insurer	347,772	6.51%
9	Other forms of collateral	294,072	5.50%
	Total	**5,345,557**	**100.00%**

The table does not include insurance held with an insurer by the subsidiary ALEJA finance.

20.6 DISCLOSURE OF TOTAL EXPOSURE VALUE (AFTER ON- OR OFF-BALANCE-SHEET NETTING, WHERE APPLICABLE) THAT IS COVERED – AFTER THE APPLICATION OF VOLATILITY ADJUSTMENTS – BY ELIGIBLE FINANCIAL CREDIT PROTECTION, AND OTHER ELIGIBLE CREDIT PROTECTION, SEPARATELY FOR EACH EXPOSURE CLASS, WHEN INSTITUTIONS CALCULATE RISK-WEIGHTED EXPOSURE AMOUNTS UNDER THE STANDARDISED APPROACH OR THE IRB APPROACH, BUT DO NOT PROVIDE OWN ESTIMATES OF LGDS OR CONVERSION FACTORS IN RESPECT OF THE EXPOSURE CLASS

(Articles 453(f) and 453(g) of the CRR)

Clarifications of the description of the eligible types of collateral taken by the institution are cited in Sections 20.1 to 20.5. For the purposes of calculating risk-weighted assets for credit risk, the Group had defined its eligible credit protection for credit risk mitigation in its internal methodology. It comprises:

1. funded credit protection:

- collateral in the form of commercial and residential immovable property
- financial collateral (e.g. bank deposits, debt securities of various issuers, equities)

2. unfunded credit protection:

- joint and several guarantees
- guarantees of investment-grade banks
- guarantees of central governments, local governments and central banks

The aforementioned credit protection is only considered eligible in the calculations of risk-weighted assets if it meets all the requirements of the relevant legislation. The Group uses the simple approach as a suitable risk-exposure mitigation technique.

The table below presents a breakdown of the gross carrying amount of the exposures, excluding allowances/impairments, into secured/unsecured exposures and by type of credit protection.

Template 53: EU CR3 – CRM techniques overview: Disclosure of the use of credit risk mitigation techniques for the OTP Luxembourg Group

€000

		Unsecured carrying amount	Secured carrying amount			
				Of which secured by collateral	Of which secured by financial guarantees	
						Of which secured by credit derivatives
		a	b	c	d	e
1	Loans and advances	5,106,248	2,176,892	2,071,756	105,136	0
2	Debt securities	3,173,961	93,289	0	93,289	0
3	**Total**	**8,280,209**	**2,270,181**	**2,071,756**	**198,425**	**0**
4	*Of which non-performing exposures*	65,890	44,752	40,928	3,824	0
EU-5	*Of which defaulted*	65,890	44,752	40,928	3,824	0

Template 54: EU CR3 – CRM techniques overview: Disclosure of the use of credit risk mitigation techniques for the Nova KBM Group

€000

		Unsecured carrying amount	Secured carrying amount			
				Of which secured by collateral	Of which secured by financial guarantees	
						Of which secured by credit derivatives
		a	b	c	d	e
1	Loans and advances	5,050,371	2,176,892	2,071,756	105,136	0
2	Debt securities	3,173,841	93,289	0	93,289	0
3	**Total**	**8,224,212**	**2,270,181**	**2,071,756**	**198,425**	**0**
4	*Of which non-performing exposures*	65,890	44,752	40,928	3,824	0
EU-5	*Of which defaulted*	65,890	44,752	40,928	3,824	0

*The total exposure amount represents the Group's entire exposure to credit risk calculated in accordance with the CRR.

20.7 INSTITUTIONS CALCULATING RISK-WEIGHTED EXPOSURE AMOUNTS UNDER THE STANDARDISED APPROACH, THE VALUE OF ON- AND OFF-BALANCE-SHEET EXPOSURES BY EXPOSURE CATEGORY BEFORE AND AFTER APPLYING CORRESPONDING CONVERSION FACTOR AND THE CREDIT RISK MITIGATION ASSOCIATED WITH THE EXPOSURE, AND THE RISK-WEIGHTED EXPOSURE AMOUNT AND THE RATIO BETWEEN THAT RISK-WEIGHTED EXPOSURE AMOUNT AND THE EXPOSURE VALUE AFTER APPLYING THE CORRESPONDING CONVERSION FACTOR AND THE CREDIT RISK MITIGATION ASSOCIATED WITH THE EXPOSURE

(Article 453(h) and (i) of the CRR)

Template 55: EU CR4 – Standardised approach – Credit risk exposure and CRM effects for the OTP Luxembourg Group

€000

		Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWA density	
	Exposure classes	On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet exposures	RWAs	RWA density (%)
1	Central governments or central banks	3,934,741	64	4,051,705	3,740	21,680	1%
2	Regional governments or local authorities	232,909	1,023	232,909	178	10,189	4%
3	Public sector entities	11,360	5,229	11,352	1,349	923	7%
4	Multilateral development banks	3,717	0	3,717	0	0	0%
5	International organisations	231,417	0	226,522	0	0	0%
6	Institutions	947,925	29,358	912,138	5,928	343,719	37%
7	Corporates	1,970,820	923,605	1,913,179	273,060	2,032,381	93%
8	Retail	1,380,154	855,577	1,379,069	105,154	1,052,076	71%
9	Secured by mortgages on immovable property	1,213,186	92,250	1,213,186	29,313	464,047	37%
10	Exposures in default	60,314	3,886	54,586	871	58,286	105%
11	Exposures associated with particularly high risk	116,228	38,597	104,409	19,299	185,561	150%
12	Covered bonds	248,650	0	248,650	0	44,950	18%
13	Institutions and corporates with a short-term credit assessment	0	0	0	0	0	0%
14	Collective investment undertakings	49,783	0	49,783	0	8,364	17%
15	Equity	56,313	0	56,313	0	56,313	100%
16	Other items	292,405	1,534	292,405	20	132,871	45%
17	**TOTAL**	**10,749,922**	**1,951,122**	**10,749,922**	**438,911**	**4,411,362**	**39%**

Template 56: EU CR4 – Standardised approach – Credit risk exposure and CRM effects for the Nova KBM Group

€000

		Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWA density	
	Exposure classes	On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet exposures	RWAs	RWA density (%)
1	Central governments or central banks	3,934,741	64	4,051,705	3,740	21,680	1%
2	Regional governments or local authorities	232,909	1.023	232,909	178	10,189	4%
3	Public sector entities	11,360	5.229	11,352	1,349	923	7%
4	Multilateral development banks	3,717	0	3,717	0	0	0%
5	International organisations	231,417	0	226,522	0	0	0%
6	Institutions	892,034	29,358	856,246	5,928	332,541	39%
7	Corporates	1,970,710	923,605	1,913,069	273,060	2,032,269	93%
8	Retail	1,380,154	855,577	1,379,069	105,154	1,052,076	71%
9	Secured by mortgages on immovable property	1,213,186	92,250	1,213,186	29,313	464,047	37%
10	Exposures in default	60,314	3,886	54,586	871	58,286	105%
11	Exposures associated with particularly high risk	116,228	38,597	104,409	19,299	185,561	150%
12	Covered bonds	248,650	0	248,650	0	44,950	18%
13	Institutions and corporates with a short-term credit assessment	0	0	0	0	0	0%
14	Collective investment undertakings	49,783	0	49,783	0	8,364	17%
15	Equity	56,313	0	56,313	0	56,313	100%
16	Other items	297,192	1,534	297,192	20	137,658	46%
17	**TOTAL**	**10,698,707**	**1,951,122**	**10,698,707**	**438,911**	**4,404858**	**40%**

21 USE OF THE ADVANCED MEASUREMENT APPROACHES TO OPERATIONAL RISK

(Article 454 of the CRR)

This disclosure is not relevant. The Nova KBM Group does not use the Advanced Measurement Approaches to operational risk.

22 USE OF INTERNAL MARKET RISK MODELS

(Article 455 of the CRR)

This disclosure is not relevant. The Nova KBM Group does not use Internal Market Risk Models.

23 DISCLOSURES RELATING TO MACROECONIOMIC CONDITIONS AND HARMONISATION IN THE SCOPE OF THE OTP GROUP

Supply chain disruption, increased commodity and energy prices, inflation, rising benchmark interest rates and Russian military aggression

There were price increases in the manufacturing, construction and food processing sectors in Slovenia during 2023 due to shortages of certain raw materials and components linked to supply chain and transportation pressures.

Due to the uncertain economic conditions, the Bank closely monitored its portfolio in 2023 and carried out detailed reviews with the aim of assessing clients' sensitivity to rising prices of energy, commodities and materials, and their responsiveness in terms of adopted measures, the potential passthrough of costs to output prices and additional investments required to mitigate the situation. On this basis, the Bank assessed the risks associated with clients and adopted certain measures in connection with continued detailed monitoring and potential limits on financing. The results of the reviews were taken into account in determining clients' credit ratings. The Bank thus ensured the appropriate risk-weighted calculation of impairments.

Due to the uncertain macroeconomic and geopolitical conditions, the Group monitors probability of default for individual corporate clients. In that respect, major clients are not automatically classified. The latter is carried out based on the Group's existing rules, which cover the identification of defaults, and on financial data regarding clients and forward-looking indicators provided by the early warning system. The Group is applying an expert-based approach and takes into account all available reliable information related to (i) customers' current and likely future financial and liquidity positions, and (ii) various support measures (i.e. those of borrowers, the Government and the Bank) that are put in place and impact the creditworthiness of borrowers.

Sensitivity analysis for the small and medium-sized enterprise segment

Due to the unstable political and thus economic situation, forecasts of economic growth, inflation and employment in the EU are uncertain. The European economy is currently in a period of stagflation, which means falling demand and output in the backdrop of rising prices. As Slovenia's largest economic partner, Germany is facing serious economic problems. Germany accounts for nearly 60% of Slovenian exports. The rising EURIBOR has made financing much more expensive in the context of already-high commodity prices, energy prices and total imports from the US due to the strong US dollar. Forecasts for Slovenia for next year are more favourable than for the EU overall, but the Bank is cautious. For this reason, it has carried out a sensitivity analysis for the portfolio of micro, small and medium-sized enterprises. The Bank carries out individual reviews for large enterprises.

The Bank analysed the following for the purpose of assessment of sensitive economic sectors:

- financial data regarding the operations of clients during the first half of 2023, primarily in terms of changes in their EBITDA margin;
- the quality of the Bank's portfolio in the scope of individual economic sectors, taking into account risk parameters;
- exports to Germany and the proportion of the portfolio accounted for by export-driven companies; and
- exposure to energy-intensive sectors.

In terms of sensitive sectors, the Bank identified groups of clients with increased risk and initiated procedures to identify such risk in the scope of the impairment of investments.

Management of credit risk associated with retail clients and the monitoring of variable interest rates

In the retail segment, the Bank assessed the impact of changing economic conditions using the portfolio-based approach, with analyses based on stress tests. The retail segment feels an immediate effect from macroeconomic conditions that derives from higher consumer prices and rising interest rates on their loans. This has a direct impact on their debt servicing ability and can quickly lead to deteriorating payment discipline. Consequently, the Bank analysed, in the scope of stress tests, the impact of a potential rise in the EURIBOR and thus increased loan instalments, as well as an increase in the minimum wage (as an additional adjustment due to inflation) on creditworthiness, and in this way identified clients with increased risk. The results of stress tests were taken into account in the calculation of impairments.

Floods were a very notable feature of 2023.

Due to heavy rainfall in August 2023, northern and central Slovenia were hit by widespread flooding, with those floods representing the worst natural disaster in Slovenia's history. The Bank immediately began to identify potential risks in the credit portfolio and to determine the impact of the floods on employees.

The overall assessment of the portfolio presented below was carried out based on the classification of each cadastral municipality into a risk category.

Total exposure of €9,158 million broken down by threat category:

- green/no impact: €8,587 million spread out over 420,283 clients
- yellow/low risk: €473 million spread out over 24,124 clients
- orange/moderate risk: €82 million spread out over 6,218 clients
- red/high risk: €16 million spread out over 1,765 clients

Based on an additional assessment of damage in flooded areas subject to higher risk and the potential need for moratoria, the Bank did not identify a material impact on the credit portfolio, as it estimates that less than 1% of large enterprises and SMEs in the banking portfolio were affected. It also estimated that less than 3% of the portfolio of retail clients and micro enterprises were affected and requested moratoria or other measures.

The Bank established an appropriate system and processes to implement legally prescribed measures regarding the approval of deferrals/moratoria on the repayment of liabilities. At the same time, it offered its clients solutions outside the legal framework, and thus helped ease their financial situation to the greatest extent possible.

In the context of uncertain macroeconomic conditions, the Group regularly updated macroeconomic scenarios for the purpose of calculating expected credit losses. The most recent update was carried out in November 2023. When updating macroeconomic scenarios, the Group uses the forecasts published by the relevant institutions (e.g. SORS, the Bank of Slovenia, the IMF, OTP and the ECB). Changes reflect corrections to macroeconomic and risk-weighted scenarios, and updated model adjustments (MA). The Group assesses that model adjustment (MA) assumptions are still necessary due to the existence of certain factors, which are not entirely evident from the macroeconomic picture, and the functioning of its internal models. The Group identified the following activities as uncertainties in 2023, and assesses that they will also affect the Group's operations in 2024:

- uncertainty due to the unstable political and economic situation (economic growth, employment, etc.)
- stagflation in the European economy
- difficulties in the German economy (which accounts for nearly 60% of Slovenian exports)
- high inflation and interest rates
- higher costs for commodities and production for companies
- a drop in industrial output in Slovenia

Summary of assessment

In light of the uncertain macroeconomic conditions, the Group continued to implement measures and activities in 2023 in the area of credit risk to mitigate potential negative consequences. The Group continuously monitors and controls its portfolio, which was characterised in 2023 primarily by the following uncertain impacts: the Russian military aggression, rising energy prices, supply chain issues in certain sectors, and rising inflation and benchmark interest rates as a measure against inflation. The Group continued to monitor the impact of variable interest rates on retail investments and their impact on the ability to repay monthly loan obligations.

Harmonisation in the scope of the OTP Group

The Bank began harmonising and implementing common standards and rules for credit risk management with the OTP Group in mid-2023.
In terms of harmonisation, activities relating to credit risk focused on the following areas:

- Alignment of client segmentation through the establishment of new rules that take annual revenues and exposure into account. On this basis, the Bank developed a process to amend segmentation for micro and some small enterprises to include them in the SME segment.
- Alignment of products and processes in accordance with the risk standards and rules of the OTP Group. In the retail and micro enterprise segment, the Bank carried out a detailed analysis of products by selected risk parameters, and verified rules for decisions in the investment approval process. On that basis, it aligned rules for individual products and segments, and upgraded them with the processes, standards and rules of the OTP Group.
- Alignment of the lending policy by individual segment.
- Establishment of operational limits that are linked to the management and limitation of credit risk in accordance with the risk appetite and ability to take up risks within the OTP Group.
- Introduction of standardised reports on the management of the credit portfolio.
- Monitoring and limitation of portfolio concentration at the level of connected clients.
- Uniform management and monitoring of ESG risks, for which the Bank establishes key risk indicators and limits on high-risk activities and clients in accordance with the OTP Group's rules.
- Alignment of credit risk models and risk parameters (PD, LGD). The Bank implemented the OTP Group's rating model for banks and government institutions, and aligned its internal rating models with the OTP Group master rating scale.
- Uniform framework of impairment rules and processes.

In the scope of activities to adapt methodologies and models to the OTP Group, the Bank implemented the OTP rating methodology for banks and state institutions and adjusted the rating scale for its models in October 2023.

As part of the integration of Nova KBM in the OTP Group, the Bank began harmonising and implementing common standards and rules for credit risk management with the OTP Group in mid-2023.

24 DISCLOSURES IN CONNECTION WITH MANAGEMENT OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) RISKS

Disclaimer: Although the Group is not subject to disclosure on ESG risks in accordance with Article 449a CRR, the Group is publishing the following content in this chapter relating to the management of environmental, social and governance risks for the purpose of transparency and in order to meet the regulatory expectations.

24.1 MATERIALITY OF ESG RISKS AND RISK DRIVERS

Materiality of climate and environmental risks and risk drivers

The Group has invested a significant amount of effort in the establishment of the framework for the identification and assessment of Climate and environmental (C&E) risk drivers in the scope of the ICAAP / ILAAP. The Group has established a new methodology "Climate and Environmental Risk Management Methodology of Nova KBM Group", defined relevant time horizons, established a register of C&E risk drivers, mapped their relevance to individual risk types and has prepared a materiality assessment of C&E risk drivers. Given the scarcity of available data, particularly for transition risk drivers, and the fact that approaches and methodologies for the assessment of probabilities, severities and impacts of various C&E risk drivers in general are still in their infancy due to their complex nature and the period of time that they are expected to materialize, the materiality assessment has been performed on a best-efforts basis and includes a significant amount of subjective assessments, which in some cases cannot be fully supported by arguments due to the Group's lack of expertise in this area. Nonetheless, the Group considers the outcome of the materiality assessment to be sufficient to understand its exposure to these risk drivers and to take actions to appropriately mitigate them.

The Group's approach to the materiality assessment is to assess the following for each risk driver:

(1) probability, on the basis of heat maps where available, or on the basis of its own expert judgment,

(2) severity, on the basis of its own expert judgment,

(3) impact, by means of quantitative analysis of the risk driver's impact on portfolios or indicators where possible, or on the basis of its own expert judgement,

(4) materiality, which is a combination of the three aforementioned measures.

Given the lack of quantitative data, and thus approaches, it is not possible to conduct a quantitative assessment of the above measures for all risk drivers. A subjective professional judgment is consequently required in certain cases. On this basis, and with the aim of ensuring that the final materiality assessments of the individual C&E risk drivers are standardised and comparable, the Group converts all materiality assessments (including the individual measures cited above) to a standardised scale of low, medium and high.

The materiality assessment is conducted over three time horizons:

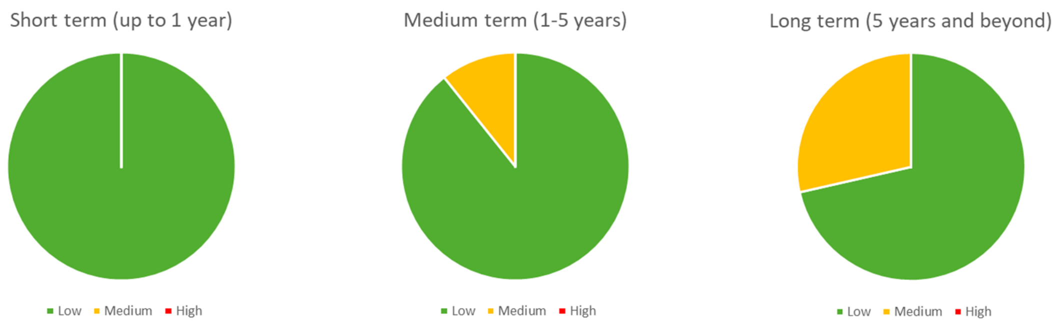
- the short term, which covers a period up to one year,
- the medium term, which covers a period of one to five years,
- the long term, which covers the period beyond five years.

The overall conclusion of the materiality assessment of C&E risk drivers suggests that the Group is not materially exposed to physical risk drivers over the short (up to 1 year), medium (1-5 years) or long term (more than 5 years). That is, only 8 (29%) out of 28 identified physical risk drivers have medium materiality over the long term (and only 3 in the medium term). The Group attributes this to the following factors:

- favourable geographical position of Slovenia, with a mild climate, a relatively low number of extreme weather events, and rich flora and fauna;

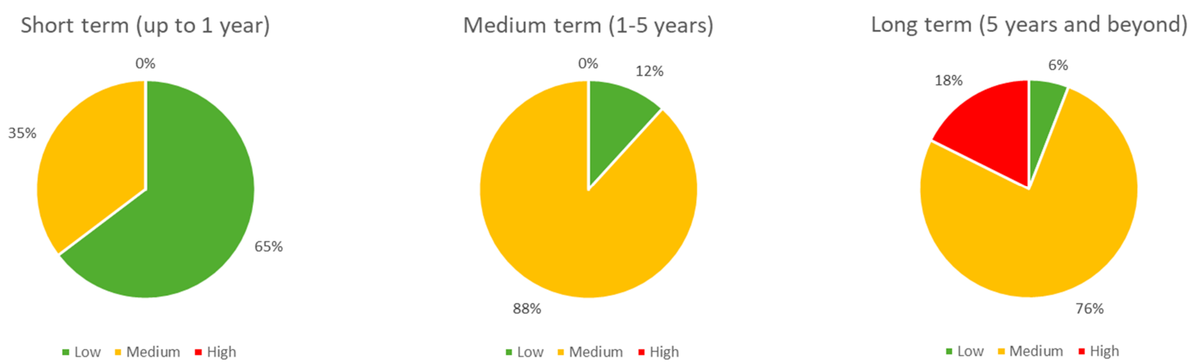
- strict legislation and rules, such as the constitutional right to clean drinking water, protecting the environment and the population.

Figure 5: Overview of the physical risk driver materiality assessment



The materiality assessment of the transitional risk drivers indicates that the Group is exposed to these, with 6 (35%) out of 17 having medium materiality over the short term, 15 (88%) over the medium term and 13 (76%) over the long term. In addition, there are 3 (18%) high materiality transitional risk drivers over the long term. The majority these medium materiality transitional risk drivers relate to the ever-stricter regulatory environment and requirements, which the Group sees as significant not only in its own operations, but also in the operations of its clients. The 3 long term high materiality transitional risk drivers, identified by the Group, relate to the greenhouse gas (GHG) emissions and the decarbonization. The Group sees significant exposure of Slovenia and Slovenian corporates to this driver due to the energy mix of the country and the industry structure of the economy.

Figure 6: Overview of the transitional risk driver materiality assessment



In order to mitigate these risk drivers, the Group has established a number of initiatives, which are detailed in its ESG strategy, incorporated ESG-related risk objectives and quantitative decarbonization key risk indicators (KRIs) in its Risk Appetite Statement, and established supporting strategic and operational key performance indicators (KPIs), KRIs and limits, which are monitored on a regular basis.

24.2 GOVERNANCE

Nova KBM's Management Board is aware of the ever-increasing number of challenges in connection with climate change and its likely impact on the business environment and business model of the Nova KBM Group.

Nova KBM d.d. established the Climate Change and Sustainability Committee in 2021. The committee is a delegated body that includes all members of the Bank's Management Board. It is responsible for the comprehensive and effective implementation of the Group's ESG strategy, so that the Group can more easily assess, manage and monitor the associated risks and potential business opportunities.

The committee's mission is to ensure the comprehensive implementation of the ESG strategy across the organisation, to define, assess, manage and mitigate climate-related risks, and to exploit to the greatest extent possible the business opportunities presented by the ESG transformation. It supervises the work of internal working groups established in all of the Bank's business and control functions, and reviews and approves reports on the work of organisational units included in the implementation of the strategy. It is also responsible for approving the ESG report.

The Climate Change and Sustainability Committee is chaired by the member of the Management Board responsible for risk management (the President of the Management Board serves as deputy chair). The committee members include all of the members of the Management Board, each of which is responsible for an area that is relevant to their function. The committee is responsible for the comprehensive and effective implementation of the ESG strategy within the Nova KBM Group. All committee members strive to raise awareness of ESG among employees.

Overview of the responsibilities of Management Board members on the Climate Change and Sustainability Committee

Members of the Climate Change and Sustainability Committee with voting rights	Area of responsibility
Management Board member responsible for risk management	Management of climate-related and environmental risks in risk management process (with an emphasis on credit risk management), and in connection with the ICAAP and ILAAP (chair of committee)
President of the Management Board	Sustainability, and awareness and commitment of employees; ensuring that the remuneration policy and associated practices promote employee conduct that is in line with the Group's ESG strategy (deputy chair of committee)
Management Board member responsible for finance and financial markets	Standards in connection with climate and environmental reporting; sustainable investment (member of committee)
Management Board member responsible for corporate transactions	Development of sustainable financing, and associated products and services (member of committee)

Other committee members include directors and advisors to the Management Board responsible for ESG-related areas

Other members of the Climate Change and Sustainability Committee	Area of responsibility
Director of ESG Department	Preparation and coordination of implementation of the ESG strategy
Director of Compliance Office	Control and coordination of the Bank's activities aimed at ensuring compliance with relevant and applicable ESG requirements and regulations, and coordination and control of the implementation of the ESG strategy (member of committee)
Director of Strategic Risk Management Department	Inclusion of climate-related and environmental risks in the risk appetite framework (RAF), formulation of relevant key risk indicators, and setting of appropriate limits for successful management of these risks (member of committee)
Director of Credit Management Sector	Inclusion and consideration of climate-related and environmental risks in the credit management process (member of committee)
Director of Credit Risk Management Department	Establishment of a comprehensive framework for the effective management of ESG risks in the Bank's credit processes (member of committee)
Advisor to the Management Board for ESG	Serves as an ESG advisor who promotes the implementation and coordination of the entire ESG strategy across the Group (member of committee)

Only committee members who are members of the Management Board have voting rights. All committee members are responsible for promoting the ESG agenda within their functional organisational units. The Bank's procurators and the directors of other areas heavily involved in the implementation of the ESG strategy, including the director of product development, the director of asset and liability management, the director of real estate management and central purchasing, the director of marketing and communication, the director of internal auditing and the compliance officer from the compliance department responsible for ESG-related matters, are also invited to sessions of the Climate Change and Sustainability Committee as permanent members.

At its sessions the committee discussed key milestones and activities in individual areas where aspects of ESG are being implemented. It monitored key ESG-related performance indicators for 2023, and approved those proposed for 2024, as well as medium-term objectives, and the expectations and recommendations of the regulator (ECB) relating to the management of climate-related and environmental risks. The committee also monitored and discussed the updating of processes and methodologies being implemented at the Bank, including the introduction of internal ESG reports and a methodology for assessing the greenhouse gas emissions generated by the Bank's customers. The committee met in four ordinary sessions in 2023.

All Level 1 and 2 bylaws (strategies, policies and rulebooks), including bylaws of relevance to ESG, are approved by the Management Board.

All employees are responsible for the professional, high-quality, prudent and timely performance of the tasks set out in the relevant rulebooks, in accordance with their powers. Having regard for their powers, all divisions, departments and other organisational units at the Bank and within the Group are responsible for verifying the adequacy, the reliability and, above all, the effectiveness of the implementation of the internal processes and procedures of the Bank and Group, including potential changes, amendments and updates proposed by individual organisational units for the purpose of ESG risk management, and for general compliance with external and internal regulations on the part of all stakeholders at the Bank and within the Group.

The Bank's Management Board monitors and regularly assesses the effectiveness of internal governance arrangements, and takes appropriate measures to rectify the identified deficiencies. The Bank's Management Board takes climate-related and environmental risks into account in the development of the overall business strategy, business objectives, and the risk management framework, effectively controls climate-related and environmental risks, and ensures that the ESG project and ESG risk management are given the necessary powers and influence to perform that function, as well as sufficient human and financial resources for the effective identification of risks.

The Bank's ESG strategy is approved by the Supervisory Board.

Significant human and financial resources were invested in the ESG transformation of the Bank in 2023. We hired a director (B-1) to lead the newly established ESG Department. In financial terms, our costs directly associated with the transformation included investments in the energy efficiency of our own premises and in zero emission vehicles, the purchase of ESG data from external providers, and the introduction of data points into our core and other IT systems, which amounted to over EUR 0.5 million. We also made donations of more than EUR 1 million, mostly in connection with the devastating floods that occurred in August.

24.3 IMPACT OF ESG RISKS ON THE GROUP'S BUSINESS MODEL

The Bank's ESG strategy defines objectives and priorities that support the achievement of the vision, the mission statement and the business strategy of the Bank, and of the OTP Group. The strategy reflects our ambitions in the area of ESG in supporting and facilitating the Bank's business and financial plans, and defines the KPIs to monitor our performance.

The ESG strategy was first defined in 2021, and has then been reviewed, upgraded and updated each year on the basis of the experience and knowledge accumulated at the Bank, the supervisory expectations, and most recently – following the acquisition of Nova KBM in 2023 – the expectations of the OTP Group. As part of the preparations for the upcoming merger with our sister bank, SKB banka, the ESG strategy was overhauled in late 2023. This confirms the forward-looking ESG principles, and sets more ambitious objectives in connection with ESG factors.

ENVIRONMENTAL PRINCIPLES

- The Group recognises that its **business environment is being and will be impacted by climate change**. Climate change will also impact the physical and macroeconomic environment in which the Group operates. The **transition to a low-carbon** or carbon-neutral economy brings with it **risks and opportunities for the Bank** (and other financial institutions). The Bank recognises both **physical climate change and transition risk as material drivers of its overall risk profile**.

- The Group operates in an EU Member State. The EU is committed to a reduction of 55% in its GHG emissions from 1990 levels by 2030. The European Green Deal has committed to making Europe a climate neutral continent by 2050. Slovenia has made its own commitments in support of the EU's binding commitments (last updated in 2023).[4]
- European authorities including the ECB expect the financial sector to play a key role in this process, and the European Commission has stipulated likewise in the action plan for financing sustainable growth.
- The **Group** is fully informed of these **plans**, and **uses them** in the preparation of its **business objectives**.
- The Group is taking action over the short term and medium term to adapt its current investment and loan portfolio to be aligned with the EU's nationally determined contributions to decarbonise the economy, thereby reducing its exposure to climate risks and transition risk over time.
- The Group is taking action over the short term and medium term to strengthen its commitment to financing the transition to a low-carbon or carbon-neutral economy.

The Group is taking action over the short term and medium term to **further reduce its Scope 1 and Scope 2** emissions, while recognising the progress already made in this respect

SOCIAL PRINCIPLES

- The Group will remain a socially responsible institution, and will continue to build sustainable, open and proactive relations with all stakeholders: employees, customers, business partners and others. Our aim is to contribute to the development of the broader social and economic environment in which we operate.
- We will continue supporting national, regional and local communities as a **partner, sponsor or donor** in events, projects and initiatives. We will continue with **awareness programmes** in the areas of financial literacy, which includes providing knowledge about banking products and services, responsible investing and lending, digital literacy, safe banking, fraud prevention, and security in online commerce.
- We will continue to build an inclusive work environment that promotes equality and diversity, and that prioritises employee wellbeing.

GOVERNANCE PRINCIPLES

- The Group remains committed to meeting the highest corporate governance and compliance standards. We have codified our shared values, the foundation of our ethical standards and our rules of conduct into a code of conduct, which is the primary building block of our corporate culture.

We will continue acting with full transparency and the highest level of integrity, and will maintain a zero-tolerance policy towards any kind of corruption in all our business relationships and transactions.

With the upgrading of the ESG strategy, we defined goals for 2024 and beyond, building on the lessons learned in previous years, taking account of supervisory expectations and the expectations of the OTP Group, and our ambition to contribute to the sustainable development of Slovenia. We kept the structure of the initiatives covered by the ESG strategy from 2023, but slightly updated it to now cover eight key areas (adding corporate culture, employee wellbeing and diversity as a separate initiative under the social pillar).

[4] ETS sector: in accordance with Directive (EU) 2023/959. Non-ETS sector: Regulation (EU) 2023/857. EU Member State targets are cited in: Microsoft Word - ES-2023-10-17 EU submission NDC update.docx (unfccc.int).

E — Environmentally Sustainable Growth

Enable net-zero transition of own and financed activities

1 — Sustainable Portfolio

1.1. Paris Agreement aligned corporate portfolio
- Align Corporate portfolio with the Paris agreement

1.2. Paris Agreement aligned retail portfolio
- Shift product portfolio to be more sustainable
- Align the retail portfolio with the Paris Agreement

1.3. Paris Agreement aligned treasury portfolio & sustainable financing
- Align the treasury portfolio with the Paris Agreement
- Secure sources of sustainable financing

2 — Climate, Environmental & Social Risk Framework

2.1. CES risk framework & control
- Continuously improve CES (ESG) risk management framework & processes
- Assess and monitor CES risks, their impact on our business environment and integrate them in our business strategy

2.2. CES risk in credit risk
- Enhance CES (ESG) risk management in credit risk management & portfolio analysis

3 — Sustainable Operations
- Reduce our impact: decrease Scope 1,2, and 3 emissions from own operations (decarbonization of own operations)
- Source only from ESG compliant vendors

S — Social Sustainability

Develop our environment by spreading social initiatives & engaging with all stakeholders

4 — Social Responsibility & Alliances
- Support ESG topics through partnerships, donations, sponsorships & charities
- Boost the financial literacy of our clients and the wider society through developing and delivering various educational content
- Engage with and take an active role in various associations that push forward the ESG transformation
- Align ESG communication and messages across all channels

5 — Corporate Culture, Employee Well-being and Diversity
- Strive for greater employee commitment and improvements to the organisational culture
- Promote inclusion & equal opportunity across the organisation by providing equal opportunities in remuneration, promotion, and benefits for our employees
- Provide for employee well-being

G — Robust ESG Governance

Ensure transparent governance and secure functional ESG data

6 — ESG Data Governance
- Upgrade data models with all required ESG data points from all sources
- Secure accessible and reliable use of the ESG data and its incorporation in relevant data models and reports

7 — Governance & Organisation
- Ensure effective governance structure for dealing with ESG topics, also incorporating the right incentives through clear metrics and targets
- Incorporate ESCininternal policies & procedures
- Build up ESG culture & competence across the organisation, including in the Management Board

8 — Regulatory Compliance & Reporting
- Continuously improve ESG governance, risk management framework and methodologies to comply with EB's requirements on climate-related and environmental risk management
- Apply green lending standards as defined by the EU taxonomy and other regulations/standards
- Compliance with all disclosure requirements (Pillar 3 disclosures, EU taxonomy reporting, CSRD)

The Bank has had an ESG KPI dashboard in place since 2022. The KPIs for 2024 were recently defined as part of the updated ESG strategy for 2024. These KPIs are monitored, and are reported to and discussed by the Climate Change and Sustainability Committee, which ensures that appropriate measures can be taken should the indicators fail to meet the required levels. Most ESG KPIs are revised on an annual basis; because certain targets are by nature forward-looking, some KPIs are long-term (e.g. green loans, transition-enabling loans and decarbonisation targets).

We are delighted to report the progress made in 2023 in connection with our ESG KPIs. For the first time we set and hit targets in financing the sustainability transition of our customers. While the volume of green loans is yet to catch up with the transition of the whole economy and with customer demand, our main achievements in 2023 were the development of our green lending framework in line with the OTP Group framework, and the development of green and transition-enabling products for our corporate customers, tracking the retail products available since late 2022. We also placed great emphasis – and will continue to do so – on exploring ways to engage with and best support our customers in their transition.

We made progress with the decarbonisation of our portfolio in 2023, and invested much work into advancing the quality of data used in calculations, although we acknowledge that the lack of data remains a challenge. In updating the strategy for 2024 we defined long-term (to 2030) portfolio decarbonisation KPIs for the first time, while one of our most important priorities for 2024 will be defining sectoral decarbonisation targets as part of a group-wide project led by OTP Bank's Green Programme Directorate.

We significantly increased the number of customers assessed (at the individual level) on the basis of ESG criteria, and in line with our commitment took up no new exposure to industries that we consider harmful based on environmental or social factors (certain types of fishing, mining of hard coal or lignite, growing of tobacco, and manufacture of tobacco products). We also continued to transform our investment portfolio to be more sustainable by increasing the holding of green bonds.

The Bank has monitored and disclosed its Scope 1 and Scope 2 emissions (emissions from its own operations) since 2017, with the aim of reducing energy consumption in its business. We further reduced emissions from our own operations in 2023, by optimising the use of real estate, investing in real estate (introducing energy management systems, replacing lights with LED technology, replacing heating, ventilation and air conditioning systems, etc.), electrifying the vehicle fleet, and purchasing electricity from renewable sources.

We also hit our targets in connection with employee satisfaction and diversity, and employee training on ESG issues.

Sustainable product offering

The Bank is committed to supporting the transition to a low-carbon or carbon-neutral economy, to helping to make Europe a climate-neutral continent by 2050, and to acting in line with the OTP Group's strategic objective of becoming the most important financial partner in financing the green transition in the region where it operates, including Slovenia. We believe that our most valuable contribution as a bank in this respect is providing solutions to our customers to finance their transition, thus supporting their investments in areas such as energy efficiency, green energy and sustainable mobility.
After joining the OTP Group, the Bank adopted the latter's green loan framework in 2023. The framework's aim is to identify projects that enhance positive and reduce negative environmental impacts, and help businesses and societies adapt to the impact of climate change. The framework describes a number of categories that help to define the green lending activities pursued within the Group. The criteria are based on the EU Taxonomy Regulation and the Climate Bonds Taxonomy. The framework has undergone external review, and is available at: Green_loan_framework_ENG.pdf (otpbank.hu). The green loan products offered by Nova KBM have been developed in line with the framework. All colleagues in the corporate banking division attended a major training programme in the summer of 2023 on the green loan framework and, in particular, the green alignment assessment tool (which supports technical screening against green lending criteria). The training was delivered partly by OTP Bank's green experts, and partly by external consultants who helped to localise the framework for Slovenia.

Alongside the green loan framework, the other guiding document of the OTP Group in this regard is its sustainable finance framework, which extends the definition of eligible green lending activities in three financing categories: (i) green buildings, (ii) renewable energy, and (iii) clean transport. The framework (also supported by a second-party opinion) is available at: Sustainable_Finance_Framework_ENG_20220524.pdf (otpbank.hu).

The Bank has been offering green and transition-enabling loans to **households** since 2022, thereby financing green mobility (bicycles, e-bikes and electric cars), and energy efficiency (energy-efficient appliances and renewables). Housing loans and consumer loans are available to customers. Housing loans are available for financing the purchase or construction of energy-efficient properties secured by mortgage or insured with Zavarovalnica Triglav. More details of the products offered can be found on the Bank's website: Nova KBM green loans.

Following a thorough product development process and alignment with the OTP Group in 2023, the Bank introduced new business loans in early 2024 to support customers in their transition to sustainable activities. The financing purposes are aligned with the relevant EU legislation and other legislation in this area, and with the OTP Group's green loan framework. The products supported include investment loans, project finance and syndicated loans. Financing is provided for:

- e-mobility,
- production of energy from renewables,
- energy efficiency renovations, and
- the green transition.

We provided EUR 81 million of financing to customers in 2023 to support the sustainability transition, particularly in manufacturing and real estate development. This we consider a small but vital first step on the long path of supporting our customers in their transitions. Given the evolving legislation in connection with green lending, Nova KBM has chosen to take a very prudent approach to classifying loans as green. Nevertheless we are continually seeking ways to promote the importance of the sustainability transition with our customers, and to provide financial solutions to support them on this path.

24.4 ESG RISK MANAGEMENT

Managing, controlling, measuring, mitigating and monitoring ESG risks is a continual process that is evolving relatively rapidly, in line with the process of development.

The Group has identified ESG risks as material to its business environment and its business model. The assessment of exposure to ESG risks and ESG risk drivers is a continual process, for which reason the Group will continue to define ESG risk drivers, incorporating them into the existing risks. The Group continues to focus on the introduction of ESG factors in internal processes to meet the regulatory requirements in connection with ESG and to improve the availability of data. The availability and quality of the data required to accurately measure and monitor ESG risks remain a challenge. For this reason the Group pays particular attention to collecting current data from its customers, and to formulating assessment methodologies where data is unavailable.

The Bank has put two top-level documents in place in the area of ESG risk management, namely the ESG strategy and the ESG policy, and has incorporated ESG risk management into the relevant strategies, policies and methodologies for managing individual types of risk where the assessment is that ESG risk drivers arise. The management of ESG risks and risk drivers has also been incorporated into the ICAAP and ILAAP framework. The Bank continually improves the management and integration of ESG risks and risk drivers in its internal processes and bylaws.

The purpose of the ESG strategy is to ensure the inclusion of ESG factors first and foremost in the Group's business strategy and risk management strategy, and then in all its activities and processes.

Credit risk and loan approval policy

The Bank updated its credit process in the middle of 2021, and began collecting, monitoring and assessing the ESG risks of its customers. The Bank continued to update that process in 2023. We have defined the appropriate procedures for collecting and analysing data, and for monitoring ESG risks, and have defined decision-making powers based on assessed ESG risks in connection with activities and customers. ESG risks are currently assessed for large, medium-size and small enterprises on the domestic and foreign markets, depending on the level of exposure.

The Bank closely monitors and assesses the ESG risks of its customers by collecting data (i) from publicly available sources (e.g. annual reports, sustainability reports, customer websites, information published on Bloomberg and other public media), (ii) from external ESG data providers (e.g. Vigeo Eiris and MSCI), (iii) from national and international agencies and ministries, and (iv) directly from customers, based on an in-house questionnaire, which includes questions on (i) transition risks (questions on carbon footprint, consumption of energy, water and waste and other ESG factors) and (ii) physical risks (impact of climate change on the customer's performance, and the customer's strategy and measures in connection with climate change).

With the aim of identifying and mitigating the ESG risks inherent in climate and environmental factors, social factors and governance factors in connection with customer financing, the **Bank** prepared a **methodology for assessing ESG risks** in the process of investment approval in the NKBM Group, which represents a comprehensive framework for effective ESG risk management (identification, assessment/measurement, monitoring and control) in the Bank's credit process. Assessment of the ESG risks of the Bank's customers is based on an individual approach and a portfolio approach.

The **individual approach** is used in (i) domestic lending to large enterprises and SMEs, depending on the Bank's exposure to the customer or GCC, (ii) international lending, and (iii) the assessment of banks and financial institutions (provided that an external ESG assessment by Vigeo Eiris is available). Assessment under points (ii) and (iii) is irrespective of the size of the customer and the Bank's exposure to the customer or GCC. The following entities are excluded from the individual ESG risk assessment process:

- customers who are defined as retail banking in accordance with Pr75;
- customers who are being managed by the Workout Department.

The **portfolio approach** is used to assess the ESG risks of all of the Bank's other customers to whom an individual approach is not taken, where the customer has been assigned an SKD classification/industry and the customer is not one of the entities for whom ESG risks are not assessed (i.e. customers that are classed as S.13 General government under the standard classification of institutional sectors, and subsidiaries of the NKBM Group and their customers, provided that the latter are not also customers of the Bank).

The portfolio approach means that the ESG risk assessment is assigned to the customer exclusively on the basis of the estimated ESG risk of its registered activities, or its *de facto* activities if the customer *de facto* pursues activities that differ from its registered activities. The ESG risk of transaction is assessed on the basis of a matrix including the estimated ESG risk of the customer and the residual maturity of the investment (short: ≤ 1 year; medium: ≤ 5 years; long: > 5 years) that is the subject of assessment.

The Bank assesses ESG risk **on the basis of the individual approach** at three levels:

- industry → E and S factors are the subject of assessment;
- customer → E, S and G factors are the subject of assessment (on the basis of scoring) and physical risk (on the basis of expert judgment);
- individual transaction → ESG risk is the subject of assessment solely in the case of project finance and green financing, otherwise a portfolio approach is employed.

The **risk of an individual factor (i.e. E and S) for a particular industry** is assessed by means of a risk scale: low, medium, medium-high and high. The final ESG risk assessment is equal to the worse of the risk assessments of the two factors. In determining the risk assessment of E and S factors and then the final ESG risk assessment of a particular industry, in addition to its own assessments in first place, which are based on its familiarity with and understanding of the (specifics of) Slovenian market, the Bank also took account of externally sourced assessments (EBRD Environmental and Social Risk Categorisation List (Revised 2014), Paris Agreement Capital Transition Assessment, ING Environmental and Social Risk Framework, etc.) and assessments made by OTP HQ.
The underwriting department within the credit management sector determines the ESG risk assessment for each industry (level 4 of the SKD), as described earlier for the individual factor and overall assessment of the industry. A list of SKD industries with the corresponding ESG risk assessment (i.e. the ESG NACE Industry Classification) is the subject of discussion and final approval by the Climate Change and Sustainability Committee.
In addition to the ESG risk of industries, the Bank has also defined **ESG excluded industries and subindustries that constitute industries that the Bank does not finance as a rule**, as follows:

ESG excluded industries

<table>
<tr><th>CODE</th><th>NAME OF INDUSTRY</th><th>REMARKS</th></tr>
<tr><td>A01.15</td><td>Growing of tobacco</td><td></td></tr>
<tr><td>B05.10</td><td>Mining of hard coal</td><td></td></tr>
<tr><td>B05.20</td><td>Mining of lignite</td><td></td></tr>
<tr><td>C12.00</td><td>Manufacture of tobacco products</td><td>Does not include distribution and sale of tobacco products.

For these industries the rules applying to high-ESG-risk industries are taken into account in the approval of investments. The rules apply to all customers in the industries, irrespective of the size of the exposure to the GCC (applies to large enterprises and SMEs).</td></tr>
<tr><td>C14.20</td><td>Manufacture of articles of fur</td><td></td></tr>
<tr><td>C24.46</td><td>Processing of nuclear fuel</td><td></td></tr>
<tr><td>C25.40</td><td>Manufacture of weapons and ammunition</td><td rowspan="2">Does not include financing of individual operations whose final customers are EU Member States or their competent institutions (e.g. the Ministry of Defence or Ministry of Interior), and Nato institutions.

For these industries the rules applying to high-ESG-risk industries are taken into account in the approval of investments. The rules apply to all customers in the industries, irrespective of the size of the exposure to the GCC (applies to large enterprises and SMEs).</td></tr>
<tr><td>C30.40</td><td>Manufacture of military fighting vehicles</td></tr>
<tr><td>S94.91</td><td>Activities of religious organisations</td><td></td></tr>
<tr><td>S94.92</td><td>Activities of political organisations</td><td></td></tr>
</table>

ESG excluded subindustries

CODE	NAME OF INDUSTRY	REMARKS
A03.11	Marine fishing	Excluded in the case of whaling, shark fishing, and fishing for other endangered species
B07.29	Mining of other non-ferrous metal ores	Excluded in the case of asbestos mining
B08.99	Other mining and quarrying n.e.c.	Excluded in the case of diamond mining, if the undertaking does not have evidence of meeting the highest standards of the industry
D35.11	Production of electricity	Excluded in the case of electricity production from coal

The **ESG risk at customer level** is assessed for customers who pursue business activities that are classified as medium-, medium-high- and high-ESG-risk industries on the basis of the Bank's assessment. **In the case of customers on the domestic market**, the ESG risk assessment is determined by means of the internally developed ESG Scoring tool on the basis of ESG questionnaires completed by customers and information available from other sources. The ESG risk of a particular customer is assessed by means of a risk scale: low, medium, medium-high and high. The customer's final ESG risk assessment is equal to the worst of the assessments of all factors. The ESG risk assessment of **customers in international lending** is based primarily on mapped ESG scores from Vigeo Eiris (first priority) and MSCI (second priority), which means that the customer's ESG assessment at the Bank is determined by means of a mapping table based on an external ESG score from the aforementioned providers.

Customer-level assessment of ESG risks based on the Scoring tool

The Bank assesses the ESG risk of customers on the domestic market on the basis of its internally developed Scoring tool, which was developed on an expert basis, having regard for external resources (e.g. ESG questionnaires of other organisations and associations, sustainability reports, information published on Bloomberg). With the help of Scoring, the Bank assesses the risks inherent in all three ESG factors (E, S and G), and defines the area of assessment depending on the type of ESG risk, including addressing the following issues and themes:
Environmental risks (E): the questions address themes such as greenhouse gases, energy management, water management, waste management, employee training in environmental protection, compliance with environmental legislation, ability to adapt.
Social risks (S): the questions address themes such as relations between the employer and employees, investment in human capital and communities, respect for human rights, diversity, and equal opportunities.
Governance risks (G): the questions address themes such as the customer's transparency of business and credibility, the ethics and integrity of business practices, compliance with legislation, corruption, taxation, protection/restriction of competition.

Each type of ESG risk is assigned a score from 1 to 10 (where 1 is the best and 10 is the worst score). A mapping table is used to translate the individual ESG risk scores into four risk categories: low, medium, medium-high and high. The customer's final ESG risk assessment is equal to the worst risk assessment for an individual ESG factor (i.e. E, S or G), although there is still the possibility of modifying the final risk assessment (override). Any such override needs to be properly documented.

Scoring tool is subject to annual review in order to determine whether the tool is still up to date, relevant and properly functioning.

The **ESG risk at the level of the individual transaction** is individually assessed solely in the case of project finance, i.e. financing of individual investments/projects (on the basis of the project's projected energy efficiency), and green financing of investments encompassing (i) sustainable mobility, (ii) electricity production from renewables, (iii) improvements to the energy efficiency of commercial buildings and (iv) financing of the ESG transition (transactions that meet the definition of green finance are always classified as low ESG risk). A portfolio approach is used to assess the ESG risk of other transactions. The ESG risk of an individual transaction is assessed by means of a scale: low, medium, medium-high and high ESG risk.

Landing Policy to corporate and financial market customers

In its lending policy to corporate and financial market customers the Bank has set out general guidance and rules for approving investments depending on the assessed ESG risk of the customer (determined on the basis of an individual approach), and has defined the powers to decide on investments depending on the assessed ESG risk of the customer.
The Bank is currently focusing its attention primarily on the risk of climate-related and environmental factors (E) at customers active in carbon-intensive industries, for which reason the policy sets out detailed rules and guidance for customers in these industries. The

Bank's exposure to carbon-intensive industries is monitored within the framework of monthly portfolio reviews, and also through the key risk indicators (KRIs) in connection with the customer's ESG risk and score.
The Bank generally approves investments for customers with low, medium and medium-high ESG risk, but is very limited in approving investments for customers with high ESG risk. For customers registered as or *de facto* pursuing activities defined as excluded industries under the ESG criteria, the Bank only approves investments in exceptional cases, and decisions on investments of this kind are within the highest decision authority of the bank (the credit committee).

ESG risks at industry level are an important parameter, for which reason the Group actively manages them within the framework of the annual process of defining the framework of operational limits by setting a) sectoral limits and b) limits on new exposures in high-risk and medium-high-risk sectors. The limits at sector level are monitored monthly within the framework of internal reporting on portfolio management.

The Bank has begun collecting data on the energy efficiency of buildings pledged as collateral for credit exposures. Customers provide energy efficiency certificates, while the Bank also independently collects data available in the register at the relevant ministry. For real estate with no certificate, the Bank obtains additional relevant data, and formulates an energy efficiency assessment on this basis, which it then uses in its internal processes of portfolio monitoring from the perspective of exposure to transition risk and for the individual customer.

Bank's exposure to high-ESG-risk sectors

The Group has begun to identify the broader ESG risks that it faces, in particular the climate-related and environmental risks inherent in ordinary investment and loan operations, and has put in place the first measures to mitigate those risks.

Operational risk

By making the use of the ESG questionnaire for assessing risks in connection with ESG factors mandatory in the area of outsourcing in the purchasing process, Nova KBM continued to upgrade the operational risk and outsourcing risk management frameworks in 2023. The answers to the ESG questionnaire provide the Bank with important information in the area of environmental factors (ESG strategy and policy, carbon emissions, waste management), social factors (occupational health and safety, HR), and corporate governance factors (code of conduct, anti-corruption policy, breaches and sanctions).

Particular attention was given to data quality, the upgrading of reports and the automation of risk management processes for operational risk and outsourcing risk. Methodological approaches to operational risk assessment were upgraded and the operational risk register updated to include threats and controls related to ESG risks (physical, climate-related and transition risks of climate-related and environmental events; impact on business continuity, and reputational and liability risks; inadequate risk assessment and assessment of the compliance of external service providers). The Bank assesses threats in connection with environmental risks through 11 operational risk sub-categories. The Bank's risk indicators represent one way to obtain data regarding factors that reflect the business environment and internal control systems, and warn of changes. The Bank has thus included ESG components in the process of setting indicators for the purpose of managing ESG risks. It monitored 21 indicators with ESG components in all relevant Basel categories in 2023.

The Bank organised several training courses on operational risk and outsourcing, while activities were implemented to improve the risk management culture. The Bank also focused on ESG risk drivers in its training.

ICAAP sensitivity analysis and internal stress tests

The purpose of conducting internal climate stress tests is to assess the Bank's exposure to climate risks and environmental risks in accordance with the regulatory and supervisory requirements, guidelines and expectations. The internal climate and environmental stress tests are based on internal approaches aligned with the approaches used by the ECB. The Bank has put two scenarios in place within the framework of its internal climate and environmental stress tests as part of the ICAAP:

- the flood scenario (physical risk);
- the short-term disorderly scenario (transition risk), which is based on a rise in the price of emission allowances, which leads to a downturn in the performance of individual sectors and customers, and finally the economy.

The Bank made use of its internally developed methodologies, models and an internal database. The Bank assesses the impact on the following parameters when conducting stress tests:

- expected credit losses (ECLs),
- net interest income (NII),
- Pillar 1 capital adequacy (risk-weighted assets, regulatory capital, capital ratios).

The results of the climate tests revealed the following:

- The probability of a major impact on the Group's portfolio from floods (physical risk under the assumptions of the scenario) is relatively small, given the high level of portfolio collateral coverage, which ensures a sufficient buffer to absorb any loss in value of real estate collateral. The latter was also evidenced in the case of the extensive floods in Slovenia in 2023, where the country did not suffer any macroeconomic consequences in the form of a significant fall in GDP or a deterioration in any other significant macroeconomic indicators. The consequences were locally limited to individual municipalities at the micro level. No material impact from the aforementioned floods was evident at the level of the Group's portfolio.
- The transition risk scenario in combination with the relevant time horizons of the short term (up to one year), the medium term (one to five years) and the long term (beyond five years) shows the Group's exposure to transition risk (i.e. decarbonisation) to be relatively low over the short term from the perspective of ECLs, NII and thus capital adequacy, before increasing to material as the horizon lengthens, which is in line with expectations given the energy mix and sectoral structure of the Slovenian economy, which is also reflected in the Group's portfolio.

ILAAP sensitivity analysis and internal stress tests

The purpose of conducting internal climate sensitivity analysis and internal climate stress tests is to assess the Bank's exposure to climate risks and environmental risks, and thus to a potential major outflow of deposits or to liquidity shocks.

Two sub-categories of risk are defined within the framework of climate risk: transition risk and physical risk. Transition risk relates to adapting to the low-carbon economy, and the related costs and benefits. In its assessment of physical risk the Group took account of exposure to flood risk. The flood threat was chosen because Slovenia has already been hit by several major floods, and the data is therefore available.

The Bank conducts a monthly assessment of its exposure to liquidity risk as a result of ESG risk drivers. The internal liquidity buffer is monitored on the basis of the ESG classification of the issuer, and takes account of the market value of assets with a haircut. Corporate deposits are monitored on the basis of the NACE code of the depositors, taking account of exposure to transition risks. Corporates are classified as low, medium and high ESG risks, and as exclusion sectors. Household sight deposits are monitored with regard to exposure to flood risk in the municipality of the depositor. The stock of household sight deposits in the municipality most exposed to flood risk and in the top ten municipalities is monitored.

The sensitivity analysis is based on shocks of deposit withdrawals by certain customers. In connection with transition risk, the risk could be reflected in a rise in the price of emission allowances, which would lead to a decline in the financial capacity and savings of businesses. In connection with physical risk, floods could have a damaging impact on the local environment, and could give rise to the need for repairs and reconstruction using savings. The sensitivity analysis separately tests the outflow of household deposits and corporate deposits at two levels of severity.

The results of the stress tests and sensitivity analysis show that the Group has sufficient liquidity to cover any outflow of household and corporate deposits, and still remain within all set limits. It was nevertheless shown that the impact of climate risk events could be material, confirming the Group's vulnerability to the potential outflow of deposits.

Because even worse shocks are tested in the entire portfolio of deposits within the framework of the stress tests of the refinancing plan, and are therefore captured in the internal liquidity buffer requirement for funding risk, there is no additional need to increase the internal liquidity buffer requirement for liquidity risk.

24.5 SCOPE 3 EMISSIONS

Carbon footprint of our portfolio

While the sectoral strategies for decarbonisation have still yet to be defined – together with the other members of the OTP Group and under the guidance of OTP Bank, Nova KBM will define its sectoral decarbonisation goals in 2024 – we already took steps towards decarbonisation of the portfolio in 2023, and developed a methodology for estimating financed emissions related to the lending and investment portfolio.

The methodology for estimating financed emissions adheres to the principles set out in the Global Standard for Greenhouse Gases (GHG) published by the Partnership for Carbon Accounting Financials (PCAF) for the category Business loans and unlisted equity. Financed emissions are calculated by multiplying an attribution factor (i.e. Nova KBM's share) by the GHG emissions of a borrower. If a client's actual GHG emissions are not available, the GHG emissions are estimated using the internal top-down approach, using industry emission intensity factors. The Bank considers several data sources on client's actual emissions as an appropriate data source, including the Bank's ESG questionnaire completed directly by a client, public disclosures and reports, as well as external providers (e.g. Moody's). Currently, 39% of the exposures included in the financed emissions calculations are covered by actual available data on the clients' emissions. The Bank started monitoring the PCAF score of data quality in 2024, and on 31 January 2024 the PCAF score of the business loan portfolio stood at 3.2.

	Total exposure in EUR million	GHG financing ratio (tCO2e/mEUR) Scope 1	GHG financing ratio (tCO2e/mEUR) Scope 2	GHG financing ratio (tCO2e/mEUR) Scope 3
Nova KBM business loan and investment portfolio (31 December 2023)	2,351	112	39	337

The figures and the methodology presented above currently do not cover sovereign exposures or exposures to natural persons, banks and financial institutions, holding companies, project finance and inactive companies.

Financed emission figures are estimated according to the Partnership for Carbon Accounting Financials (PCAF) standards on a best effort basis. This implies that data availability and quality vary both in terms of regional and asset class coverage, which can result in inconsistent and/or uncertain estimates. We partly used information from third-party sources that we believe to be reliable, but which has not been independently verified by us. We do not vouch that the information is accurate or complete. Therefore, estimated financed emission data are not comparable across banks, neither between years nor asset classes. The financed emission information contained in this report should not be construed as a characterization regarding the materiality or financial impact of that information.

24.6 KEY METRICS AND GOALS

ESG targets in performance management

Nova KBM's remuneration policy is consistent with the objectives of the Group's business and risk management strategy, including those related to environmental, social and governance risk, corporate culture and values, the long-term interests of the Group, and the measures used to avoid conflicts of interest. The pay-out process for variable remuneration is based on the Performance Assessment Criteria for the relevant year. The criteria are based on the Group's strategic pillars, which incorporate the ESG strategy. This in practice means that selected ESG KPIs are included in the performance scorecards for all employees in the Bank, including members of the Management Board. Realisation of these KPIs impacts the variable pay of the employees. A subset of all ESG KPIs included in scorecards is on the level of "shared objectives" – meaning they are the same for all employees. Other ESG KPIs are included in the scorecards of dedicated units/sectors or individual employees either as team or individual goals – depending on the units/employees who are responsible for delivering these KPIs.

Overview of key ESG KPIs in Nova KBM: realisation for 2023 and targets for 2024 and onwards

ESG KPI	Future target (2024 and onwards)	Performance assessment (2023)
Growth and profitability		
Green and transition-enabling loans (green loans are defined in accordance with the OTP Group's green definitions as described by the Green Lending and Sustainable Finance Frameworks of the OTP Group). Transition-enabling loans are purposed loans clearly linked with transition commitments by the clients (reductions in emissions, energy usage, water usage, etc.) and defined by clearly defined product criteria, but are not meeting all the technical screening criteria of green loans.	Green and transition-enabling loans for retail and corporate clients 2024 target: EUR 89 million (of which green loans: EUR 4 million) 2025* target: EUR 251 million (of which green loans: EUR 164 million)	Green loans to household clients have been offered by the Bank since November 2022, but we have seen limited demand for these in 2023. Regarding corporate green and transition-enabling loans, as a result of integration with the OTP Group the Green Loan Framework of the Group has been adopted first. Green corporate products have been developed in line with the framework, and the concept of transition-enabling loans has also been defined. By the end of 2023, green and transition enabling products were defined for four purposes and were made available for our clients in January 2024. In 2023, we provided EUR 81 million of financing to clients to support the sustainable transition, particularly in the manufacturing and real estate development sectors.
Share of green bonds in the investment portfolio[5]	2024: >= 5%	The Bank has set a goal to keep its share of investment in green bonds at over 5% in 2023, a level which has been exceeded (8.5%).
Risk management and compliance		
GHG emission intensity of the financed portfolio (Scope 1 and Scope 2 financed emissions)	2024: Reduce the emission intensity of the financed portfolio – targets set for 2025 and 2030, which will be aligned with the OTP Group's decarbonisation plans in 2024 and disclosed subsequently	The Bank started to regularly monitor the GHG intensity of its (business loans) portfolio in 2023, and has already made progress in reducing the intensity. In 2023 the financed GHG emission calculation was refined, and for the first time is disclosed in the current report (see Chapter 6.1.2).
Assessment of the Bank's exposure according to ESG underwriting criteria	2024: >=60% (excluding the retail and micro-enterprise segments)	In 2023 an ESG assessment was conducted for 67% of the portfolio; the target for 2023 was to assess 45% of portfolio exposure, and this target was exceeded.
Excluded industries	2024: No new exposure to excluded industries	No new exposure was assumed with regard to excluded industries in 2023.
Operational efficiency		
Optimisation of the Bank's own carbon footprint	2024: own GHG emissions (Scope 1+2): reduced by at least 11% (on a 2022 baseline)	In 2023, a reduction of 4% on Scope 1 and 2 emissions relative to 2022 was achieved due to the energy efficiency measures that were implemented. For the first time, the Bank's own emissions were calculated by an external party, Bureau Veritas, in line with the GHG Protocol 2004 standard, for 2022 and 2023.
Electricity purchased from renewable sources**	2024: 100% of electricity purchased from renewable sources	Since 2022, electricity for commercial buildings has been obtained exclusively from renewable sources.
Culture and talent development		
ESG training for all employees	2024: more than 95% of employees must complete online training	In 2023 dedicated training was delivered to the management of the Bank, covering all aspects of ESG in the OTP Group. In addition, ESG training has been made available in e-learning form for all employees, which has been successfully completed by 96% of them.

[5] Green bonds which are issued in line with the Green Bond Principles from the International Capital Market Association (ICMA).

ESG KPI	Future target (2024 and onwards)	Performance assessment (2023)
Gender diversity rate (B-1 directors and identified staff excl. Supervisory Board & Management Board[1])	2024: 45–55%	The gender diversity rate reached 55% at the end of 2023 – measured for B-1 directors and identified staff. At the beginning of the period 46% of the B-1 directors and identified staff were female.
Employee satisfaction index	2024: > 75%	The employee satisfaction index in 2023 was measured at 75%.
Employee engagement index	2024: > 70%	The employee engagement index in 2023 was measured at 73%.
Employee Net Promoter Score	2024: +33 points	The Employee Net Promoter Score in 2023 was +66 points. For 2024, in view of the imminent merger, we set a more conservative target, taking into account the fact that major changes, such as the merger of the two banks, typically have a negative impact on employee satisfaction from a psychological perspective.

** The 2025 target was set taking into account the planned merger with SKB banka.*

*** Applies to buildings owned by the Bank. The Bank leases some real estate (less than 8%) and exercises no influence on the procedure of sourcing electricity.*

In addition to the KPIs presented in the table above, Nova KBM has set additional, more detailed ESG KPIs, which are applied for effective measurement, monitoring and management of ESG risk and for monitoring progress in the transformation of ESG throughout the Bank.

Portfolio level key risk indicators

The Bank defined the key risk indicators/KRIs on enhanced granularity level to ensure the coverage of relevant individual portfolios, business lines and sectors for effectively managing C&E risks. KRIs are integrated into the bank's credit policies on the segment level with the purpose of adequate management of ESG risks already in the approval process. Limit values for each KRI have been set according to the traffic light system. KRIs are monitored through regular reporting channels, with particular emphasis on possible deviations that are considered in the relevant decision-making bodies.

The bank has selected KRIs that are linked to the different key areas of ESG risk management in the bank and are presented in the table below:

ESG KRI area	ESG KRI ratio	Traffic light values 2024			Performance assessm	
	Segment	low	medium	high	12.2023	
ESG (Environmental) on client level	**Large Corporate/Small Enterprises/International lending**					
ESG risk on client level: as part of the client/deal review process for the Large Corporate, International Lending and Small Enterprises segment, the bank also checks and assesses the client's risk from an ESG point of view. On this basis, an ESG risk assessment is determined, which includes Environmental, Social and Governance criteria.	**Maximum share of the LC portfolio in high/high medium risk client (E) categories***	up to 40	41 -50	above 50	✓	**27,03**
	Maximum share of the IL portfolio in high/high medium risk client (E) categories*	up to 40	41 -50	above 50	✓	**21,63**
	Maximum share of the SE portfolio in high/high medium risk client (E) categories*	up to 40	41 -50	above 50	✓	**28,05**
ESG Industry risk (Carbon intensive industries)	**Large Corporate/Small Enterprises/International lending**					
ESG risk industries classification/Carbon intensive industries: the bank carried out a classification of industries according to the ESG risk assessment and identified carbon intensive industries, for which more stricter approval rules are valid, which are defined in the bank's Credit policy and are linked to the client credit rating, the customer's ESG risk in connection with the type and maturity of the product.	**Maximum share of LC portfolio in high/high medium clients (E) & rating 7-9 & carbon intensive industries***	up to 7	08-12	above 12	✓	**0,74**
	Maximum share of IL portfolio in high/high medium clients (E) & rating 7-9 & carbon intensive industries*	up to 5	06-10	above 10	✓	**0,66**
	Maximum share of SE portfolio in high/high medium clients (E) & rating 7-9 & carbon intensive industries*	up to 5	06-10	above 10	✓	**1,01**
	*excluding "green financing" exposure in 2024					
Energy performance certificate/EPC rating	**Project financing**					
Energy efficiency of real estates: for certain customer segments and products, as part of the approval process, the bank obtains data on the energy efficiency of the real estates it accepts as collateral. Additionally, it has developed an internal approach for assessing the energy efficiency of pledged real estates, which enables it to classify the entire portfolio of pledged real estate according to energy class (except for real estate where an energy efficiency certificate is not required) and thereby manage the ESG transition risk accordingly.	**Maximum share of exposure classified in energy ratings C-G in Project Finance portfolio**	up to 30	31-35	above 35	✓	**24,00**
	Private individuals					
	Minimum share of exposure in new volume of housing loans for purchase of real estate secured by real estate in energy class A, B, C – low risk (calculated on monthly level for 12-months average)	min.40	39-30	below 30	✓	**43,86**
Physical risk - Floods	**Private individuals**					
ESG physical risk: as part of the approval process, the Bank also assesses the physical risk to which the customer is exposed. The materiality of EGS physical risk according to individual risk drivers (fire, earthquake, floods,...) is also assessed at the portfolio level.	**Maximum share of PI loan portfolio secured by real estates (measured by allocated market value) on the 500-years floods areas**	up to 10	11-15	above 15	✓	**6,01**