OTP BANK PLC.

SEPARATE FINANCIAL STATEMENTS
IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION
AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED
31 DECEMBER 2019

Deloitte.

Deloitte Auditing and Consulting Ltd.
H-1068 Budapest,
Dózsa György út 84/C, Hungary
H-1438 Budapest,
P.O.Box 471, Hungary

Phone: +36 (1) 428-6800
Fax: +36 (1) 428-6801
www.deloitte.hu

Registered by the Capital Court of Registration
Company Registration Number: 01-09-071057

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of OTP Bank Plc.

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of OTP Bank Plc. (the "Bank") for the year 2019 which comprise the separate statement of financial position as at December 31, 2019 – which shows total assets of HUF 10,138,804 million –, and the related separate statement of profit or loss, separate statement of comprehensive income – which shows a net profit for the period of HUF 193,354 million –, separate statement of changes in equity and separate statement of cash-flows for the year then ended and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the Bank as at December 31, 2019 and of its financial performance and its cash-flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (the "EU IFRS"), and the separate financial statements were prepared in all material respects in accordance with the provisions of the effective Hungarian Act C of 2000 on Accounting (the "Accounting Act") relevant to the entities preparing separate financial statements in accordance with EU IFRS.

Basis for Opinion

We conducted our audit in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits. Our responsibilities under these standards are further described in the *"The Auditor's Responsibilities for the Audit of the Separate Financial Statements"* section of our report.

We are independent of the Bank in compliance with the relevant effective Hungarian regulations and the "Rules of conduct (ethical rules) of the auditor profession and the disciplinary process" of the Chamber of Hungarian Auditors and, in respect of matters not regulated therein, the "Code of Ethics for Professional Accountants" (the IESBA Code) issued by the International Ethics Standards Board for Accountants, and we have fulfilled our other ethical responsibilities in accordance with the same ethical requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the matter
Calculation of expected credit losses on corporate and retail loans	
(See notes 9., 29., and 34.1. to the separate financial statements for the details) As described in the notes to the financial statements, the impairment losses have been determined in accordance with IFRS 9 *Financial Instruments*, which requires significant judgment to determine the expected credit losses ("ECLs"). At the year-end, the Bank reported total gross loans of HUF 3,365,255 million and provisions for impairment on loan losses of HUF 79,917 million. The determination of the ECL of loans is considered a key audit matter, as it requires application of professional judgement and use of subjective assumptions by management in case of both the application of portfolio based collective impairment models, and determination of individual specific loan loss provision. The most significant assumptions applied in determining the provision are the following: - the interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Bank's expected credit loss model; - IFRS 9 credit risk staging methodology and application, including the identification of exposures with a significant deterioration in credit quality; - model used for impairment calculations reflecting the characteristics of the portfolio, such as valuation of collateral, probability of default and recovery rates, macroeconomic factors; - the application of assumptions, where there was limited or incomplete data; and - estimation of future cash-flows expected to be realized, including application of scenarios and scenario weights.	Our response as auditors included: - testing and assessment of the modelling techniques and methodology applied by the Group in order to estimate ECLs, and evaluation of its compliance with the requirements of IFRS 9; - evaluating the design and testing of the operating effectiveness of internal controls over timely identification of exposures with significant increase in credit risk and monitoring of credit impaired exposures and calculating, and recording of allowance for expected credit losses; - assessing the collective model methodology and testing the calculations in terms of risk parameters (probability of default – PD, loss given default – LGD, expected credit loss – ECL, and macroeconomic factors) applied by the collective models including involving our credit risk specialists; - involving our credit risk specialists to assist us in re-performing the calculation of the allowance and independently assessing the appropriateness of the assumptions used, the methodologies and policies applied; - assessing on a sample basis, whether the staging and impairment triggers are captured appropriately and whether the estimation of the allowance is reasonable; - sample based testing of individual provision, including the assessment of valuation of collateral and estimation of expected future cash-flows, application of different scenarios and scenario weights and forming an independent view of the adequacy of the ECL; and - assessing the adequacy of the disclosures in the financial statements.

Other Information

Other information comprises the information included in the section called "Management's Analysis" of the annual report and the business report of the Bank for 2019, which we obtained prior to the date of this auditor's report, and the sections called "Message to the shareholders", "Corporate Governance" and "Macroeconomic and financial environment in 2019" of the annual report, which is expected to be made available to us after that date, but does not include the separate financial statements and our independent auditor's report thereon. Management is responsible for the other information and for the preparation of the business report in accordance with the relevant provisions of the Accounting Act and other regulations. Our opinion on the separate financial statements provided in the section of our independent auditor's report entitled "Opinion" does not apply to the other information.

Our responsibility in connection with our audit of the separate financial statements is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Furthermore, in accordance with the Accounting Act, our responsibilities regarding the business report also include reviewing the business report to assess whether the business report was prepared in accordance with the relevant provisions of the Accounting Act and other regulations, if any, including the assessment whether the business report complies with the requirements of Section 95/B (2) e) and f) of the Accounting Act, and to express an opinion on the above and on whether the business report is consistent with the separate financial statements. Furthermore, in accordance with the Accounting Act we shall make a statement whether the information referred to in Section 95/B. (2) a)-d), g) and h) has been provided in the business report and whether the business report contains the non-financial statement provided for in Section 95/C.

In our opinion, the business report of the Bank for 2019 corresponds to the separate financial statements of the Bank for 2019 and the relevant provisions of the Accounting Act in all material respects. The information referred to in Section 95/B. (2) a)-d), g) and h) of the Accounting Act has been provided and the business report contains the non-financial statement provided for in Section 95/C.

As the Bank is not subject to additional requirements under any other regulation in connection with the business report, we have not formulated an opinion on this matter.

In addition to the above, based on the information obtained about the Bank and its environment, we must report on whether we became aware of any material misstatements in the other information and, if so, on the nature of such material misstatements. We have nothing to report in this regard.

When we read the sections of the annual report that were not yet made available to us until the date of this report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

The Auditor's Responsibilities for the Audit of the Separate Financial Statements

Our objectives during the audit are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue, on the basis of the above, an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits will always detect a material misstatement when it exists. Misstatements can arise from fraud or error, and they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify the opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the notes to the separate financial statements, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in the Bank's internal control that we identify during the audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In compliance with Article 10 (2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of the Auditor and the Period of Engagement
We were appointed as the auditors of the Bank by the General Meeting of Shareholders on April 12, 2019 and our uninterrupted engagement has lasted for 27 years.

Consistence with the Additional Report to the Audit Committee
We confirm that our audit opinion on the separate financial statements expressed herein is consistent with the additional report to the Audit Committee of the Bank, which we issued on March 16, 2020 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services
We declare that no prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Bank. In addition, there are no other non-audit services which were provided by us to the Bank and its controlled undertakings and which have not been disclosed in the business report.

The engagement partner on the audit resulting in this independent auditor's report is the statutory registered auditor signing this report.

Budapest, March 16, 2020

....	....
Andrew Weekes	dr. Hruby Attila
Deloitte Auditing and Consulting Ltd.	Statutory registered auditor
1068 Budapest, Dózsa György út 84/C.	Registration number: 007118
Registration number: 000083	

CONTENTS

OTP BANK PLC.
SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019
(in HUF mn)

	Note	2019	2018
Cash, amounts due from banks and balances with the National Bank of Hungary	4.	289,686	360,855
Placements with other banks, net of allowance for placement losses	5.	1,560,142	1,074,840
Repo receivables	6.	45,539	14,139
Financial assets at fair value through profit or loss	7.	172,229	155,042
Securities at fair value through other comprehensive income	8.	1,485,977	1,451,905
Loans at amortised cost	9.	3,285,338	2,571,979
Loans mandatorily measured at fair value through profit or loss	9.	29,731	32,745
Investments in subsidiaries, associates and other investments	10.	1,542,538	1,177,573
Securities at amortised cost	11.	1,447,224	1,431,789
Property and equipment	12.	77,754	70,442
Intangible assets	12.	53,282	39,883
Right-of-use assets	12.	13,607	-
Investment properties	13.	2,381	2,333
Deferred tax assets	32.	-	1,241
Derivative financial assets designated as hedge accounting	14.	16,677	12,221
Other assets	15.	116,699	109,201
TOTAL ASSETS		**10,138,804**	**8,506,188**
Amounts due to banks and deposits from the National Bank of Hungary and other banks	16.	738,054	458,182
Repo liabilities	17.	462,621	279,854
Deposits from customers	18.	6,573,550	5,741,498
Leasing liabilities	33.	13,660	-
Liabilities from issued securities	19.	43,284	46,694
Financial liabilities at fair value through profit or loss	20.	28,861	32,231
Derivative financial liabilities designated as held for trading	21.	83,088	82,838
Derivative financial liabilities designated as hedge accounting	22.	10,023	6,925
Deferred tax liabilities	32.	5,875	-
Other liabilities	23.	246,676	236,570
Subordinated bonds and loans	24.	279,394	110,454
TOTAL LIABILITIES		**8,485,086**	**6,995,246**
Share capital	25.	28,000	28,000
Retained earnings and reserves	26.	1,628,354	1,484,906
Treasury shares	27.	(2,636)	(1,964)
TOTAL SHAREHOLDERS' EQUITY		**1,653,718**	**1,510,942**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**10,138,804**	**8,506,188**

Budapest, 16 March 2020

OTP BANK Nyrt.
elnök-vezérigazgató

....
Dr. Sándor Csányi
Chairman and Chief Executive Officer

OTP BANK PLC.
SEPARATE STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2019 (in HUF mn)

	Note	2019	2018
Interest income calculated using the effective interest method	*28.*	239,395	214,821
Income similar to interest income	*28.*	83,111	75,912
Total Interest Income		**322,506**	**290,733**
Total Interest Expense	**28.**	**(119,384)**	**(83,778)**
NET INTEREST INCOME		**203,122**	**206,955**
Loss allowance on loan, placement and repo receivables losses	5., 6., 9., 29.	(33,728)	(7,822)
Release of loss allowance on securities at fair value through other comprehensive income and on securities at amortised cost	8., 11., 29.	401	362
Provision for loan commitments and financial guarantees given	23., 29.	(5,794)	(2,518)
Risk cost total		**(39,121)**	**(9,978)**
NET INTEREST INCOME AFTER RISK COST		**164,001**	**196,977**
Income from fees and commissions	30.	238,995	212,556
Expenses from fees and commissions	30.	(35,591)	(34,339)
Net profit from fees and commissions		**203,404**	**178,217**
Foreign exchange gains		13,247	9,510
Gains on securities, net		8,188	1,960
Gains on financial instruments at fair value through profit or loss		1,890	625
Gains on derivative instruments, net		4,715	3,706
Dividend income	10.	78,887	68,481
Other operating income	31.	7,505	5,179
Net other operating income / (expenses)	31.	26,515	(2,867)
Net operating income		**140,947**	**86,594**
Personnel expenses	31.	(115,035)	(104,819)
Depreciation and amortization	31.	(29,925)	(21,232)
Other administrative expenses	31.	(160,198)	(151,104)
Other administrative expenses		**(305,158)**	**(277,155)**
PROFIT BEFORE INCOME TAX		**203,194**	**184,633**
Income tax expense	32.	(9,840)	(11,191)
NET PROFIT FOR THE PERIOD		**193,354**	**173,442**
Earnings per share (in HUF)			
Basic	41.	691	621
Diluted	41.	691	621

OTP BANK PLC.
SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019 (in HUF mn)

	Note	2019	2018
NET PROFIT FOR THE PERIOD		**193,354**	**173,442**
Items that may be reclassified subsequently to profit or loss:			
Fair value adjustment of debt instruments at fair value through other comprehensive income		16,732	(35,709)
Gains on separated currency spread of financial instruments designated as hedging instrument		367	445
Gains on derivative financial instruments designated as cash flow hedge		2,086	949
Deferred tax (9%) related to items that may be reclassified subsequently to profit or loss	*32.*	(1,553)	3,347
Items that will not be reclassified to profit or loss:			
Fair value adjustment of equity instruments at fair value through other comprehensive income		3,867	6,396
Deferred tax (9%) related to equity instruments at fair value through other comprehensive income	*32.*	(348)	(576)
Total		**21,151**	**(25,148)**
NET COMPREHENSIVE INCOME		**214,505**	**148,294**

OTP BANK PLC.
SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019 (in HUF mn)

	Note	Share Capital	Capital reserve	Share-based payment reserve	Retained earnings	Other comprehensive income	Other reserves	Put option reserve	Treasury Shares	Total
Balance as at 1 January 2018		**28,000**	**52**	**31,835**	**1,301,316**	**69,618**	**59,444**	**(55,468)**	**(9,540)**	**1,425,257**
Effect of transition to application of IFRS 9		-	-	-	(5,364)	389	-	-	-	(4,975)
Balance as at 1 January 2018 in accordance with IFRS 9		**28,000**	**52**	**31,835**	**1,295,952**	**70,007**	**59,444**	**(55,468)**	**(9,540)**	**1,420,282**
Net profit for the year		-	-	-	173,442	-	-	-	-	173,442
Other comprehensive income		-	-	-	-	(25,148)	-	-	-	(25,148)
Total comprehensive income		**-**	**-**	**-**	**173,442**	**(25,148)**	**-**	**-**	**-**	**148,294**
Transfer to general reserve		-	-	-	(17,344)	-	17,344	-	-	-
Share-based payment	*37.*	-	-	3,797	-	-	-	-	-	3,797
Payments to ICES holders		-	-	-	(1,256)	-	-	-	-	(1,256)
Sale of treasury shares	*27.*	-	-	-	-	-	-	-	21,814	21,814
Acquisition of treasury shares	*27.*	-	-	-	-	-	-	-	(14,238)	(14,238)
Loss on sale of treasury shares	*27.*	-	-	-	(6,431)	-	-	-	-	(6,431)
Dividend for the year 2017		-	-	-	(61,320)	-	-	-	-	(61,320)
Other transactions with owners		**-**	**-**	**3,797**	**(86,351)**	**-**	**17,344**	**-**	**7,576**	**(57,634)**
Balance as at 1 January 2019		**28,000**	**52**	**35,632**	**1,383,043**	**44,859**	**76,788**	**(55,468)**	**(1,964)**	**1,510,942**
Net profit for the year		-	-	-	193,354	-	-	-	-	193,354
Other comprehensive income		-	-	-	-	21,151	-	-	-	21,151
Total comprehensive income		**-**	**-**	**-**	**193,354**	**21,151**	**-**	**-**	**-**	**214,505**
Transfer to general reserve		-	-	-	(19,327)	-	19,327	-	-	-
Share-based payment	*37.*	-	-	3,547	-	-	-	-	-	3,547
Payments to ICES holders		-	-	-	(1,334)	-	-	-	-	(1,334)
Sale of treasury shares	*27.*	-	-	-	-	-	-	-	33,513	33,513
Acquisition of treasury shares	*27.*	-	-	-	-	-	-	-	(34,185)	(34,185)
Loss on sale of treasury shares	*27.*	-	-	-	(11,950)	-	-	-	-	(11,950)
Dividend for the year 2018		-	-	-	(61,320)	-	-	-	-	(61,320)
Other transactions with owners		**-**	**-**	**3,547**	**(93,931)**	**-**	**19,327**	**-**	**(672)**	**(71,729)**
Balance as at 31 December 2019		**28,000**	**52**	**39,179**	**1,482,466**	**66,010**	**96,115**	**(55,468)**	**(2,636)**	**1,653,718**

OTP BANK PLC.
SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019 (in HUF mn)

	Note	2019	2018
OPERATING ACTIVITIES			
Profit before income tax		**203,194**	**184,633**
Net accrued interest		6,760	1,586
Depreciation and amortization	*12.*	29,925	21,232
Loss allowance on loan and placement losses	*9.*	33,728	7,822
Release of loss allowance on securities at fair value through other comprehensive income	*29.*	(176)	(553)
(Reversal of impairment loss) / Impairment loss on investments in subsidiaries	*10.*	(38,807)	4,436
(Release of loss allowance) / Loss allowance on securities at amortised cost	*11.*	(225)	191
Release of loss allowance on other assets	*15.*	(186)	(10,078)
Provision / (Release of provision) on off-balance sheet commitments and contingent liabilities	*23.*	5,411	(4,343)
Share-based payment	*37.*	3,547	3,797
Unrealised gains on fair value adjustment of financial instruments mandatorily measured at fair value through profit or loss or held for trading financial instruments		(1,379)	(13,528)
Unrealised losses on fair value adjustment of derivative financial instruments		6,777	16,903
Interest expense from leasing liabilities	*33., 42.*	(244)	-
Net changes in assets and liabilities in operating activities			
Change in held for trading securities	*7.*	(23,247)	51,078
Change in financial instruments mandatorily measured at fair value through profit or loss	*7.*	(984)	(20,658)
Changes in derivative financial instruments at fair value through profit or loss	*7.*	483	6,503
Net increase in loans	*9.*	(743,665)	(487,561)
Increase in other assets, excluding advances for investments and before provisions for losses	*15.*	(7,312)	(11,468)
Net increase in deposits from customers	*18.*	832,785	548,626
Increase in other liabilities	*23.*	495	46,090
Net increase in the compulsory reserve established by the National Bank of Hungary	*4.*	(7,558)	(6,227)
Dividend income	*10.*	(72,972)	(63,198)
Income tax paid		(628)	-
Net cash provided by operating activities		**225,722**	**275,283**

OTP BANK PLC.
SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019 (in HUF mn) [continued]

	Note	2019	2018
INVESTING ACTIVITIES			
Net increase in placements with other banks before allowance for placement losses	*5.*	(518,327)	(95,933)
Purchase of securities at fair value through other comprehensive income	*8.*	(1,078,031)	(848,937)
Proceeds from sale of securities at fair value through other comprehensive income	*8.*	1,068,081	1,194,838
Change in derivative financial instruments designated as hedge accounting		-	1,180
Increase in investments in subsidiaries	*10.*	(326,158)	(214,595)
Dividend income	*10.*	72,972	65,570
Increase in securities at amortised cost	*11.*	(146,771)	(455,497)
Redemption of securities at amortised cost	*11.*	127,671	70,422
Additions to property, equipment and intangible assets	*12.*	(48,381)	(36,836)
Proceeds from disposal of property, equipment and intangible assets	*12.*	1,969	3,442
Net (increase) / decrease in investment properties	*13.*	(48)	41
Net increase in advances for investments included in other assets	*15.*	-	37
Net cash used in investing activities		**(847,023)**	**(316,268)**
FINANCING ACTIVITIES			
Net increase in amounts due to banks and deposits from the National Bank of Hungary and other banks	*16.*	461,774	57,729
(Decrease) / increase in financial liabilities designated as fair value through profit or loss	*20.*	(3,331)	12,177
Leasing payments		(3,927)	-
Cash received from issuance of securities	*19.*	10,201	8,537
Cash used for redemption of issued securities	*19.*	(13,584)	(22,144)
Increase in subordinated bonds and loans	*24.*	166,704	1,620
Payments to ICES holders	*26.*	(1,334)	(1,256)
Increase of Treasury shares	*27.*	(34,185)	(14,238)
Decrease of Treasury shares	*27.*	21,563	15,383
Dividend paid	*26.*	(61,307)	(61,319)
Net cash provided by / (used in) financing activities		**542,574**	**(3,511)**
Net decrease in cash and cash equivalents		**(78,727)**	**(44,496)**
Cash and cash equivalents at the beginning of the period		303,358	347,854
Cash and cash equivalents at the end of the period	*4.*	**224,631**	**303,358**

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

1.1. General information

OTP Bank Plc. ("Bank" or "OTP Bank") was established on 31 December 1990, when the previously State-owned company was transformed into a limited liability company.

The Bank's registered office address is 16, Nádor Street, Budapest 1051. Internet homepage: http://www.otpbank.hu/

Signatory of the separate financial statements is the Chief Executive Officer, dr. Sándor Csányi (Budapest).

Responsible person for the control and management of accounting services: Zoltán Tuboly (Budapest), Managing Director of Accounting and Financial Directorate, Registration Number: 177289, IFRS qualified chartered accountant.

Due to Hungarian legislation audit services are statutory for OTP Bank. Disclosure information about the auditor: Deloitte Auditing and Consulting Ltd. (000083), 1068 Budapest Dózsa György Street 84/C. Registered under 01-09-071057 by Budapest-Capital Regional Court, as registry court. Statutory registered auditor: dr. Attila Hruby, registration number: 007118.

Audit service fee agreed by the Annual General Meeting of the Bank for the year ended 2019 is an amount of HUF 67 million + VAT.

All other fees charged by the Auditor for non-audit services during the financial year are disclosed in the consolidated financial statements of the Bank.

In 1995, the shares of the Bank were introduced on the Budapest and the Luxembourg Stock Exchanges and were also traded on the SEAQ board on the London Stock Exchange and PORTAL in the USA.

These Separate Financial Statements were approved by the Board of Directors and authorised for issue on 16 March 2020.

The structure of the Share capital by shareholders (%):

	2019	2018
Domestic and foreign private and institutional investors	99%	98%
Employees	1%	1%
Treasury shares	-	1%
Total	**100%**	**100%**

The Bank's Registered Capital consists of 280.000.010 pieces of ordinary shares with the nominal value of HUF 100 each, representing the same rights to the shareholders.

The Bank provides a full range of commercial banking services through a nationwide network of 370 branches in Hungary.

Number of the employees of the Bank:

	2019	2018
Number of employees	9,318	8,721
Average number of employees	8,981	8,787

1.2. Basis of accounting

These Separate Financial Statements were prepared based on the assumption of the Management that the Bank will remain in business for the foreseeable future. The Bank will not be forced to halt operations and liquidate its assets in the near term at what may be very low fire-sale prices.

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

The presentation and functional currency of the Bank is the Hungarian Forint ("HUF").

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

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

1.2.1. The effect of adopting new and revised IFRS standards effective from 1 January 2019

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

- **IFRS 16 "Leases"** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 19 "Employee Benefits"** - Plan Amendment, Curtailment or Settlement – adopted by the EU on 13 March 2019 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 "Investments in Associates and Joint Ventures"** - Long-term Interests in Associates and Joint Ventures – adopted by the EU on 8 February 2019 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2015 -2017)"** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 14 March 2019 (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 23 "Uncertainty over Income Tax Treatments"** – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

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

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

At the date of authorisation of these financial statements, there are new standards, amendments to the existing standards nor interpretations which are issued by IASB and adopted by the EU and which are not yet effective.

- **Amendments to References to the Conceptual Framework in IFRS Standards –** adopted by EU on 6 December 2019 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of Material **–** adopted by EU on 10 December 2019 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures" – Interest rate Benchmark Reform –** adopted by EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020),

The Bank does not adopt these new standards and amendments to existing standards before their effective date. The Bank anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

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

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

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

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 3 "Business Combinations"** - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period),
- **Amendments to IAS 1 "Presentation of Financial Statements"** - Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded).

The adoption of these amendments to the existing standards has not led to any material changes in the Bank's financial statements.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies applied in the preparation of the accompanying separate financial statements are summarized below:

2.1. Basis of presentation

These separate financial statements have been prepared under the historical cost convention with the exception of certain financial instruments, which are recorded at fair value. Revenues and expenses are recorded in the period in which they are earned or incurred.

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

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

2.2. Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into HUF that is the presentation currency, at exchange rates quoted by the National Bank of Hungary ("NBH") as at the date of the separate financial statements. Income and expenses arising in foreign currencies are converted at the rate of exchange on the transaction date. Resulting foreign exchange gains or losses are recorded to the separate statement of profit or loss.

2.3. Consolidated financial statements

These financial statements present the separate financial position and results of operations of the Bank. Consolidated financial statements are currently being prepared by the Bank and consolidated net profit for the year and shareholders' equity differs significantly from that presented in these separate financial statements. See Note 2.4 for the description of the method of accounting for investments in subsidiaries and associated companies in these separate financial statements. The consolidated financial statements and the separate financial statements will be published on the same date. As the ultimate parent, OTP Bank is preparing consolidated financial statements of OTP Group.

2.4. Investments in subsidiaries, associated companies and other investments

Investments in subsidiaries comprise those investments where OTP Bank, through direct and indirect ownership interest, controls the investee. Control is achieved when the Bank has power over the investee, is exposed or has rights, to variable returns from its involvement with the investee and has the ability to use its power to affect its returns.

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

Impairment is determined based on the future economic benefits of the subsidiary and macroeconomic factors.

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

OTP Bank in its strategic plan has taken into consideration the cautious recovery of global economic situation and outlook, the associated risks and their possible effect on the financial sector as well as the current and expected availability of wholesale funding.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.5. Securities at amortised cost

The Bank measures at amortised cost those securities, which are held for cash collecting purposes, and contractual terms of these securities give rise to cash flows that are solely payment of principal and interest on the principal amount outstanding. The annual amortisation of any discount or premium on the acquisition of a security at amortised cost is aggregated with other investment income receivables over the term of the investment so that the revenue recognized in each period represents a constant yield on the investment. Securities at amortised cost are accounted for on a trade date basis.

Such securities comprise mainly securities issued by the Hungarian Government bonds and corporate bonds.

2.6. Financial assets at fair value through profit or loss

2.6.1. Securities held for trading

Investments in securities are accounted for on a trade date basis and are initially measured at fair value. Securities held for trading are measured at subsequent reporting dates at fair value. Unrealised gains and losses on held for trading securities are recognized in profit or loss and are included in the separate statement of profit or loss for the period. The Bank holds held for trading securities within the business model to obtain short-term gains. Consequently realised and unrealised gains and losses are recognized in the net operating income. The Bank applies FIFO[1] inventory valuation method for securities held for trading. Such securities consist of discounted and interest bearing Treasury bills, Hungarian Government bonds, mortgage bonds, shares in non-financial commercial companies, shares in investment funds, shares in venture capital funds and shares in financial institutions.

2.6.2. Derivative financial instruments

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

Derivative financial instruments are accounted for on a trade date basis and are initially measured at fair value and at subsequent reporting dates also at fair value. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. OTP Bank adopts multi curve valuation approach for calculating the net present value of future cash flows – based on different curves used for determining forward rates and used for discounting purposes. It shows the best estimation of such derivative deals that are collateralised as OTP Bank has almost its entire open derivative transactions collateralised. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss and are included in the separate statement of profit or loss for the period. Each derivative deal is determined as asset when fair value is positive and as liability when fair value is negative.

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

Foreign currency contracts

Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot date (settlement occurs two days after the trade date) or at a forward date (settlement occurs more than two days after the trade date). The notional amount of forward contracts does not represent the actual market or credit risk associated with these contracts. Foreign currency contracts are used by the Bank for risk management and trading purposes. The Bank's risk management foreign currency contracts were used to hedge the exchange rate fluctuations of loans and deposits denominated in foreign currency.

[1] First In First Out

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.6.2. Derivative financial instruments [continued]

Foreign exchange swaps and interest rate swaps

The Bank enters into foreign-exchange swap and interest rate swap (“IRS”) transactions. The swap transaction is a complex agreement concerning the swap of certain financial instruments, which usually consists of a spot and one or more forward contracts.
Interest rate swaps obligate two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount (the base of the interest calculation). Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps.
Such notional principal amounts are often used to express the volume of these transactions but are not actually exchanged between the counterparties. The Bank’s interest rate swap contracts can be hedging or held for trading contracts.

Cross-currency interest rate swaps

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

Equity and commodity swaps

Equity swaps obligate two parties to exchange more payments calculated with reference periodically reset rates of interest and performance of indices. A specific notional principal amount is the base of the interest calculation. The payment of index return is calculated on the basis of current market price compared to the previous market price. In case of commodity swaps payments are calculated on the basis of the strike price of a predefined commodity compared to its average market price in a period.

Forward rate agreements (“FRA”)

A forward rate agreement is an agreement to settle amounts at a specified future date based on the difference between an interest rate index and an agreed upon fixed rate. Market risk arises from changes in the market value of contractual positions caused by movements in interest rates.

The Bank limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counter-parties. The Bank’s forward rate agreements were transacted for management of interest rate exposures.

Foreign exchange options

A foreign exchange option is a derivative financial instrument that gives the owner the right to exchange money denominated in one currency into another currency at a pre-agreed exchange rate at a specified future date. The transaction, for a fee, guarantees a worst-case exchange rate for the futures purchase of one currency for another. These options protect against unfavourable currency movements while preserving the ability to participate in favourable movements.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.7. Derivative financial instruments designated as a fair value or cash flow hedge

Changes in the fair value of derivatives that are designated and qualify as hedging instruments fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the separate statement of profit or loss along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. Changes in the fair value of the hedging instrument in fair value hedges are charged directly to the separate statement of profit or loss. The conditions of hedge accounting applied by the Bank are the following: formally designated as hedging relationship, proper hedge documentation is prepared, effectiveness test is performed and based on it the hedge is qualified as effective.

Changes in fair value of derivatives that are designated and qualify as hedging instrument in cash flow hedges and that prove to be highly effective in relation to hedged risk are recognized as reserve in other comprehensive income. Amounts deferred in other comprehensive income are transferred to the separate statement of profit or loss and classified as revenue or expense in the periods during which the hedged assets and liabilities effect the separate statement of recognized and comprehensive income for the period. The ineffective element of the hedge is charged directly to the separate statement of profit or loss. The Bank terminates the hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting. In case of cash flow hedges - in line with the standard – hedge accounting is still applied as long as the underlying asset is derecognised.

2.8. Offsetting

Financial assets and liabilities may be offset and the net amount is reported in the statement of financial position when the Bank has a legally enforceable right to set off the recognised amounts and the transactions are intended to be reported in the statement of financial position on a net basis. The Bank does not offset any financial assets and financial liabilities.

2.9. Embedded derivatives

Sometimes, a derivative may be a component of a combined or hybrid contract that includes a host contract and a derivative (the embedded derivative) affecting cash flows or otherwise modifying the characteristics of the host instrument. An embedded derivative must be separated from the host instrument and accounted for as a separate derivative if, and only if:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- A separate financial instrument with the same terms as the embedded derivative would meet the definition of a derivative as a stand-alone instrument; and
- The host instrument is not measured at fair or is measured at fair value but changes in fair value are recognised in other comprehensive income.

As long as a hybrid contract contains a host that is a financial asset the general accounting rules for classification, recognition and measurement of financial assets are applicable for the whole contract and no embedded derivative is separated.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.10. Securities at fair value through other comprehensive income ("FVOCI securities")

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

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

The loss allowance is calculated based on discounted cash flow methodology for debt instruments using the expected future cash flow and original effective interest rate if there is objective evidence of loss allowance based on significant or prolonged decrease on fair value.

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

In some cases the Bank made an irrevocable election at initial recognition for certain non-trading investments in an equity instrument to present subsequent changes in fair value of these securities in other comprehensive income instead of in profit or loss.

[1] First In First Out

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.11. Loans, placements with other banks, repo receivables and loss allowance for loan, placements and repo receivables losses

The Bank measures Loans, placements with other banks and repo receivables at amortised cost, which are held to collect contractual cash flows, and contractual terms of these assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Bank recognises financial assets, which are not held for trading and do not give rise contractual cash flows that are solely payments of principal and interest on the principal amount outstanding as loans measured at fair value through profit or loss.

Loans, placements with other banks and repo receivables are accounted at amortised cost, stated at the principal amounts outstanding including accrued interest, net of allowance for loan or placement losses, respectively. Transaction fees and charges should adjust the carrying amount at initial recognition and be included in effective interest calculation. Loans, placements with other banks and repo receivables are derecognised when the contractual rights to the cash flows expire or they are transferred. When a financial asset is derecognised the difference of the carrying amount and the consideration received is recognised in the profit or loss. When the contractual cash flows of a financial asset are modified and the modification does not result in the derecognition of the financial asset the Bank recalculate the gross carrying amount of the financial asset by discounting the expected future cash flows with the original effective interest rate of the asset. The difference between the carrying amount and the present value of the expected cash flows is recognised as a modification gain or loss in the profit or loss. Interest and amortised cost are accounted for using the effective interest rate method.

Initially, financial assets shall be recognized at fair value which is usually equal to the transaction value of loans and receivables. Initial fair value of loans and receivables lent at interest below market conditions is lower than their transaction price. As a consequence the Bank is deferring the difference between the fair value at initial recognition and the transaction price relating to loans and receivables because input data for measuring the fair values is not available on observable markets.

The amount of loss allowance is the difference between the gross carrying amount and the recoverable amount, being the present value of the expected cash flows, including amounts recoverable from guarantees and collaterals, discounted at the original effective interest rate.

Allowance for losses on loans, placements with other banks and repo receivables represent management assessment for potential losses in relation to these activities.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote. The loan is written off against the related account "Loss allowance on loan, placement and repo receivables losses" in the Statement of Profit or loss.

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

The gross carrying amount and loss allowance of the loans shall be written off in the same amount to the estimated maximum recovery amount while the net carrying value remains unchanged.

If there are reasonable expectations of recovery for a financial asset that is written-off fully or partially, OTP Bank shall re-estimate cash flows of a financial asset and write-off reversal is applied in the financial statements.

Modification of contractual cash flows

If contractual cash flows of a financial asset change and it is not qualified as derecognition, modification gain or loss should be calculated in the separate statement of profit or loss in those cases like restructuring – as defined in internal policies of the Bank – prolongation, renewal with unchanged terms, renewal with shorter terms and prescribing capital repayment rate, if it doesn't exist or has not been earlier.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset in accordance with IFRS 9, the Bank recalculates the gross carrying amount of the financial asset and shall recognizes a modification gain or loss in profit or loss. The modification indicates an insignificant change (the significance is assessed at the financial statement level of the Bank (and not at contract level).

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.12. Loss allowance

Allowance for losses on loans and placements with other banks are recognised by the Bank based on the expected credit loss model in accordance with IFRS 9. Based on the three stage model loss allowance is recognised in amount of 12 month expected credit loss from the initial recognition. Financial assets with significantly increased credit risk or credit impaired financial assets (based on objective evidences) loss allowance is recognised in amount of lifetime expected credit loss.

In case of purchased or originated credit impaired financial assets loss allowance is recognised in amount of lifetime expected credit loss since initial recognition. Impairment gain is recognised if lifetime expected credit loss for purchased or originated credit impaired financial assets at measurement date are less than the estimated credit loss at initial recognition.

The allowances for loan and placement losses are determined to cover losses that have been specifically identified. Collective impairment losses of portfolios of loans, for which no objective evidence of loss allowance has been identified on an individual basis, are determined to reduce the carrying amount of the portfolios of financial assets with similar credit risk characteristics to their estimated recoverable amounts at the balance sheet date. The expected cash flows for portfolios of similar assets are estimated based on historical loss experience.

At subsequent measurement the Bank recognises through "Loss allowance on loan, placement and repo receivables losses" in the Statement of Profit or Loss impairment gain or loss as an amount of expected credit losses or reversal that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised in accordance with IFRS 9.

If a financial asset, which previously classified in the first stage, classified subsequently in the second or third stage than loss allowance is adjusted to lifetime expected credit loss. If a financial asset, which previously classified in the second or third stages, classified subsequently in the first stage than loss allowance is adjusted to level of 12 month expected credit loss.

Classification into risk classes

According to the requirements of the IFRS9 standard, the Bank classifies financial assets measured at amortised cost and fair value through other comprehensive income, and loan commitments and financial guarantees into the following categories in accordance with IFRS9:

Stage 1	Performing
Stage 2	Performing, but compared to the initial recognition it shows significant increase in credit risk
Stage 3	Non-performing
POCI	Purchased or originated credit impaired

In the case of trade receivables, contract assets and lease receivables the Group applies the simplified approach and calculates only lifetime expected credit loss. Simplified approach is the following:

- for the past 3 years the average annual balance of receivables under simplified approach is calculated,
- the written-off receivables under simplified approach are determined in the past 3 years,
- the loss allowance ratio will be the sum of the written-off amounts divided by the sum of the average balances,
- the loss allowance is multiplied by the end-of-year balance and it will be the actual loss allowance on these receivables,
- loss allowance should be recalculated annually.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.12. Loss allowance [continued]

Credit risk of financial assets increases significantly at the following conditions:

- the payment delay exceeds 30 days,
- it is classified as performing forborne,
- based on individual decision, its currency suffered a significant "shock" since the disbursement of the loan,
- the transaction/client rating exceeds a predefined value or falls into a determined range, or compared to the historic value it deteriorates to a predefined degree,
- in the case household mortgage loans, the loan-to-value ratio (“LTV”) exceeds a predefined rate,
- default on another loan of the retail client, if no cross-default exists,
- in case of corporate and municipal clients:
    - financial difficulty (capital requirements, liquidity, impairment of asset quality),
    - significant decrease of activity and liquidity in the market of the asset,
    - client’s rating reflects higher risk, but better than default,
    - collateral value drops significantly, from which the client pays the loan,
    - more than 50% decrease in owner’s equity due to net losses,
    - client under dissolution,
    - negative information from Central Credit Information System: the payment delay exceeds 30 days

Financial assets classifies as non-performing, if the following conditions are met:

- default,
- non-performing forborne exposures,
- in case of corporate and municipal clients:
    - breach of contract terms and conditions
    - critical financial difficulty of the client (capital requirements, liquidity, impairment of asset quality),
    - liquidation, dissolution or debt clearing procedures against client,
    - forced deregistration procedures from company registry,
    - terminated loans by the Bank,
    - in case of fraud,
    - negative information from Central Credit Information System: the payment delay exceeds 90 days,
    - cessation of active markets of the financial asset,
    - default of ISDA based contracts.

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

Expected credit losses are measured in a way that reflects:

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.13. Option to designate a financial asset/liability measured at fair value through profit or loss (FVTPL option)

The Bank may, at initial recognition, irrevocably designate a financial asset or liability as measured at fair value through profit or loss. The Bank may use FVTPL option in the following cases:

- if doing so eliminates or significantly reduces a measurement or recognition inconsistency (accounting mismatch) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases
- if the group of financial liabilities or assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Bank's key management personnel.

The use of the fair value option is limited only to special situations, and it can be based only on direct decision of management of the Bank.

2.14. Sale and repurchase agreements, security lending

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on the statement of financial position and the consideration received is recorded in Other liabilities or Amounts due to banks and deposits from the National Bank of Hungary and other banks, or Deposits from customers. Conversely, debt or equity securities purchased under a commitment to resell are not recognized in the statement of financial position and the consideration paid is recorded either in Placements with other banks or Deposits from customers. Interest is accrued evenly over the life of the repurchase agreement. In the case of security lending transactions the Bank does not recognize or derecognize the securities because it is believed that the transferor retains substantially all the risks and rewards of the ownership of the securities. Only a financial liability or financial receivable is recognized for the consideration amount.

2.15. Property, equipment and intangible assets

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

Intangible assets	
Software	15-33.3%
Property rights	16.7%
Property	1-2%
Office equipment and vehicles	9-33.3%

Depreciation and amortization on properties, equipment and intangible assets starts on the day when such assets are placed into service. At each balance sheet date, the Bank reviews the carrying value of its tangible and intangible assets to determine if there is any indication that those assets have suffered an impairment loss.

If such indication exists, the recoverable amount of the asset is estimated to determine the extent (if any) of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where the carrying value of property, equipment, other tangible fixed assets and intangible assets is greater than the estimated recoverable amount, it is impaired immediately to the estimated recoverable amount.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.16. Investment properties

Investment properties of the Bank are land, buildings, part of buildings which are held (as the owner or as the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use in the production or supply of services or for administrative purposes or sale in the ordinary course of business. The Bank measures the investment properties at cost less accumulated depreciation and impairment, if any. The depreciable amount (book value less residual value) of the investment properties must be allocated over their useful lives. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets based on the 1-2% annual percentages.

2.17. Financial liabilities

The financial liabilities are presented within financial liabilities at fair value through profit or loss or financial liabilities measured at amortised cost. In connection to the financial liabilities at fair value through profit or loss, the Bank presents the amount of change in their fair value originated from the changes of market conditions and business environment. Financial liabilities at fair value through profit or loss are either financial liabilities held for trading or they are designated upon initial recognition as at fair value through profit or loss. In the case of financial liabilities measured at amortised cost, fees and commissions related to the origination of the financial liability are recognized through profit or loss during the maturity of the instrument. In certain cases the Bank repurchases a part of financial liabilities (mainly issued securities or subordinated bonds) and the difference between the carrying amount of the financial liability and the amount paid for it is recognised in the statement of profit or loss and included in other operating income.

2.18. Leases

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

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

Recognition of lease liabilities

The Bank will recognise lease liabilities related to leases which were previously classified as "operating leases" in accordance with IAS 17 Leases. These liabilities will be measured at the present value of lease payments receivable as at the date of commencement of the application of IFRS 16. Lease payments shall be discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate. Interest rate applied by the Bank: weighted average lessee’s incremental borrowing rate: ~1,62%

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

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

The Bank makes use of expedients with respect to short-term leases (less than 12 months) as well as in the case of leases in respect of which the underlying asset has a low value (less than HUF 1.4 million) and for which agreements it will not recognise financial liabilities nor any respective right-of-use assets. These types of lease payments will be recognised as costs using the straight-line method during the life of the lease.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.18. Leases [continued]

Recognition of right-of-use assets

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

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

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

Average weighted amount of the implicit interest rate/incremental borrowing rate applied as at 1 January 2019 to recognize the lease liabilities: ~1,61 %

2.19. Share capital

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

2.20. Treasury shares

Treasury shares are shares which are purchased on the stock exchange and the over-the-counter market by the Bank and are presented in the separate statement of financial position at acquisition cost as a deduction from shareholders' equity. Gains and losses on the sale of treasury shares are recognised directly to shareholder's equity. Derecognition of treasury shares is based on the FIFO method.

2.21. Interest income and interest expense

Interest income and expenses are recognised in profit or loss in the period to which they relate, using the effective interest rate method except derivative financial instruments. Interest from loans and deposits are accrued on a daily basis. Interest income and expenses include relevant transaction costs and the amortisation of any discount or premium between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

The time-proportional interest income of derivative financial instruments calculated not using the effective interest method and the positive fair value adjustment of interest rate swaps are also included in interest income.

2.22. Fees and Commissions

Fees and commissions that are not involved in the amortised cost model are recognised in the Separate Statement of Profit or Loss on an accrual basis according to IFRS 15. (See further details in Note 30). These fees are related to deposits, cash withdrawal, security trading, bank card, etc.

2.23. Dividend income

Dividend income refers to any distribution of entity's earnings to shareholders from stocks or mutual funds that is owned by the Bank. The Bank recognizes dividend income in the separate financial statements when its right to receive the payment is established.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.24. Income tax

The annual taxation charge is based on the tax payable under Hungarian fiscal law, adjusted for deferred taxation. Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences between the tax bases of assets and liabilities and their carrying value for financial reporting purposes, measured at the tax rates that are expected to apply when the asset is realised or the liability is settled.

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

The Bank is obliged to pay banking tax based on Act LIX of 2006. As the calculation is not based on the taxable profit (but the adjusted Assets total calculated based on the Separate Financial Statements for the second period preceding the current tax year), banking tax is not considered as income tax.

2.25. Off-balance sheet commitments and contingent liabilities

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

Those commitments and contingent liabilities Management determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

The Bank recognizes a provision for off-balance sheet commitment and contingent liabilities in accordance with IAS 37 when it has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the obligation.

Expected credit loss model is applied for given financial guarantees and loan commitments which are under IFRS 9 the, when the provision is calculated (see more details in Note 2.12.).

2.26. Share-based payment and employee benefit

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

The Bank issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the year, based on the Bank’s estimate of shares that will eventually vest. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on Management’s best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. The Bank has applied the requirement of IAS 19 Employee Benefits. IAS 19 requires to recognise employee benefits to be paid as a liability and as an expense in financial statements.

2.27. Separate statement of cash flows

For the purposes of reporting cash flows, cash and cash equivalents include cash, due from banks and balances with the NBH excluding compulsory reserve. Cash flows from hedging activities are classified in the same category as the item being hedged. The unrealised gains and losses from the translation of monetary items to the closing foreign exchange rates and the unrealised gains and losses from derivative financial instruments are presented net in the statement of cash flows for the monetary items which have been revalued.

2.28. Segment reporting

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Bank that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

At separate level, the Management does not separate and makes decisions based on different segments; the segments are identified by the Bank only at consolidated level in line with IFRS 8 paragraph 4. At Group level the segments identified by the Bank are the business and geographical segments.

The Group’s operating segments under IFRS 8 are therefore as follows: OTP Core Hungary, Russia, Ukraine, Bulgaria, Romania, Serbia, Croatia, Slovakia, Montenegro, Albania, Leasing subsidiaries, Asset Management subsidiaries, other subsidiaries, Corporate Centre.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.29. Comparative figures

These separate financial statements are prepared in accordance with the same accounting policies in all respects as the Financial Statements prepared in accordance with IFRS as adopted by the EU for the year ended 31 December 2018, however certain balances have been reclassified in order to facilitate a better understanding of the costs associated with the core operations of the Bank. Additional disclosures have been made throughout the separate financial statements where relevant. In the Separate Statement of Profit or Loss for the year 2018 Risk cost elements classification has been changed, but this did not result in any change to Net Profit for the Period.

Previous classification	Revised classification	2019	2018 Adjusted	Reclassification	2018 Original
Interest income	**Interest income**	**322,506**	**290,733**	**-**	**290,733**
Interest expense	**Interest expense**	**(119,384)**	**(83,778)**	**-**	**(83,778)**
Loss allowance on loan, placement	Loss allowance on loan, placement and repo receivables losses	(33,728)	(7,822)	-	(7,822)
	Release of loss allowance on securities at fair value through other comprehensive income and on securities at amortised cost	401	362	362	-
	Provision for loan commitments and financial guarantees given	(5,794)	(2,518)	(2,518)	-
Loss allowance on loan and placement losses	**Risk cost total**	**(39,121)**	**(9,978)**	**(2,156)**	**(7,822)**
NET INTEREST INCOME AFTER RISK COST	**NET INTEREST INCOME AFTER RISK COST**	**164,001**	**196,977**	**(2,156)**	**199,133**
Net other operating expenses	**Net other operating income / (expenses)**	**26,515**	**(2,867)**	**2,156**	**(5,023)**
NET OPERATING INCOME	**NET OPERATING INCOME**	**140,947**	**86,594**	**2,156**	**84,438**

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

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

3.1. Loss allowance on financial instruments

The Bank regularly assesses its financial instruments for impairment. Management determines the adequacy of the allowances based upon reviews of individual loans and placements, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. The use of a new, three stage model was implemented for IFRS 9 purposes. The new impairment methodology is used to classify financial instruments in order to determine whether credit risk has significantly increased since initial recognition and able to identify credit-impaired assets. For instruments with credit-impairment or significant increase of credit risk lifetime expected losses will be recognized. (For details see note 34.1.1.)

3.2. Valuation of instruments without direct quotations

Financial instruments without direct quotations in an active market are valued using the valuation model technique. The models are regularly reviewed and each model is calibrated for the most recent available market data. While the models are built only on available data, their use is subject to certain assumptions and estimates (e.g. for correlations, volatilities, etc). Changes in the model assumptions may affect the reported fair value of the relevant financial instruments.

IFRS 13 Fair Value Measurement seeks to increase consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. The hierarchy categorises the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

3.3. Provisions

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

Other provision is recognised and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Bank is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Bank assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for. (See Note 23.)

Other provision for off-balance sheet items includes provision for litigation, provision for retirement and expected liabilities and provision for Confirmed letter of credit.

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

3.4. Business models

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

- Business model whose objective is to hold financial assets in order to collect contractual cash flows. Within this business model the Bank manages mainly loans and advances and long term securities and other financial assets.
- Business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Within this business model the Bank only manages securities.
- Business model whose objective is to achieve gains in a short term period. Within this business model the Bank manages securities and derivative financial instrument.

NOTE 4: CASH, AMOUNTS DUE FROM BANKS AND BALANCES WITH THE NATIONAL BANK OF HUNGARY (in HUF mn)

	2019	2018
Cash on hand:		
In HUF	180,259	166,419
In foreign currency	16,385	11,517
	196,644	**177,936**
Amounts due from banks and balances with National Bank of Hungary:		
Within one year:		
In HUF	39,871	58,241
In foreign currency	53,171	124,678
	93,042	**182,919**
Subtotal	**289,686**	**360,855**
Average amount of compulsory reserve	65,055	57,497
Total	**224,631**	**303,358**
Rate of the compulsory reserve	1%	1%

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

a) deposits and loans,
b) debt instruments,
c) repo transactions.

The amount of the compulsory reserve is the multiplication of the daily average of the liabilities considered in the compulsory reserve calculation and compulsory reserve rate, which are determined by the NBH in a specific decree. The Bank is required to complete compulsory reserve requirements in average in the second month after the reserve calculation period, requirements shall be completed once a month on the last calendar day. The Bank complies with the compulsory reserve requirements by the deposit of the adequate amount of cash as the calculated compulsory reserve on the bank account at NBH in monthly average.

NOTE 5: PLACEMENTS WITH OTHER BANKS, NET OF ALLOWANCE FOR PLACEMENT LOSSES (in HUF mn)

	2019	2018
Within one year:		
In HUF	732,283	551,930
In foreign currency	476,314	212,990
	1,208,597	**764,920**
Over one year		
In HUF	325,308	283,467
In foreign currency	29,829	28,500
	355,137	**311,967**
Total placements	**1,563,734**	**1,076,887**
Loss allowance	(3,592)	(2,047)
Total	**1,560,142**	**1,074,840**

NOTE 5: PLACEMENTS WITH OTHER BANKS, NET OF ALLOWANCE FOR PLACEMENT LOSSES (in HUF mn) [continued]

An analysis of the change in the loss allowance on placement losses is as follows:

	2019	2018
Balance as at 1 January	**2,047**	**-**
Effect of transition to application of IFRS 9	-	1,257
Reclassification	-	(105)
Loss allowance	5,068	2,760
Release of loss allowance	(3,523)	(1,865)
Closing balance	**3,592**	**2,047**

Interest conditions of placements with other banks (%):

	2019	2018
Placements with other banks in HUF	0%-3.84%	0%-3.84%
Placements with other banks in foreign currency	(0.76%)-3.81%	(0.8%)-3.7%
Average interest of placements with other banks	0.56%	0.52%

NOTE 6: REPO RECEIVABLES (in HUF mn)

	2019	2018
Within one year:		
In HUF	45,545	14,151
Total gross amount	**45,545**	**14,151**
Loss allowance	(6)	(12)
Total repo receivables	**45,539**	**14,139**

An analysis of the change in the loss allowance on repo receivables is as follows:

	2019	2018
Balance as at 1 January	**12**	**6**
Loss allowance	6	12
Release of loss allowance	(12)	(6)
Closing balance	**6**	**12**

Interest conditions of repo receivables (%):

	2019	2018
Repo receivables in HUF	(0.1%)-0.2%	(0.2%)-0%
Average interest of repo receivables	0.32%	0.60%

NOTE 7: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn)

	2019	2018
Securities held for trading:		
Government bonds	18,269	10,645
Other non-interest bearing securities	7,516	7,169
Hungarian government discounted Treasury Bills	12	1,059
Corporate shares and investments	369	371
Mortgage bonds	-	978
Other bonds	20,089	2,100
Subtotal	**46,255**	**22,322**
Securities mandatorily measured at fair value through profit or loss:		
Shares in investment funds	17,100	15,880
Bonds	5,180	4,778
Subtotal	**22,280**	**20,658**
Held for trading derivative financial instruments:		
Interest rate swaps	52,516	46,357
Foreign currency swaps	38,213	33,816
CCIRS and mark-to-market CCIRS[1] swaps	1,216	17,078
Other derivative transactions[2]	11,749	14,811
Subtotal	**103,694**	**112,062**
Total	**172,229**	**155,042**

Interest conditions and the remaining maturities of securities held for trading are as follows:

	2019	2018
Within one year:		
variable interest	2	1,972
fixed interest	12,323	5,312
	12,325	**7,284**
Over one year:		
variable interest	1,030	2,198
fixed interest	25,014	5,301
	26,044	**7,499**
Non-interest bearing securities	7,886	7,539
Total	**46,255**	**22,322**
Securities held for trading denominated in HUF	55%	71%
Securities held for trading denominated in foreign currency	45%	29%
Securities held for trading total	**100%**	**100%**
Government bonds denominated in HUF	87%	62%
Government bonds denominated in foreign currency	13%	38%
Government securities total	**100%**	**100%**
Interest rates on securities held for trading in HUF	0.16%-7.5%	0.01%-6.5%
Interest rates on securities held for trading in foreign currency	0.01%-8.25%	0.01%-6.4%
Average interest on securities held for trading	0.67%	3.98%

[1] CCIRS: Cross Currency Interest Rate Swap (See Note 2.6.2.)

[2] incl.: FX, equity, commodity and index futures; FX forward; commodity and equity swap; FRA; FX option (See Note 2.6.2.)

NOTE 7: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn) [continued]

Interest conditions and the remaining maturities of securities mandatorily measured at fair value through profit or loss are as follows:

	2019	2018
Within one year:		
variable interest	25	25
Over one year:		
variable interest	5,155	4,753
Subtotal	**5,155**	**4,778**
Non-interest bearing securities	17,100	15,880
Total	**22,280**	**20,658**
Securities mandatorily measured at fair value through profit or loss denominated in HUF	77%	77%
Securities mandatorily measured at fair value through profit or loss denominated in foreign currency	23%	23%
Securities mandatorily measured at fair value through profit or loss total	**100%**	**100%**
Interest rates on securities mandatorily measured at fair value through profit or loss	2.60%	2.68%
Average interest on securities mandatorily measured at fair value through profit or loss	2.60%	2.68%

NOTE 8: SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (in HUF mn)

	2019	2018
Government bonds	826,054	879,546
Interest bearing treasury bills	339,397	237,552
Mortgage bonds	220,004	228,380
Other securities	78,202	87,053
- *listed securities*	39,601	35,295
in HUF	2,999	-
in foreign currency	36,602	35,295
- *non-listed securities*	38,601	51,758
in HUF	18,516	22,974
in foreign currency	20,085	28,784
Subtotal	**1,463,657**	**1,432,531**
Non-trading equity instruments designated to measure at fair value through other comprehensive income		
- *non-listed securities*	22,320	19,374
in HUF	528	566
in foreign currency	21,792	18,808
Subtotal	**22,320**	**19,374**
Securities at fair value through other comprehensive income total	**1,485,977**	**1,451,905**

NOTE 8: SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (in HUF mn) [continued]

Interest conditions and the remaining maturities of FVOCI securities can be analysed as follows:

	2019	2018
Within one year:		
variable interest	6,709	16,587
fixed interest	609,207	464,830
	615,916	**481,417**
Over one year:		
variable interest	84,935	143,458
fixed interest	762,806	807,656
	847,741	**951,114**
Non-interest bearing securities	22,320	19,374
Total	**1,485,977**	**1,451,905**

	2019	2018
FVOCI securities denominated in HUF	83%	81%
FVOCI securities denominated in foreign currency	17%	19%
FVOCI securities total	**100%**	**100%**
Interest rates on FVOCI securities denominated in HUF	0.16%-11%	0.5%-11%
Interest rates on FVOCI securities denominated in foreign currency	0.49%-7.25%	(0.14%)-7.25%
Average interest on FVOCI securities	2.32%	2.26%

An analysis of the change in the loss allowance is as follows:

	2019	2018
Balance as at 1 January	**-**	**86**
Effect of transition to application of IFRS 9	-	(86)
Closing balance	**-**	**-**

Certain fixed-rate mortgage bonds and other securities are hedged against interest rate risk. (See Note 34.4.)

	2019	2018
Net gain / (loss) reclassified from other comprehensive income to statement of profit or loss	229	(12,833)
Fair value of the hedged securities:		
Government bonds	1,465,143	1,340,197
Other bonds	-	185,576
	1,465,143	**1,525,773**

During 2018 the Bank didn't sell any of equity instruments designated to measure at fair value through other comprehensive income. During 2019 the Bank sold shares in Kisvállalkozásfejlesztési Zrt, net gain on the transaction was not significant.

NOTE 9: LOANS (in HUF mn)

Loans measured at fair value through profit or loss

	2019	2018
Gross loans	30,858	34,515
Fair value adjustment	(1,127)	(1,770)
Loans measured at fair value through profit or loss total	**29,731**	**32,745**

Loans measured at fair value through profit or loss are mandatorily measured at fair value through profit or loss.

Loans measured at amortised cost, net of allowance for loan losses

	2019	2018
Within one year	1,632,245	1,307,946
Over one year	1,733,010	1,330,274
Gross loans total	**3,365,255**	**2,638,220**
Loss allowance	(79,917)	(66,241)
Loans measured at amortised cost, net of allowance for loan losses total	**3,285,338**	**2,571,979**

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

	2019	2018
In HUF	57%	57%
In foreign currency	43%	43%
Total	**100%**	**100%**

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

	2019	2018
Loans denominated in HUF	1.5%-10.08%	1.19%-10.08%
Average interest on loans denominated in HUF	2.20%	2.08%

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

	2019	2018
Loans denominated in HUF, with a maturity within one year	0%-37.5%	(0.2%)-37.5%
Loans denominated in HUF, with a maturity over one year	0%-37.45%	0.01%-37.5%
Loans denominated in foreign currency	(0.45%)-13%	(0.50%)-15.1%
Average interest on loans denominated in HUF	6.3%	6.7%
Average interest on loans denominated in foreign currency	2.09%	2.07%

NOTE 9: LOANS (in HUF mn) [continued]

An analysis of the loan portfolio by type, before loss allowance on loan losses, is as follows:

	2019		2018	
Retail loans	**843,585**	**25%**	**550,607**	**21%**
Retail consumer loans	720,471	21%	401,419	15%
Retail mortgage backed loans[1]	123,114	4%	149,188	6%
Corporate loans	**2,521,670**	**74%**	**2,087,613**	**78%**
Loans to corporates	2,433,080	71%	1,990,803	74%
Municipality loans	88,590	3%	96,810	4%
Loans at amortised cost total	**3,365,255**	**99%**	**2,638,220**	**99%**
Loans at fair value total	**29,731**	**1%**	**32,745**	**1%**
Gross loans total	**3,394,986**	**100%**	**2,670,965**	**100%**

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

	2019	2018
Balance as at 1 January	**66,241**	**69,502**
Change as a result of applying IFRS 9	-	8,931
Reclassification	-	26
Movements related to forced loans	1,621	-
Loss allowance	134,583	102,191
Release of loss allowance	(117,001)	(104,849)
Partial write-off	(5,527)	(9,560)
Closing balance	**79,917**	**66,241**

Forced loans have been recognised in "Other asset" line before, however it is reclassified to "Loans at amortised cost" line to be in harmony with further reporting documents provided by the Bank (Budapest Stock Exchange reports and Management reports). The above mentioned loans are interest bearing loans in the ECL measurement category of Stage 2, and cash flows are solely payments of principal and interest.

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

	2019	2018
Loss allowance on placements with other banks	1,545	895
Loss allowance on loans at amortised cost	32,184	6,927
Total	**33,729**	**7,822**

The Bank sells non-performing loans without recourse at estimated fair value to a wholly owned subsidiary, OTP Factoring Ltd. (See Note 38)

[1] incl. housing loans

NOTE 10: INVESTMENTS IN SUBSIDIARIES, ASSOCIATES, JOINT VENTURES AND OTHER INVESTMENTS (in HUF mn)

	2019	2018
Investments in subsidiaries		
Controlling interest	1,962,010	1,712,635
Other investments	8,298	1,013
Subtotal	**1,970,308**	**1,713,648**
Impairment loss	(427,770)	(536,075)
Total	**1,542,538**	**1,177,573**

Other investments contain certain securities accounted at cost. These instruments do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

Significant subsidiaries

Investments in companies in which the Bank has a controlling interest (direct) are detailed below. All companies are incorporated in Hungary unless indicated otherwise:

	2019		2018	
	% Held (direct/indirect)	Gross book value	% Held (direct/indirect)	Gross book value
OTP Bank JSC (Ukraine)	100%	311,390	100%	311,390
DSK Bank EAD (Bulgaria)	100%	280,692	100%	280,692
OTP banka Hrvatska d.d. (Croatia)	100%	205,349	100%	205,349
OTP Mortgage Bank Ltd.	100%	154,294	100%	144,294
OTP banka Srbija a.d. (Serbia)	100%	131,164	100%	131,164
OTP Bank Romania S.A. (Romania)	100%	133,987	100%	111,544
OTP Leasing Srbija d.o.o. Beograd (Serbia)	100%	127,140	-	-
SKB Banka d.d. Ljubljana (Slovenia)	99.66%	107,372	-	-
JSC "OTP Bank" (Russia)	97.91%	74,335	98%	74,332
Crnogorska komercijalna banka a.d. (Montenegro)	100%	72,784	100%	58,484
LLC Alliance Reserve (Russia)	100%	50,074	100%	50,075
OTP Holding Malta Ltd.	100%	32,359	100%	32,359
Balansz Private Open-end Investment Fund	100%	29,150	100%	29,151
OTP Banka Slovensko a.s. (Slovakia)	99.44%	29,134	99%	29,134
Bank Center No. 1. Ltd.	100%	26,063	100%	26,063
OTP Factoring Ltd.	100%	25,411	100%	25,411
Mobiasbanca - OTP Group S.A. (Moldova)	98.26%	24,159	-	-
Merkantil Bank Ltd.	100%	23,663	100%	23,663
Air-Invest Llc.	100%	21,748	100%	21,748
Inga Kettő Ltd.	100%	17,892	100%	17,892
OTP Life Annuity Ltd.	100%	15,300	100%	15,300
OTP Real Estate Ltd.	100%	10,023	100%	10,023
OTP Bank Albania (Albania)	100%	11,865	-	-
Monicomp Ltd.	100%	9,234	100%	9,234
OTP Factoring Ukraine LLC (Ukraine)	100%	-	100%	70,589
Other		37,428		34,744
Total		**1,962,010**		**1,712,635**

NOTE 10: INVESTMENTS IN SUBSIDIARIES, ASSOCIATES, JOINT VENTURES AND OTHER INVESTMENTS (in HUF mn) [continued]

An analysis of the change in the impairment loss is as follows:

	2019	2018
Balance as at 1 January	**536,075**	**538,846**
Impairment loss for the period	12,503	39,430
Reversal of impairment loss	(51,310)	(34,994)
Use of impairment loss	(69,498)	(7,207)
Closing balance	**427,770**	**536,075**

The Bank decided that the recoverable amount is determined based on fair value less cost of disposal. The Bank prepared impairment tests of the subsidiaries based on two different net present value calculation methods that show the same result; however they represent different economical logics. On one hand is the discount cash flow method ("DCF") that calculates the value of the subsidiaries by discounting their expected cash flow; on the other hand the economic value added ("EVA") method estimates the value of the subsidiaries from the initial invested capital and the present value of the economic profit that the companies are expected to generate in the future. Applying the EVA method was more practically than DCF method because it gives a more realistic picture about how the explicit period and the residual value can contribute to the value of the company.

The Bank, in its strategic plan, has taken into consideration the effects of the present global economic situation, the cautious recovery of economic situation and outlook, the associated risks and their possible effect on the financial sector as well as the current and expected availability of wholesale funding.

An analysis of the impairment loss by significant subsidiaries is as follows:

	2019	2018
OTP Bank JSC (Ukraine)	207,397	258,448
OTP Mortgage Bank Ltd.	65,096	65,096
OTP banka Srbija a.d. (Serbia)	53,383	53,383
OTP Bank Romania S.A. (Romania)	28,575	19,026
Crnogorska komercijalna banka a.d. (Montenegro)	23,324	23,324
OTP Banka Slovensko a.s. (Slovakia)	12,649	12,649
OTP Life Annuity Ltd.	10,969	10,970
Air-Invest Ltd.	10,491	10,491
OTP Real Estate Ltd.	5,557	3,456
R.E. Four d.o.o. (Serbia)	3,763	3,763
OTP Buildings s.r.o (Romania)	3,327	3,327
OTP Factoring Ukraine LLC (Ukraine)	-	69,451
Total	**424,531**	**533,384**

Dividend income from significant subsidiaries and shares held-for-trading and shares measured at fair value through other comprehensive income is as follows:

	2019	2018
OTP Mortgage Bank Ltd.	27,500	18,250
OTP banka Hrvatska d.d. (Croatia)	21,170	-
OTP Factoring Ltd.	14,665	-
Inga Kettő Ltd.	4,500	-
OTP Real Estate Investment Fund Management Ltd.	1,500	-
OTP Building Society Ltd.	3,000	1,500
DSK Bank EAD (Bulgaria)	-	42,037
Other	637	1,411
Subtotal	**72,972**	**63,198**
Dividend from shares held-for-trading	5,728	5,125
Dividend from shares measured at fair value through other comprehensive income	187	158
Total	**78,887**	**68,481**

NOTE 10: INVESTMENTS IN SUBSIDIARIES, ASSOCIATES, JOINT VENTURES AND OTHER INVESTMENTS (in HUF mn) [continued]

Significant associates and joint ventures

The main figures of the Bank's indirectly owned associates and joint ventures at cost[1]:

As at 31 December 2019

	D-ÉG Thermoset Ltd.[2]	Szallas.hu Ltd.	Company for Cash Services Llc.	Total
Assets	3,883	4,939	2,736	**11,558**
Liabilities	4,629	1,429	186	**6,244**
Shareholders' equity	(746)	3,510	2,550	**5,314**
Total income	2,386	3,405	1,315	**7,106**
% Held	*0.1%*	*50%*	*25%*	

As at 31 December 2018

	D-ÉG Thermoset Ltd.[2]	Szallas.hu Llc.	Company for Cash Services Llc.	Total
Assets	3,883	2,135	2,377	**8,395**
Liabilities	4,629	813	112	**5,554**
Shareholders' equity	(746)	1,322	2,265	**2,841**
Total income	2,386	4,172	1,136	**7,694**
% Held	*0.1%*	*30%*	*20%*	

The Bulgarian Court of Registration registered a capital increase at DSK Bank EAD, the Bulgarian subsidiary of OTP Bank. Accordingly, the registered capital of the Bulgarian subsidiary of OTP Bank was increased to BGN 1,327,482,000 from BGN 153,984,000.

The Slovakian Court of Registration registered a capital increase at OTP Banka Slovensko a.s. the Slovakian subsidiary of OTP Bank. Accordingly, the registered capital of the Slovakian subsidiary of OTP Bank was increased to EUR 126,590,711.84 from EUR 111,580,509.

On 29 March 2019 the financial closure of the Albanian transaction has been completed. As a result, OTP Bank has become the 100% owner of Banka Societe Generale Albania SH. A. („SGAL"), the Albanian subsidiary of Societe Generale Group. With a market share of nearly 6%, SGAL is the 5th largest bank on the Albanian banking market and as a universal bank is active in the retail and corporate segment.

Based on the acquisition agreement on 28 February 2019, on purchasing 90.56% shareholding of Societe Generale banka Montenegro a.d. („SGM"), the Montenegrin subsidiary of Societe Generale Group between Crnogorska komercijalna banka a.d., the Montenegrin subsidiary of OTP Bank and Societe Generale Group, has been completed on 16 July 2019. With a market share of 11.9% as at the end of March 2019, SGM is the 3rd largest bank on the Montenegrin banking market and as a universal bank is active in the retail and corporate segment.

On 25 July 2019 the financial closure of the Moldovan transaction has been completed. As a result, OTP Bank has become 96.69% owner of Mobiasbanca – Groupe Societe Generale S.A. („MBSG"), the Moldovan subsidiary of Societe Generale Group. With a market share of 13.8%, SGMB is the 4th largest bank on the Moldovan banking market and as a universal bank is active in the retail and corporate segment.

24 September 2019 the financial closure of the Serbian transaction has been completed. As a result, OTP Bank has become 100% owner of Societe Generale banka Srbija a.d. Beograd (**„SGS"**), the Serbian subsidiary of Societe Generale Group and other local subsidiaries held by SGS. As at the end of June 2019, with a market share of 8.3%, SGS is the 4th largest bank on the Serbian banking market and as a universal bank is active in the retail and corporate segment.

OTP Bank signed an acquisition agreement on purchasing 99.73% shareholding of SKB Banka, the Slovenian subsidiary of Societe Generale Group and other local subsidiaries held by SKB Banka. On 13 December 2019 the financial closure of the transaction has been completed. With a market share of nearly 9%, SKB Banka is the 4th largest bank on the Slovenian banking market and as a universal bank is active in the retail and corporate segment.

[1] Based on unaudited financial statements.
[2] Main figures of D-ÉG Thermoset Ltd. based on the latest unaudited financial statements as at 31 October 2017.

NOTE 10: INVESTMENTS IN SUBSIDIARIES, ASSOCIATES, JOINT VENTURES AND OTHER INVESTMENTS (in HUF mn) [continued]

The Montenegrin Court of Registration registered a capital increase at Crnogorska komercijalna banka a.d., the Montenegrin subsidiary of OTP Bank. Accordingly, the registered capital of the Montenegrin subsidiary of OTP Bank was increased to EUR 181,875,220 from EUR 136,875,398.

DSK Bank EAD and Expressbank AD, the Bulgarian subsidiaries of OTP Bank, as the sellers, signed an acquisition agreement on the sale of their 100% shareholding in Express Life Bulgaria IJSC to Groupama Zhivotozastrahovane EAD, a Bulgarian subsidiary of the Groupama Group, as the purchaser. On 31 October 2019 the Express Life Bulgaria transaction was financially closed.

The Romanian Court of Registration registered a capital increase at OTP Bank Romania SA, the Romanian subsidiary of OTP Bank. Accordingly, the registered capital of the Romanian subsidiary of OTP Bank was increased to RON 1,829,253,120 from RON 1,509,252,960.

The registered capital of OTP Mortgage Bank was increased to HUF 37 billion from HUF 27 billion.

NOTE 11: SECURITIES AT AMORTISED COST (in HUF mn)

	2019	2018
Government bonds	1,436,455	1,428,393
Other corporate bonds	12,212	-
Mortgage bonds	-	5,064
Subtotal	**1,448,667**	**1,433,457**
Loss allowance	(1,443)	(1,668)
Total	**1,447,224**	**1,431,789**

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

	2019	2018
Within one year:	102,296	136,590
fixed interest	**102,296**	**136,590**
Over one year:	1,346,371	1,296,867
fixed interest	**1,346,371**	**1,296,867**
Total	**1,448,667**	**1,433,457**

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

	2019	2018
Securities at amortised cost denominated in HUF	100%	100%
Securities at amortised cost total	**100%**	**100%**
Interest rates on securities at amortised cost	05%-7.5%	0.5%-9.48%
Average interest on securities at amortised cost denominated in HUF	3.31%	3.44%

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

	2019	2018
Balance as at 1 January	**1,668**	**-**
Change as a result of applying IFRS 9	-	1,477
Loss allowance	338	875
Release of loss allowance	(563)	(684)
Closing balance	**1,443**	**1,668**

NOTE 12: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn)

For the year ended 31 December 2019

Cost	Intangible assets	Property	Office equipment and vehicles	Construction in progress	Right of use assets	Total
Balance as at 1 January	**115,272**	**66,925**	**80,961**	**7,010**	**16,296**	**286,464**
Additions	28,104	5,993	10,771	20,375	1,638	66,881
Disposals	(4,350)	(3,538)	(4,371)	(16,862)	(107)	(29,228)
Balance as at 31 December	**139,026**	**69,380**	**87,361**	**10,523**	**17,827**	**324,117**
Depreciation and Amortization						
Balance as at 1 January	**75,389**	**21,718**	**62,736**	**-**	**-**	**159,843**
Charge for the year	14,682	2,867	8,152	-	4,224	29,925
Disposals	(4,327)	(1,637)	(4,326)	-	(4)	(10,294)
Balance as at 31 December	**85,744**	**22,948**	**66,562**	**-**	**4,220**	**179,474**
Net book value						
Balance as at 1 January	**39,883**	**45,207**	**18,225**	**7,010**	**16,296**	**126,621**
Balance as at 31 December	**53,282**	**46,432**	**20,799**	**10,523**	**13,607**	**144,643**

For the year ended 31 December 2018

Cost	Intangible assets	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January	**96,253**	**67,368**	**72,591**	**6,283**	**242,495**
Additions	19,209	3,513	13,387	17,626	53,735
Disposals	(190)	(3,956)	(5,017)	(16,899)	(26,062)
Balance as at 31 December	**115,272**	**66,925**	**80,961**	**7,010**	**270,168**
Depreciation and Amortization					
Balance as at 1 January	**63,376**	**20,634**	**60,322**	**-**	**144,332**
Charge for the year	12,138	1,895	7,199	-	21,232
Disposals	(125)	(672)	(4,924)	-	(5,721)
Balance as at 31 December	**75,389**	**21,857**	**62,597**	**-**	**159,843**
Net book value					
Balance as at 1 January	**32,877**	**46,734**	**12,269**	**6,283**	**98,163**
Balance as at 31 December	**39,883**	**45,068**	**18,364**	**7,010**	**110,325**

The Bank has no intangible assets with indefinite useful life.

NOTE 13: INVESTMENT PROPERTIES (in HUF mn)

For the year ended 31 December 2019 and 2018

Cost	2019	2018
Balance as at 1 January	**2,964**	**2,961**
Additions resulting from subsequent expenditure	97	3
Closing balance	**3,061**	**2,964**
Depreciation and Amortization		
Balance as at 1 January	**631**	**587**
Charge for the year	49	44
Closing balance	**680**	**631**
Net book value		
Balance as at 1 January	**2,333**	**2,374**
Closing balance	**2,381**	**2,333**

According to the opinion of the Management there is no significant difference between the fair value and the carrying value of these properties.

Incomes and expenses	2019	2018
Rental income	6	1
Depreciation	48	43

NOTE 14: FAIR VALUE OF DERIVATIVE FINANCIAL ASSETS DESIGNATED AS HEDGE ACCOUNTING (in HUF mn)

Positive fair value of derivative financial assets designated as hedge accounting:

	2019	2018
Interest rate swaps designated as fair value hedge	3,758	4,467
CCIRS designated as fair value hedge	3,705	4,003
Interest rate swaps designated as cash flow hedge	9,214	3,751
Total	**16,677**	**12,221**

NOTE 15: OTHER ASSETS[1] (in HUF mn)

	2019	2018
Other assets		
Receivables from OTP Employee Stock Ownership Program (OTP ESOP)	33,722	18,535
Trade receivables	17,200	5,232
Receivable related to Hungarian Government subsidies	16,793	4,287
Accrued day one gain of loans provided at below-market interest	10,227	11,826
Prepayments and accrued income	9,924	23,610
Receivables from card operations	9,804	35,892
Stock exchange deposit	5,708	3,058
Receivables from OTP Mortgage Bank Ltd.	3,823	6,479
Receivables from suppliers	3,520	2,295
Other	12,088	5,408
	122,809	**116,622**
Loss allowance	(6,110)	(7,421)
Total	**116,699**	**109,201**

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

	2019	2018
Balance as at 1 January	**7,421**	**17,595**
Effect of transition to application of IFRS 9	-	(175)
Reclassification	-	79
Movements related to forced loans[2]	(1,621)	-
Charge for the period	3,826	4,418
Release of loss allowance	(2,429)	(14,496)
Use of loss allowance	(1,087)	-
Closing balance	**6,110**	**7,421**

[1] Other assets are expected to be recovered or settled no more than twelve months after the reporting period.
[2] For further information please see the analysis of the change in the loss allowance on loans at amortised cost in Note 9.

NOTE 16: AMOUNTS DUE TO BANKS AND DEPOSITS FROM THE NATIONAL BANK OF HUNGARY AND OTHER BANKS (in HUF mn)

	2019	2018
Within one year:		
In HUF	358,641	165,551
In foreign currency	136,922	102,657
	495,563	**268,208**
Over one year:		
In HUF	94,823	90,329
In foreign currency	147,668	99,645
	242,491	**189,974**
Total[1]	**738,054**	**458,182**

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

	2019	2018
Within one year:		
In HUF	(0.03%)-0,9%	(15%)-1.04%
In foreign currency	(0.89%)-8.49%	(0.4%)-2.6%
Over one year:		
In HUF	0%-0.71%	0%-0.68%
In foreign currency	(0.42%)-6.87%	0.1%-8.49%
Average interest on amounts due to banks in HUF	1.00%	0.93%
Average interest on amounts due to banks in foreign currency	2.05%	2.29%

NOTE 17: REPO LIABILITIES (in HUF mn)

	2019	2018
Within one year:		
In HUF	20,575	1,804
	20,575	**1,804**
Over one year:		
In HUF	263,554	258,761
In foreign currency	178,492	19,289
	442,046	**278,050**
Total	**462,621**	**279,854**

Interest rates on repo liabilities are as follows (%):

	2019	2018
Within one year:		
In HUF	(0.85%)-0.14%	(15%)-0.20%
In foreign currency	(1%)	(0.4%)
Over one year:		
In HUF	0,39%-0,71%	0.63%-1.04%
In foreign currency	(0.45%)-1.92%	-
Average interest on repo liabilities in HUF	1.19%	0.48%
Average interest on repo liabilities in foreign currency	1.24%	0.07%

[1] It contains the loans lent among the frame of Funding for Growth Scheme.

NOTE 18: DEPOSITS FROM CUSTOMERS (in HUF mn)

	2019	2018
Within one year:		
In HUF	5,437,453	4,788,339
In foreign currency	1,092,329	904,747
	6,529,782	**5,693,086**
Over one year:		
In HUF	43,768	48,412
In foreign currency	-	-
	43,768	**48,412**
Total	**6,573,550**	**5,741,498**

Interest rates on deposits from customers are as follows (%):

	2019	2018
Within one year in HUF	(3.13%)-7.96%	(5.11%)-9.69%
Over one year in HUF	(5.09%)-7.96%	0%-6.96%
In foreign currency	(0.6%)-21%	(0.42%)-23%
Average interest on deposits from customers in HUF	0.04%	0.04%
Average interest on deposits from customers in foreign currency	0.21%	0.29%

An analysis of deposits from customers by type, not including accrued interest, is as follows:

	2019		2018	
Retail deposits	**3,204,450**	**49%**	**2,944,174**	**51%**
Household deposits	3,204,450	49%	2,944,174	51%
Corporate deposits	**3,369,100**	**51%**	**2,797,324**	**49%**
Deposits corporates	2,729,209	41%	2,340,640	41%
Municipality deposits	639,891	10%	456,684	8%
Total	**6,573,550**	**100%**	**5,741,498**	**100%**

NOTE 19: LIABILITIES FROM ISSUED SECURITIES (in HUF mn)

	2019	2018
Within one year:		
In HUF	18,340	9,399
In foreign currency	3,753	4,835
	22,093	**14,234**
Over one year:		
In HUF	21,191	32,460
	21,191	**32,460**
Total	**43,284**	**46,694**

Interest rates on liabilities from issued securities are as follows (%):

	2019	2018
Issued securities denominated in HUF	0%-1.7%	0.2%-1.7%
Issued securities denominated in foreign currency	1.1%-1.48%	1%-2.6%
Average interest on issued securities denominated in HUF	0.39%	0.29%
Average interest on issued securities denominated in foreign currency	1.87%	3.22%

NOTE 19: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

Issued securities denominated in foreign currency as at **31 December 2019** (in HUF mn):

	Name	Date of issuance	Maturity	Currency	Nominal value in FX million	Nominal value in HUF million	Amortised cost in FX million	Amortised cost in HUF million	Interest conditions (in % actual)	
1	OTP_VK1_20/2	04/04/2019	04/04/2020	USD	2.47	727	2.48	731	1.42	variable
2	OTP_VK1_20/5	15/08/2019	15/08/2020	USD	2.00	589	2.01	591	1.20	variable
3	OTP_VK1_20/4	27/06/2019	27/06/2020	USD	1.87	552	1.87	552	1.32	variable
4	OTP_VK1_20/7	07/11/2019	07/11/2020	USD	1.68	494	1.68	495	1.10	variable
5	OTP_VK1_20/1	21/02/2019	21/02/2020	USD	1.53	450	1.54	452	1.48	variable
6	OTP_VK1_20/8	19/12/2019	19/12/2020	USD	1.52	448	1.52	448	1.10	variable
7	OTP_VK1_20/3	16/05/2019	16/05/2020	USD	0.89	263	0.89	263	1.32	variable
8	OTP_VK1_20/6	26/09/2019	26/09/2020	USD	0.75	220	0.75	221	1.20	variable
	Total issued securities				**12.71**	**3,743**	**12.74**	**3,753**		

Term Note Program in the value of HUF 200 billion for the year of 2019/2020

On 25 June 2019 the Bank initiated term note program in the value of HUF 200 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 28 June 2019 the prospectus of Term Note Program and the disclosure as at 16 August 2019. The prospectus is valid for 12 months following the disclosure.

The Issuer can initiate to introduce the bonds issued under the program to the Hungarian, Slovakian, Romanian, Bulgarian and Croatian Stock Exchange without any obligations.

Term Note Program in the value of HUF 200 billion for the year of 2018/2019

On 19 July 2018 the Bank initiated term note program in the value of HUF 200 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 13 August 2018 the prospectus of Term Note Program and the disclosure as at 16 August 2018. The prospectus is valid for 12 months following the disclosure.

The Issuer can initiate to introduce the bonds issued under the program to the Hungarian, Slovakian, Romanian, Bulgarian and Croatian Stock Exchange without any obligations.

Hedge accounting

Certain structured bonds are hedged by interest rate swaps which may transfer to a transferee a fixed interest rate and enter into an interest rate swap with the transferee to receive a fixed interest rate and pay a variable interest rate and amount of the structure if any based on a notional amount which is equal to the notional amount of the hedged bond. In certain cases amount of the structure is hedged by options which give the owner the right to get amount of the structure which is equal to the structure of the hedged bond. This hedging relationship meets all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument
- the effect of credit risk does not dominate the value changes that result from that economic relationship
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Bank actually hedges and the quantity of the hedging instrument that the Bank actually uses to hedge that quantity of hedged item

NOTE 19: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

Issued securities denominated in HUF as at **31 December 2019** (in HUF mn)

	Name	Date of issuance	Maturity	Nominal value in HUF million	Amortised cost in HUF million	Interest conditions (in % actual)		Hedged
1	OTP_DK_21/I	15/12/2018	31/05/2021	3,520	3,451	discount		
2	OTP_DK_20/I	15/12/2018	31/05/2020	3,295	3,282	discount		
3	OTPX2020E	18/06/2014	22/06/2020	2,939	2,903	indexed	0.70	hedged
4	OTPRF2021B	20/10/2011	25/10/2021	2,654	2,858	indexed		hedged
5	OTPX2020F	10/10/2014	16/10/2020	2,650	2,551	indexed	0.20	hedged
6	OTPRF2020C	11/11/2010	05/11/2020	2,622	2,662	indexed		hedged
7	OTPRF2021A	05/07/2011	13/07/2021	2,402	2,804	indexed		hedged
8	OTPX2020G	15/12/2014	21/12/2020	2,371	2,273	indexed	0.30	hedged
9	OTPRF2020A	12/07/2010	20/07/2020	2,152	2,252	indexed		hedged
10	OTPRF2022A	22/03/2012	23/03/2022	1,869	1,797	indexed	1.70	hedged
11	OTPRF2020B	12/07/2010	20/07/2020	1,276	1,429	indexed		hedged
12	OTP_DK_22/I	15/12/2018	31/05/2022	993	946	discount		
13	OTPRF2023A	22/03/2013	24/03/2023	760	746	indexed	1.70	hedged
14	OTPRF2022B	22/03/2012	23/03/2022	728	698	indexed	1.70	hedged
15	OTP_DK_23/I	15/12/2018	31/05/2023	717	664	discount		
16	OTPRF2022E	29/10/2012	31/10/2022	661	645	indexed	1.70	hedged
17	OTPRF2022F	28/12/2012	28/12/2022	538	532	indexed	1.70	hedged
18	OTPRF2021C	21/12/2011	30/12/2021	505	558	indexed		hedged
19	OTP_DK_24/I	30/05/2019	31/05/2024	426	380	discount		
20	OTPRF2021D	21/12/2011	30/12/2021	357	385	indexed		hedged
21	OTPX2023A	22/03/2013	24/03/2023	340	370	indexed	1.70	hedged
22	OTPX2024B	10/10/2014	16/10/2024	311	302	indexed	0.70	hedged
23	OTPX2021D	21/12/2011	27/12/2021	274	305	indexed		hedged
24	OTPX2020B	28/06/2010	09/07/2020	267	285	indexed		hedged
25	OTPX2022D	28/12/2012	27/12/2022	265	379	indexed	1.70	hedged
26	OTPX2024C	15/12/2014	20/12/2024	259	249	indexed	0.60	hedged
27	OTPX2021B	17/06/2011	21/06/2021	255	424	indexed		hedged
28	OTPRF2022D	28/06/2012	28/06/2022	249	278	indexed	1.70	hedged
29	OTPX2024A	18/06/2014	21/06/2024	241	253	indexed	1.30	hedged
30	OTPX2020A	25/03/2010	30/03/2020	238	326	indexed		hedged
31	OTPX2021C	19/09/2011	24/09/2021	231	198	indexed		hedged
32	OTPX2022A	22/03/2012	23/03/2022	217	235	indexed		hedged
33	OTPX2022C	29/10/2012	28/10/2022	217	278	indexed	1.70	hedged
34	OTPX2023B	28/06/2013	26/06/2023	214	268	indexed	0.60	hedged
35	OTPX2021A	01/04/2011	01/04/2021	192	253	indexed		hedged
36	OTPX2022B	18/07/2012	18/07/2022	183	318	indexed	1.70	hedged
37	OTPX2020D	16/12/2010	18/12/2020	177	193	indexed		hedged
38	OTPRF2022C	28/06/2012	28/06/2022	171	205	indexed	1.70	hedged
39	OTPX2020C	11/11/2010	05/11/2020	166	221	indexed		hedged
40	OTP_DK_25/I	30/05/2019	31/05/2025	104	89	discount		
41	OTPRF2021E	21/12/2011	30/12/2021	67	68	indexed		hedged
42	Egyéb			218	218			
	Subtotal issued securities in HUF			**38,291**	**39,531**			
	Total issued securities			**42,034**	**43,284**			

NOTE 20: FINANCIAL LIABILITIES DESIGNATED AS FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn)

	2019	2018
Within one year:		
In HUF	2,679	3,422
	2,679	**3,422**
Over one year:		
In HUF	26,182	28,809
	26,182	**28,809**
Total	**28,861**	**32,231**

Interest rates on financial liabilities designated as fair value through profit or loss are as follows (%):

	2019	2018
Within one year:		
In HUF	0.01%-2.59%	0.01%-2.68%
Over one year:		
In HUF	0.01%-2.59%	0.01%-2.68%
Average interest on amounts due to banks in HUF	1.34%	1.1%

A reconciliation of the carrying amount of financial liabilities designated as fair value through profit or loss is as follows:

	2019	2018
Contractual amount	27,561	30,911
Fair value adjustment due to market risk	1,300	1,320
Gross carrying amount	**28,861**	**32,231**

NOTE 21: HELD FOR TRADING DERIVATIVE FINANCIAL LIABILITIES (in HUF mn)

Negative fair value of held for trading derivative financial liabilities by deal types:

	2019	2018
IRS	42,841	29,776
Foreign currency swaps	29,084	26,654
CCIRS and mark-to-market CCIRS	1,037	17,164
Other derivative contracts[1]	10,126	9,244
Total	**83,088**	**82,838**

NOTE 22: FAIR VALUE OF DERIVATIVE FINANCIAL LIABLITIES DESIGNATED AS HEDGE ACCOUNTING (in HUF mn)

Fair value of derivative financial liabilities designated as hedge accounting is detailed as follows:

	2019	2018
IRS designated as fair value hedge	8,265	6,050
IRS designated as cash flow hedge	-	523
CCIRS designated as fair value hedge	1,758	352
Total	**10,023**	**6,925**

[1] incl.: FX, equity, commodity and index futures; FX forward; commodity and equity swap; FRA; FX option

NOTE 23: OTHER LIABILITIES[1] (in HUF mn)

	2019	2018
Other liabilities		
Liabilities from investment services	101,417	68,036
Technical accounts	34,025	32,414
Accounts payable	20,742	11,767
Accrued expenses	17,913	20,139
Provision on off-balance sheet commitments, contingent liabilities in accordance with IFRS 9	14,288	8,494
Current tax payable	12,529	8,528
Liabilities from customer's credit card payments	10,753	38,722
Accrued day one gain of loan liabilities at below-market interest	10,177	11,784
Liabilities due to short positions	7,040	13,784
Social contribution	4,130	3,666
Provision on off-balance sheet commitments, contingent liabilities in accordance with IAS 37	2,508	2,891
Other	11,154	16,345
Other liabilities total	**246,676**	**236,570**

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

	2019	2018
Provision for losses on other off-balance sheet commitments and contingent liabilities	14,288	8,494
Provisions in accordance with IFRS 9	**14,288**	**8,494**
Provision for litigation	663	691
Provision for retirement pension and severance pay	1,000	1,000
Provision on other liabilities	845	1,200
Provisions in accordance with IAS 37	**2,508**	**2,891**
Total	**16,796**	**11,385**

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

	2019	2018
Opening balance	**8,494**	**10,007**
Effect of transition to application of IFRS 9	-	(4,030)
Provision for the period	29,517	19,617
Release of provision	(23,723)	(17,100)
Closing balance	**14,288**	**8,494**

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

	2019	2018
Opening balance	**2,891**	**9,752**
Provision for the period	1,252	3,383
Release of provision	(1,635)	(10,244)
Closing balance	**2,508**	**2,891**

[1] Other liabilities are expected to be recovered or settled no more than twelve months after the reporting period.

NOTE 24: SUBORDINATED BONDS AND LOANS (in HUF mn)

	2019	2018
Within one year:		
In foreign currency	2,695	459
Over one year:		
In foreign currency	276,699	109,995
Total	**279,394**	**110,454**

Interest rates on subordinated bonds and loans are as follows (%):

	2019	2018
Subordinated bonds and loans denominated in foreign currency	2.6% - 2.875%	2.68%
Average interest on subordinated bonds and loans denominated in foreign currency	2.73%	2.68%

Subordinated loans and bonds are detailed as follows as at 31 December 2019:

Type	Nominal value	Date of issuance	Date of maturity	Issue price	Interest conditions	Interest rate
Subordinated bond	EUR 339.9 million	07/11/2006	Perpetual	99.375%	Three-month EURIBOR + 3%, variable after year 10 (payable quarterly)	2.6%
Subordinated bond	EUR 500 million	15/07/2019	15/07/2029	99.738%	Fixed 2.875% annual in the first 5 years and callable after 5 years, variable after year 5 (payable annually) calculated as a sum of the initial margin (320 basis point) and the 5 year mid-swap rate prevailing at the end of the 5 year.	2.875%

NOTE 25: SHARE CAPITAL (in HUF mn)

	2019	2018
Authorized, issued and fully paid:		
Ordinary shares	28,000	28,000

The nominal value of the shares is HUF 100 per shares. All of the shares are ordinary shares representing the same rights to the shareholders. Furthermore there are no restrictions on the distribution of dividends and the repayment of capital.

NOTE 26: RETAINED EARNINGS AND RESERVES (in HUF mn)

Based on the instructions of Act C of 2000 on accounting ("Act on Accounting") financial statements of the Bank are prepared in accordance with IFRS as issued by the IASB as adopted by the EU.

In 2019, the Bank paid dividend of HUF 61,320 million from the profit of the year 2018, which means HUF 219 dividend/share payment. In 2020 dividend of HUF 69,440 million are expected to be proposed by the Management from the profit of the year 2019, which means HUF 248 dividend per share payable to the shareholders.

Based on paragraph 114/B of Act on Accounting Equity Correlation Table is prepared and disclosed as a part of the explanatory notes for the reporting date by the Bank.

On 19 October 2006 the Bank sold 14.5 million Treasury shares owned by OTP Group through an issue of Income Certificates Exchangeable for Shares ("ICES"). Within the transaction 10 million shares owned by OTP Bank and 4.5 million OTP shares owned by OTP Fund Management Ltd. were sold during the underwriting period of ICES on the weighted average market price (HUF 7,080) of the Budapest Stock Exchange. The shares have been purchased by Opus Securities S.A. ("OPUS"), which issued an exchangeable bond with a total face value of EUR 514,274,000 backed by those shares. The exchangeable bonds have been sold at a 32% premium over the selling price of the shares. The EUR denominated exchangeable bonds are perpetual and the investors can exercise the conversion right between year 6 and 10. The bonds carry a fixed coupon of 3.95% during the first 10 years thereafter the Issuer has the right to redeem the bonds at face value. Following the year 10, the bonds carry a coupon of 3 month EURIBOR +3%. OTP Bank has discretional right to cancel the payments. The interest payable is non-cumulative.

Due to the conditions described above, ICES was accounted as an equity instrument and therefore any payment was accounted as equity distribution paid to ICES holders.

Equity correlation table shall contain the opening and closing balances of the shareholder's equity in accordance with IFRS, furthermore deducted from this the opening and closing balances of the specified equity elements. Equity correlation table shall contain also untied retained earnings available for the payment of dividends, covering retained earnings from the last financial year for which accounts have been adopted comprising net profit for the period of that financial year minus cumulative unrealized gains claimed in connection with any increase in the fair value of investment properties, as provided in IAS 40 - Investment Property, reduced by the cumulative income tax accounted for under IAS 12 - Income Taxes.

Share capital

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

Share-based payment reserve

Share-based payment reserve represents the increase in the equity due to the goods or services were received by the Bank in an equity-settled share-based payment transaction, valued at the fair value of the goods or services received.

Retained earnings

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

Put option reserve

Put option reserve represents the written put option over OTP ordinary shares were accounted as a deduction from equity at the date of OTP-MOL share swap transaction.

Other comprehensive income

Other comprehensive income comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other IFRSs.

General reserve

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

Tied-up reserve

The tied-up reserve shall consist of sums tied up from the capital reserve and from the retained earnings.

NOTE 26: RETAINED EARNINGS AND RESERVES (in HUF mn) [continued]

The equity correlation table of the Bank based on paragraph 114/B of Act on Accounting as at 31 December 2019:

31 December 2019 Closing	Share Capital	Capital reserve	Share-based payment reserve	Retained earnings and reserves	Option reserve	Treasury Shares	Revaluation reserve	Tied-up reserve	Net profit for the year	Total
Components of Shareholder's equity in accordance with IFRS	**28,000**	**52**	**39,179**	**1,644,591**	**(55,468)**	**(2,636)**	**-**	**-**	**-**	**1,653,718**
Unused portion of reserve for developments	-	-	-	(1,473)	-	-	-	1,473	-	-
Other comprehensive income	-	-	-	(62,975)	-	-	62,975	-	-	-
Portion of supplementary payment recognised as an asset	-	-	-	(310)	-	-	-	-	-	**(310)**
Option reserve	-	(55,468)	-	-	55,468	-	-	-	-	-
Treasury shares	-	(2,636)	-	-	-	2,636	-	-	-	-
Share based payments	-	39,179	(39,179)	-	-	-	-	-	-	-
Net profit for the year	-	-	-	(193,354)	-	-	-	-	193,354	-
General reserve	-	-	-	(96,115)	-	-	-	96,115	-	-
Components of Shareholder's equity in accordance with paragraph 114/B of Act on Accounting	**28,000**	**(18,873)**	**-**	**1,290,364**	**-**	**-**	**62,975**	**97,588**	**193,354**	**1,653,408**

NOTE 26: RETAINED EARNINGS AND RESERVES (in HUF mn) [continued]

The equity correlation table of the Bank based on paragraph 114/B of Act on Accounting as at 1 January 2019:

1 January 2019 Closing	Share Capital	Capital reserve	Share-based payment reserve	Retained earnings and reserves	Option reserve	Treasury Shares	Revaluation reserve	Tied-up reserve	Net profit for the year	Total
Components of Shareholder's equity in accordance with IFRS	**28,000**	**52**	**35,632**	**1,504,690**	**(55,468)**	**(1,964)**	**-**	**-**	**-**	**1,510,942**
Unused portion of reserve for developments	-	-	-	(1,473)	-	-	-	1,473	-	-
Other comprehensive income	-	-	-	(43,910)	-	-	43,910	-	-	-
Portion of supplementary payment recognised as an asset	-	-	-	(310)	-	-	-	-	-	**(310)**
Option reserve	-	(55,468)	-	-	55,468	-	-	-	-	-
Treasury shares	-	(1,964)	-	-	-	1,964	-	-	-	-
Share based payments	-	35,632	(35,632)	-	-	-	-	-	-	-
Net profit for the year	-	-	-	(173,442)	-	-	-	-	173,442	-
General reserve	-	-	-	(76,788)	-	-	-	76,788	-	-
Components of Shareholder's equity in accordance with paragraph 114/B of Act on Accounting	**28,000**	**(21,748)**	**-**	**1,208,767**	**-**	**-**	**43,910**	**78,261**	**173,442**	**1,510,632**

NOTE 26: RETAINED EARNINGS AND RESERVES (in HUF mn) [continued]

	31 December 2019	1 January 2019
Retained earnings	1,290,364	1,208,767
Net profit for the year	193,354	173,442
Untied retained earnings	**1,483,718**	**1,382,209**

NOTE 27: TREASURY SHARES (in HUF mn)

	2019	2018
Nominal value (ordinary shares)	32	17
Carrying value at acquisition cost	2,636	1,964

The changes in the carrying value of treasury shares are due to repurchase and sale transactions on market authorised by the General Assembly.

Change in number of shares:

	2019	2018
Number of shares as at 1 January	**169,852**	**1,002,456**
Additions	2,979,754	1,358,018
Disposals	(2,829,441)	(2,190,622)
Number of shares at the end of the period	**320,165**	**169,852**

Change in carrying value:

	2019	2018
Balance as at 1 January	**1,964**	**9,540**
Additions	34,185	14,238
Disposals	(33,513)	(21,814)
Closing balance	**2,636**	**1,964**

	2019	2018
Nominal value of treasury shares at OTP group members	1,746	1,831

NOTE 28: INTEREST INCOME AND EXPENSES (in HUF mn)

	2019	2018
Interest income accounted for using the effective interest rate method from / on		
Loans at amortised cost and fair value through profit or loss	140,899	120,487
FVOCI securities	40,332	40,551
Securities at amortised cost	47,119	47,342
Placements with other banks	8,034	6,103
Financial liabilities	1,720	-
Amounts due from banks and balances with National Bank of Hungary	1,196	280
Repo receivables	95	58
Subtotal	**239,395**	**214,821**
Income similar to interest income		
Swap and forward deals related to Placements with other banks	65,090	63,804
Swap and forward deals related to Loans at amortised cost	24,114	21,027
Swap and forward deals related to FVOCI securities	(6,099)	(8,923)
Investment properties	6	4
Subtotal	**83,111**	**75,912**
Interest income total	**322,506**	**290,733**
Interest expense due to / from / on		
Amounts due to banks and deposits from the National Bank of Hungary and other banks	78,644	53,306
Deposits from customers	28,146	26,634
Leasing liabilities	244	-
Liabilities from issued securities	224	157
Subordinated bonds and loans	5,323	2,994
Investment properties (deprecation)	48	44
Financial assets	2,278	-
Repo liabilities	4,477	643
Interest expenses total	**119,384**	**83,778**

NOTE 29: RISK COST (in HUF mn)

	2019	2018
Loss allowance of loans at amortised cost		
Loss allowance	129,663	98,759
Release of loss allowance	(117,311)	(106,761)
Loan losses	19,831	14,929
	32,183	**6,927**
Loss allowance of placements with other banks		
Loss allowance	5,068	2,760
Release of loss allowance	(3,523)	(1,865)
	1,545	**895**
Loss allowance of FVOCI securities		
Loss allowance	1,295	2,069
Release of loss allowance	(1,471)	(2,622)
	(176)	**(553)**
Loss allowance of securities at amortised cost		
Loss allowance	338	875
Release of loss allowance	(563)	(684)
	(225)	**191**
Provision on loan commitments and financial guarantees		
Provision for the period	29,517	19,617
Release of provision	(23,723)	(17,099)
	5,794	**2,518**
Risk cost total	**39,121**	**9,978**

NOTE 30: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn)

Income from fees and commissions:

	2019	2018
Fees and commissions related to lending	**5,999**	**4,768**
Deposit and account maintenance fees and commissions	104,123	94,300
Fees and commission related to the issued bank cards	76,296	65,447
Fees and commissions related to security trading	27,332	22,713
Fees and commissions paid by OTP Mortgage Bank Ltd.	11,836	12,791
Net insurance fee income	6,013	8,599
Other	7,396	3,938
Fees and commissions from contracts with customers	**232,996**	**207,788**
Total Income from fees and commissions:	**238,995**	**212,556**

Contract balances

	2019	2018
Receivables, which are included in ‘other assets’	6,228	6,178
Loss allowance	(88)	(49)
Liabilities which are included in ’other liabilities’	-	(103)

NOTE 30: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn) [continued]

Performance obligations and revenue recognition policies:

Fee type	Nature and timing of satisfaction of performance obligations, and the significant payment terms	Revenue recognition under IFRS 15
Deposit and account maintenance fees and commissions	The Bank provides a number of account management services for both retail and corporate customers in which they charge a fee. Fees related to these services can be typically account transaction fees (money transfer fees, direct debit fees, money standing order fees, etc.), internet banking fees (e.g. OTP Direct fee), account control fees (e.g. sms fee), or other fees for occasional services (account statement fees, other administration fees, etc.). Fees for ongoing account management services are charged to the customer's account on a monthly basis. The fees are commonly fix amounts that can be vary per account package and customer category. In the case of the transaction based fees where the services include money transfer the fee is charged when the transaction takes place. The rate of the fee is typically determined in a certain % of the transaction amount. In case of other transaction-based fees (e.g. SMS fee), the fee is settled monthly. In case of occasional services the Bank basically charges the fees when the services are used by the customer. The fees can be fixed fees or they can be set in %. The rates are reviewed by the Bank regularly.	Fees for ongoing account management services are charged on a monthly basis during the period when they are provided. Transaction-based fees are charged when the transaction takes places or charged monthly at the end of the month.
Fees and commission related to the issued bank cards	The Bank provides a variety of bank cards to its customers, for which different fees are charged. The fees are basically charged in connection with the issuance of cards and the related card transactions. The annual fees of the cards are charged in advance in a fixed amount. The amount of the annual card fee depends on the type of card. In case of transaction-based fees (e.g. cash withdrawal/payment fee, merchant fee, interchange fee, etc.), the settlement of the fees will take place immediately after the transaction or on a monthly basis. The fee is typically determined in % of the transaction with a fixed minimum amount. For all other cases where the Bank provides a continuous service to the customers (e.g. card closing fee), the fees are charged monthly. The fee is calculated in a fix amount. The rates are reviewed by the Bank regularly.	Fees for ongoing services are charged on a monthly basis during the period when they are provided. Transaction-based fees are charged when the transaction takes places or charged monthly at the end of the month.

NOTE 30: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn) [continued]

Performance obligations and revenue recognition policies: [continued]

Fee type	Nature and timing of satisfaction of performance obligations, and the significant payment terms	Revenue recognition under IFRS 15
Fees and commissions related to security account management services	The Bank provides its clients with security account management services. Fees will be charged for account management and transactions on accounts. Account management fees are typically charged quarterly or annually. The amount is determined in%, based on the stocks of securities managed by the clients on the account in a given period. Fees for transactions on the securities account are charged immediately after the transaction. They are determined in%, based on the transaction amount. Fees for complex services provided to clients (e.g. portfolio management or custody) are typically charged monthly or annually. The fees are fixed monthly amounts and in some cases a bonus fee are charged.	Fees for ongoing services are charged quarterly or annually during the period when they are provided. The fees are accrued monthly. Transaction-based fees are charged when the transaction takes places.
Fees and commissions paid by OTP Mortgage Bank Ltd.	The Bank provides a number of services to its subsidiaries, in connection with fees are charged. These fees typically include services related to various warranties and guarantees, credit account management, agency activities, and marketing activities. The credit account management fee granted to OTP Mortgage Bank is settled on a monthly basis. It has a fixed part that is based on the number of the managed credit accounts, and a variable one determined by the profit split method. The fees for the guarantee services provided by the Bank are charged monthly. The fee is determined by% and based on the stock being guaranteed. Fees for agent services are charged monthly. The rate is %, based on the products sold during the period.	Fees for ongoing services are charged on a monthly basis during the period when they are provided. Transaction-based fees are charged when the transaction takes places.
Net insurance fee income	Due to the fact that the Bank does not provide insurance services to its clients, only acts as an agent, the fee income charged to the customers and fees payable to the insurance company are presented net in the fee income. In addition, agency fee charged for the sale of insurance contracts is also recorded in this line. The fee is charged on a monthly basis and determined in %.	Fees for ongoing services are charged on a monthly basis during the period when they are provided.
Other	Fees that are not significant in the Banks total income are included in Other fees category. Such fees are safe lease, special procedure fee, account rent fee, adlak service fee, fee of a copy of document, etc. Other fees may include charges for continuous services or for ad hoc administration services. Continuous fees are charged monthly (e.g., safe lease fees) at the beginning of the period, typically at a fixed rate. Fees for ad hoc services are charged immediately after the service obligation had been met, typically also in a fixed amount.	Fees for ongoing services are charged on a monthly basis during the period when they are provided. Fees for ad hoc services are charged when the transaction takes places.

NOTE 30: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn) [continued]

Expenses from fees and commissions:	2019	2018
Other fees and commissions related to issued bank cards	29,204	25,024
Fees and commissions related to lending	1,839	1,736
Fees and commissions relating to deposits	1,199	1,087
Trust activities related to securities	1,001	574
Insurance fees	720	3,958
Fees and commissions related to security trading	598	1,122
Postal fees	253	246
Money market transaction fees and commissions	41	122
Other	736	470
Total Expenses from fees and commissions	**35,591**	**34,339**
Net profit from fees and commissions	**203,404**	**178,217**

NOTE 31: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn)

Other operating income:	2019	2018
Other operating income from OTP Employee Stock Ownership Program (OTP ESOP)	2,244	312
Intermediary and other services	1,921	1,803
Income from lease of tangible assets	590	599
Gains on derecognition of deposits	486	159
Collateral valuation service fee received from OTP Building Society Ltd.	396	-
Gains on sale of tangible assets	271	195
Non-repayable assets received	264	528
Income from written off receivables	257	281
Gains on transactions related to property activities	203	219
Gains on discount from advertising agency fees	170	258
Gains on sale of receivables	163	290
Other	540	535
Total	**7,505**	**5,179**

Net other operating income / (expenses):	2019	2018
Release of loss allowance/(Loss allowance) on investments in subsidiaries	38,807	(4,436)
Release of provision for off-balance sheet commitments and contingent liabilities	383	6,861
Release of loss allowance on other assets	186	10,078
Fine imposed by Competition Authority	(143)	(1,441)
Losses on other assets	(1,095)	(2,949)
Financial support for sport association and organization of public utility	(4,069)	(3,979)
Non-repayable assets contributed	(4,187)	(4,397)
Other	(3,367)	(2,604)
Total other operating income / (expenses)	**26,515**	**(2,867)**

NOTE 31: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn) [continued]

Other administrative expenses:	2019	2018
Personnel expenses:		
Wages	84,122	76,164
Taxes related to personnel expenses	17,861	17,254
Other personnel expenses	13,052	11,401
Subtotal	**115,035**	**104,819**
Depreciation and amortization:	**29,925**	**21,232**
Other administrative expenses:		
Taxes, other than income tax[1]	81,178	72,084
Services	43,369	31,158
Administration expenses, including rental fees	15,943	27,286
Professional fees	11,091	12,313
Advertising	8,617	8,263
Subtotal	**160,198**	**151,104**
Total	**305,158**	**277,155**

NOTE 32: INCOME TAX (in HUF mn)

The Bank is presently liable for income tax at a rate of 9% of taxable income.

A breakdown of the income tax expense is:

	2019	2018
Current tax expense	4,625	1,670
Deferred tax expense	5,215	9,521
Total	**9,840**	**11,191**

A reconciliation of the deferred tax liability/asset is as follows:

	2019	2018
Balance as at 1 January	**1,241**	**7,991**
Deferred tax expense in recognised expense	(5,215)	(9,521)
Tax effect of fair value adjustment of FVOCI securities and ICES recognised in other comprehensive income	(1,901)	2,771
Closing balance	**(5,875)**	**1,241**

[1] Special tax of financial institutions was paid by OTP Bank in the amount of HUF 7.9 and 5.4 billion for the year ended 31 December 2019 and 2018, recognized as an expense thus decreased the corporate tax base. For the year ended 31 December 2019 financial transaction duty was paid by the Bank in the amount of HUF 61 billion.

NOTE 32: INCOME TAX (in HUF mn) [continued]

A breakdown of the deferred tax asset/liability is as follows:

	2019	2018
Unused tax allowance	283	5,330
Refundable tax in accordance with Acts on Customer Loans	-	245
Amounts unenforceable by tax law	210	13
Deferred tax assets	**493**	**5,588**
Fair value adjustment of held for trading and FVOCI securities	(5,935)	(4,034)
Difference in depreciation and amortization	(329)	(313)
Amounts unenforceable by tax law	(104)	-
Deferred tax liabilities	**(6,368)**	**(4,347)**
Net deferred tax (liability)/asset	**(5,875)**	**1,241**

A reconciliation of the income tax expense is as follows:

	2019	2018
Profit before income tax	203,194	184,633
Income tax at statutory tax rate (9%)	18,287	16,617
Income tax adjustments due to permanent differences are as follows:		
Deferred use of tax allowance	5,046	6,122
Share-based payment	319	342
Permanent differences from unused tax losses	-	118
Amounts unenforceable by tax law	(58)	(17)
Use of tax allowance in the current year	(6,975)	(4,835)
Dividend income	(7,100)	(6,164)
Other	321	(992)
Income tax	**9,840**	**11,191**
Effective tax rate	4.8%	6.1%

NOTE 33: LEASE (in HUF mn)

The Bank as a lessee:

At initial application of IFRS 16 the Bank as lessee chose the modified retrospective approach (see Note 2.18.), so there are no comparative figures for 31 December 2018.

Amounts recognised at initial application	**1 January 2019**
Lease liability	16,150
Prepaid or accrued lease payments as at 31 December 2018	145
Right-of-use asset	16,295
Cumulative impact recognized as an adjustment to the equity at the date of initial application	-

Average weighted amount of the implicit interest rate/incremental borrowing rate applied as at 1 January 2019 to recognise the lease liabilities: ~1.61 %.

Amounts recognised in profit and loss	**2019**
Interest expense on lease liabilities	244
Expense relating to short-term leases	4,212
Expense relating to leases of low value assets	12
Expense relating to variable lease payments not included in the measurement of lease liabilities	874

Leasing liabilities by maturities:

Within one year	3,826
Over one year	9,834
Total	**13,660**

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

Gross carrying amount	**Right-of-use of real estate**	**Right-of-use of machinery and equipment**	**Total**
Balance as at 1 January	16,259	37	16,296
Additions due to new contracts	786	-	786
Derecognition due to matured contracts	(107)	-	(107)
Change due to revaluation and modification	852	-	852
Closing balance	**17,790**	**37**	**17,827**
Depreciation			
Balance as at 1 January	-	-	-
Depreciation charge	4,218	6	4,224
Derecognition due to matured contracts	(4)	-	(4)
Closing balance	**4,214**	**6**	**4,220**
Net carrying amount	**13,576**	**31**	**13,607**

NOTE 34: FINANCIAL RISK MANAGEMENT (in HUF mn)

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial instruments may result in certain risks to the Bank. The most significant risks the Bank faces include:

34.1. Credit risk

The Bank takes on exposure to credit risk which is the risk that a counter-party will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or banks of borrowers, and to geographical areas and loan types. Such risks are monitored on a periodical basis and subject to an annual or more frequent review. The exposure to any borrower including banks and brokers is further restricted by sublimit covering on- and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is partly managed obtaining collateral, corporate and personal guarantees.

34.1.1. Analysis by loan types

Defining the expected credit loss on individual and collective basis

On individual basis:

Individually assessed are the non-retail or micro- and small enterprise exposure of significant amount on a stand-alone basis:

- exposure in stage 3,
- exposure in workout management
- purchased or originated credit-impaired instruments which are in accordance with the conditions mentioned above

The calculation of impairment must be prepared and approved by the risk management functional areas. The calculation, all relevant factors (amortised cost, original and current EIR, contracted and expected cash flows (from business and/or collateral) for the individual periods of the entire lifecycle, other essential information enforced during the valuation) and the criteria thereof (including the factors underlying the classification as stage 3) must be documented individually.

The expected credit loss of the exposure equals the difference of the receivable's AC (gross book value) on the valuation date and the present value of the receivable's expected cash flows discounted to the valuation date by the exposure's original effective interest rate (EIR) (calculated at the initial recognition, or in the case of variable rate, recalculated due to the last interest rate change). The estimation of the expected future cash flows should be forward looking, it must also contain the effects of the possible change of macroeconomic outlook.

At least two scenarios must be used for the estimation of the expected cash flow. At least one scenarios should anticipate that realised cash flows will be significantly different from the contractual cash flows. Probability weights must be allocated to the individual scenarios. The estimation must reflect the probability of the occurrence and non-occurrence of the credit loss, even if the most probable result is the non-occurrence of the loss.

NOTE 34: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

34.1. Credit risk [continued]

34.1.1. Analysis by loan types [continued]

On collective basis:

The following exposures are subject to collective assessment:

- retail exposure irrespective of the amount,
- micro and small enterprise exposures irrespective of the amount,
- all other exposure which are insignificant on a stand-alone basis and not part of the workout management,
- exposure which are not in stage 3, significant on a stand-alone basis,
- purchased or originated credit-impaired instruments which are in accordance with the conditions mentioned above.

In the collective impairment methodology credit risk and the change of credit risk can be correctly captured by understanding the risk characteristics of the portfolio. In order to achieve this the main risk drivers shall be identified and used to form homogeneous segments having similar risk characteristics. The segmentation is expected to stay stable from month to month however a regular (at least yearly) revision of the segmentation process should be set up to capture the change of risk characteristics. The segmentation must be performed separately for each parameter, since in each case different factors may have relevance.

The Bank's Headquarters Group Reserve Committee stipulates the guidelines related to the collective impairment methodology at group level. In addition, it has right of agreement in respect of the risk parameters (PD -probability of default, LGD - loss given default, EAD – exposure at default) and segmentation criteria proposed by the group members.

The review of the parameters must be performed at least annually and the results should be approved by the Group Reserve Committee. Local Risk Managements is responsible for parameter estimations and updates, macroeconomic scenarios are calculated by OTP Bank Headquarters for each subsidiary and each parameter. Based on the consensus proposal of Local Risk Management and OTP Bank Headquarters, the Group Reserve Committee decides on the modification of parameters (all parameters for impairment calculation).

The impairment parameters should be backtested at least annually.

The expected loss calculation should be forward looking, including forecasts of future economic conditions. This may be achieved by applying 3-5 different macroeconomic scenarios, which may be integrated in the PD, LGD and EAD parameters.

NOTE 34: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

34.1. Credit risk [continued]

34.1.1. Analysis by loan types [continued]

Gross carrying amount and accumulated loss allowance of financial assets at amortized cost and fair value through other comprehensive income by IFRS 9 stages as at 31 December 2019:

	Carrying amount/Exposure	Gross carrying amount / Notional amount					Loss allowance / Provision					Write-off
		Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	Total	
Cash, amounts due from banks and balances with the National Bank of Hungary	289,686	289,686	-	-	-	289,686	-	-	-	-	-	-
Placements with other banks, net of allowance for placement losses	1,560,142	1,563,732	2	-	-	1,563,734	3,590	2	-	-	3,592	-
Repo Receivables	45,539	45,545	-	-	-	45,545	6	-	-	-	6	-
Retail consumer loans	*701,733*	*698,440*	*16,402*	*5,623*	*6*	*720,471*	*9,666*	*5,690*	*3,379*	*3*	*18,738*	-
Mortgage loans	*118,291*	*96,161*	*12,905*	*8,817*	*5,231*	*123,114*	*33*	*248*	*3,732*	*810*	*4,823*	-
Municipal loans	*86,907*	*83,136*	*122*	*5,332*	-	*88,590*	*435*	*8*	*1,240*	-	*1,683*	-
Corporate loans	*2,378,407*	*2,294,436*	*92,411*	*36,020*	*10,213*	*2,433,080*	*21,188*	*12,894*	*19,939*	*652*	*54,673*	*30,976*
Loans at amortised cost	3,285,338	3,172,173	121,840	55,792	15,450	3,365,255	31,322	18,840	28,290	1,465	79,917	30,976
FVOCI securities[1]	1,485,977	1,485,977	-	-	-	1,485,977	1,702	-	-	-	1,702	-
Securities at amortised cost	1,447,224	1,448,667	-	-	-	1,448,667	1,443	-	-	-	1,443	-
Other financial assets	89,482	56,577	37,499	1,015	37	95,128	583	4,291	754	18	5,646	-
Total as at 31 December 2019	**8,203,388**	**8,062,357**	**159,341**	**56,807**	**15,487**	**8,293,992**	**38,646**	**23,133**	**29,044**	**1,483**	**92,306**	**30,976**
Loan commitments	1,487,112	1,485,861	8,136	511	-	1,494,508	6,577	620	199	-	7,396	-
Financial guarantees	1,079,896	1,080,423	4,276	1,813	-	1,086,512	4,784	456	1,376	-	6,616	-
Factoring loan commitments	227,871	225,703	589	1,853	-	228,145	201	1	72	-	274	-
Bill of credit	747	749	-	-	-	749	2	-	-	-	2	-
Loan commitments and financial guarantees total	***2,795,626***	***2,792,736***	***13,001***	***4,177***	-	***2,809,914***	***11,564***	***1,077***	***1,647***	-	***14,288***	-

[1] FVOCI securities are measured at fair value in the Statement of Financial Position (See Note 8). Loss allowance for FVOCI securities is recognised in the Statement of Other Comprehensive Income, which is included in the accumulated loss allowance of this table.

NOTE 34: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

34.1. Credit risk [continued]

34.1.1. Analysis by loan types [continued]

Gross carrying amount and accumulated loss allowance of financial assets at amortized cost and fair value through other comprehensive income by IFRS 9 stages as at 31 December 2018:

		Gross carrying amount / Notional amount					Loss allowance / Provision					
	Carrying amount/Exposure	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	Total	Write-off
Cash, amounts due from banks and balances with the National Bank of Hungary	360,855	360,855	-	-	-	360,855	-	-	-	-	-	-
Placements with other banks, net of allowance for placement losses	1,074,840	1,075,281	1,606	-	-	1,076,887	2,035	12	-	-	2,047	-
Repo Receivables	14,139	14,151	-	-	-	14,151	12	-	-	-	12	-
Retail consumer loans	*388,276*	*384,300*	*11,242*	*5,835*	*34*	*401,411*	*4,856*	*3,808*	*4,461*	*10*	*13,135*	-
Mortgage loans	*143,806*	*110,012*	*22,874*	*10,639*	*5,968*	*149,493*	*86*	*766*	*4,057*	*778*	*5,687*	-
Municipal loans	*97,005*	*91,754*	*1,622*	*5,388*	-	*98,764*	*560*	*35*	*1,164*	-	*1,759*	-
Corporate loans	*1,942,892*	*1,848,116*	*88,900*	*41,110*	*10,426*	*1,988,552*	*11,027*	*9,287*	*24,465*	*881*	*45,660*	*34,770*
Loans at amortised cost	2,571,979	2,434,182	124,638	62,972	16,428	2,638,220	16,529	13,896	34,147	1,669	66,241	34,770
FVOCI securities[1]	1,451,905	1,451,905	-	-	-	1,451,905	1,859	-	-	-	1,859	-
Securities at amortised cost	1,431,789	1,433,457	-	-	-	1,433,457	1,668	-	-	-	1,668	-
Other financial assets	96,958	43,925	59,867	528	-	104,320	971	6,042	349	-	7,362	-
Total as at 31 December 2018	**7,002,465**	**6,813,756**	**186,111**	**63,500**	**16,428**	**7,079,795**	**23,074**	**19,950**	**34,496**	**1,669**	**79,189**	**34,770**
Loan commitments	1,308,026	1,293,192	20,182	341	-	1,313,715	4,276	1,249	164	-	5,689	-
Financial guarantees	825,357	818,209	9,641	150	-	828,000	1,909	671	63	-	2,643	-
Factoring loan commitments	179,285	170,318	8,974	155	-	179,447	146	8	8	-	162	-
Bill of credit	96	96	-	-	-	96	-	-	-	-	-	-
Loan commitments and financial guarantees total	***2,312,764***	***2,281,815***	***38,797***	***646***	-	***2,321,258***	***6,331***	***1,928***	***235***	-	***8,494***	-

[1] FVOCI securities are measured at fair value in the Statement of Financial Position (See Note 8). Loss allowance for FVOCI securities is recognised in the Statement of Other Comprehensive Income, which is included in the accumulated loss allowance of this table.

NOTE 34: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

34.1. Credit risk [continued]

34.1.1. Analysis by loan types [continued]

Changes in the Loss allowance of financial assets at amortised cost and fair value through other comprehensive income by IFRS 9 stages

Loans at amortised cost

For the years ended 31 December 2019 and 2018	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 1 January 2018	**11,989**	**8,970**	**55,959**	**1,515**	**78,433**
Transfer to Stage 1	160	(3,123)	(665)	-	(3,628)
Transfer to Stage 2	(401)	7,343	(2,088)	-	4,854
Transfer to Stage 3	(96)	(1,334)	3,713	-	2,283
Net remeasurement of loss allowance	(1,156)	253	(3,718)	777	(3,844)
New financial assets originated or purchased	8,888	3,235	9,512	29	21,664
Financial assets that have been derecognised (other than write-offs)	(2,798)	(1,420)	(26,789)	(482)	(31,489)
Unwind of discount	-	-	2,939	505	3,444
Write-offs	(57)	(28)	(4,716)	(675)	(5,476)
Loss allowance as at 31 December 2018	**16,529**	**13,896**	**34,147**	**1,669**	**66,241**
Transfer to Stage 1	370	(4,069)	(182)	-	(3,881)
Transfer to Stage 2	(981)	7,019	(436)	-	5,602
Transfer to Stage 3	(91)	(1,077)	3,808	-	2,640
Net remeasurement of loss allowance	1,281	(858)	(6,159)	(152)	(5,888)
New financial assets originated or purchased	19,007	4,983	3,044	6	27,040
Financial assets that have been derecognised (other than write-offs)	(4,830)	(2,504)	(3,289)	(50)	(10,673)
Movements related to forced loans[1]	98	1,482	41	-	1,621
Unwind of discount	-	-	1,752	990	2,742
Write-offs	(61)	(32)	(4,436)	(998)	(5,527)
Loss allowance as at 31 December 2019	**31,322**	**18,840**	**28,290**	**1,465**	**79,917**

[1] For further information please see the analysis of the change in the loss allowance on loans at amortised cost in Note 9.

NOTE 34: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

34.1. Credit risk [continued]

34.1.1. Analysis by loan types [continued]

Changes in the Loss allowance of financial assets at amortised cost and fair value through other comprehensive income by IFRS 9 stages [continued]

Loan commitments and financial guarantees

For the years ended 31 December 2019 and 2018	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2018	**5,377**	**223**	**376**	**5,976**
Transfer to Stage 1	31	(137)	(90)	(196)
Transfer to Stage 2	(94)	1,432	(24)	1,314
Transfer to Stage 3	(3)	(2)	91	86
Net remeasurement of loss allowance	167	242	21	430
New financial assets originated or purchased	1,104	170	1	1,275
Decrease	(251)	-	(140)	(391)
Loss allowance as at 31 December 2018	**6,331**	**1,928**	**235**	**8,494**
Transfer to Stage 1	84	(1,029)	(15)	(960)
Transfer to Stage 2	(21)	413	(15)	377
Transfer to Stage 3	(9)	(21)	1,514	1,484
Net remeasurement of loss allowance	1,245	291	(7)	1,529
New financial assets originated or purchased	5,204	98	31	5,333
Decrease	(1,270)	(603)	(96)	(1,969)
Loss allowance as at 31 December 2019	**11,564**	**1,077**	**1,647**	**14,288**

Placements with other banks, net of allowance for placement losses

For the years ended 31 December 2019 and 2018	Stage 1	Stage 2	Total
Loss allowance as at 1 January	**1,257**	**-**	**1,257**
Net remeasurement of loss allowance	208	-	**208**
New financial assets originated or purchased	1,099	12	**1,111**
Financial assets that have been derecognised (other than write-offs)	(529)	-	**(529)**
Loss allowance as at 31 December 2018	**2,035**	**12**	**2,047**
Net remeasurement of loss allowance	290	-	**290**
New financial assets originated or purchased	2,202	2	**2,204**
Financial assets that have been derecognised (other than write-offs)	(937)	(12)	**(949)**
Loss allowance as at 31 December 2019	**3,590**	**2**	**3,592**

Repo Receivables

For the years ended 31 December 2019 and 2018	Stage 1	Total
Loss allowance as at 1 January	**6**	**6**
New financial assets originated or purchased	12	12
Financial assets that have been derecognised (other than write-offs)	(6)	(6)
Loss allowance as at 31 December 2018	**12**	**12**
New financial assets originated or purchased	42	42
Financial assets that have been derecognised (other than write-offs)	(48)	(48)
Loss allowance as at 31 December 2019	**6**	**6**

NOTE 34: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

34.1. Credit risk [continued]

34.1.1. Analysis by loan types [continued]

Changes in the Loss allowance of financial assets at amortised cost and fair value through other comprehensive income by IFRS 9 stages [continued]

Securities at amortised cost

For the years ended 31 December 2019 and 2018	Stage 1	Total
Loss allowance as at 1 January 2018	**1,477**	**1,477**
Net remeasurement of loss allowance	168	168
New financial assets originated or purchased	108	108
Financial assets that have been derecognised (other than write-offs)	(85)	(85)
Loss allowance as at 31 December 2018	**1,668**	**1,668**
Net remeasurement of loss allowance	(149)	(149)
New financial assets originated or purchased	58	58
Financial assets that have been derecognised (other than write-offs)	(134)	(134)
Loss allowance as at 31 December 2019	**1,443**	**1,443**

FVOCI Securities

For the years ended 31 December 2019 and 2018	Stage 1	Total
Loss allowance as at 1 January 2018	**2,380**	**2,380**
Net remeasurement of loss allowance	(143)	(143)
New financial assets originated or purchased	560	560
Financial assets that have been derecognised (other than write-offs)	(938)	(938)
Loss allowance as at 31 December 2018	**1,859**	**1,859**
Net remeasurement of loss allowance	(148)	(148)
New financial assets originated or purchased	550	550
Financial assets that have been derecognised (other than write-offs)	(559)	(559)
Loss allowance as at 31 December 2019	**1,702**	**1,702**

NOTE 34: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

34.1. Credit risk [continued]

34.1.1. Analysis by loan types [continued]

Loan portfolio by countries

An analysis of carrying amount of the non-qualified and qualified gross loan portfolio by country is as follows:

Country	2019 Gross loan and placement with other banks portfolio	2019 Loss allowance	2018 Gross loan and placement with other banks portfolio	2018 Loss allowance
Hungary	3,406,241	(67,093)	2,631,797	(53,027)
Malta	746,431	(4,225)	565,112	(1,821)
Serbia	255,525	(4,163)	119,146	(3,630)
Slovakia	114,758	(293)	77,760	(54)
Bulgaria	80,708	(2,798)	67,964	(2,586)
Romania	43,392	(805)	59,680	(1,325)
Croatia	68,887	(35)	32,556	(75)
Other	258,592	(4,103)	175,243	(5,782)
Loans, placements with other banks and repo receivables at amortised cost total	**4,974,534**	**(83,515)**	**3,729,258**	**(68,300)**
Hungary	29,731	-	32,745	-
Loans at fair value total	**29,731**	**-**	**32,745**	**-**
Loans, placements with other banks and repo receivables total	**5,004,265**	**(83,515)**	**3,762,003**	**(68,300)**

NOTE 34: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

34.1. Credit risk [continued]

34.1.2. Collaterals

The collateral value held by the Bank by collateral types is as follows (**total collateral value**). The collaterals cover loans as well as off-balance sheet exposures.

Types of collateral	2019	2018
Mortgages	1,258,217	1,161,094
Guarantees and warranties	609,357	388,753
Deposit	185,537	127,856
from this: Cash	*46,293*	*42,160*
Securities	*135,202*	*82,079*
Other	*4,042*	*3,617*
Assignment	89	121
Other	705	682
Total	**2,053,905**	**1,678,506**

The collateral value held by the Bank by collateral types is as follows (**to the extent of the exposures**). The collaterals cover loans as well as off-balance sheet exposures.

Types of collateral	2019	2018
Mortgage	478,265	429,424
Guarantees and warranties	492,747	264,171
Deposit	118,387	66,448
from this: Cash	*13,318*	*10,700*
Securities	*101,578*	*52,654*
Other	*3,491*	*3,094*
Assignment	54	67
Other	578	588
Total	**1,090,031**	**760,698**

The coverage level of loan portfolio to the extent of the exposures increased from 20.48% to 22.11% as at 31 December 2019, while the coverage to the total collateral value decreased from 45.18% to 41.67%.

The collateral value (**total collateral value**) held by the Bank related to non-performing loan portfolio is as follows:

For the year ended 31 December 2019	Gross carrying amount	Loss allowance	Carrying amount	Collateral value
Mortgage loans	8,817	(3,732)	5,085	44,920
Municipal loans	5,332	(1,240)	4,092	9,531
Corporate loans	36,020	(19,939)	16,081	37,456
Total	**50,169**	**(24,911)**	**25,258**	**91,907**

For the year ended 31 December 2018	Gross carrying amount	Loss allowance	Carrying amount	Collateral value
Mortgage loans	10,639	(4,057)	6,582	44,471
Municipal loans	5,388	(1,164)	4,224	7,923
Corporate loans	41,110	(24,465)	16,645	31,223
Total	**57,137**	**(29,686)**	**27,451**	**83,617**

NOTE 34: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

34.1. Credit risk [continued]

34.1.3. Restructured loans

	2019		2018	
	Gross portfolio	**Loss allowance**	**Gross portfolio**	**Loss allowance**
Consumer loans	5,188	(2,107)	3,973	(1,729)
Mortgage loans	7,934	(238)	4,623	(331)
Corporate loans[1]	7,087	(2,062)	13,101	(2,303)
SME loans	7,111	(1,332)	2,469	(362)
Total	**27,319**	**(5,739)**	**24,166**	**(4,724)**

Restructured portfolio definition

Restructured definition used by the Bank is in accordance with EBA (EU) 2015/227 regulation.

[1] incl.: project and syndicated loans

NOTE 34: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

34.1. Credit risk [continued]

Financial instruments by rating categories[1]

Held-for-trading securities as at 31 December 2019

	A1	A2	A3	Aa3	Ba1	Ba2	Ba3	Baa1	Baa2	Baa3	Not rated	Total
Government bonds	-	-	-	-	-	-	-	-	-	18,268	-	18,268
Other non-interest bearing securities	-	-	-	-	-	-	-	-	-	-	7,516	7,516
Hungarian government discounted Treasury Bills	-	-	-	-	-	-	-	-	-	12	-	12
Shares	41	52	18	27	-	-	7	31	6	18	171	371
Other securities	-	-	602	-	1,404	3,078	-	-	8,807	5,376	821	20,088
Total	**41**	**52**	**620**	**27**	**1,404**	**3,078**	**7**	**31**	**8,813**	**23,674**	**8,508**	**46,255**

Securities mandatorily measured at fair value through profit or loss as at 31 December 2019

	Not rated	Total
Government bonds	17,100	17,100
Mortgage bonds	5,180	5,180
Total	**22,280**	**22,280**

[1] Moody's ratings

NOTE 34: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

34.1. Credit risk [continued]

Financial instruments by rating categories[1]

FVOCI securities as at 31 December 2019

	A2	A3	Ba1	Ba2	Ba3	Baa1	Baa2	Baa3	Not rated	Total
Mortgage bonds	-	-	-	-	-	65,086	135,772	-	19,146	220,004
Government bonds	15,636	6,536	-	1,657	6,902	6,984	10,817	777,522	-	826,054
Hungarian government interest bearing Treasury Bills	-	-	-	-	-	-	-	339,397	-	339,397
Other non-interest bearing securities	-	-	-	-	-	-	-	-	4,644	4,644
Shares	-	-	-	-	-	-	-	-	17,676	17,676
Other bonds	-	4,700	3,559	-	-	-	1,502	34,900	33,541	78,202
Total	**15,636**	**11,236**	**3,559**	**1,657**	**6,902**	**72,070**	**148,091**	**1,151,819**	**75,007**	**1,485,977**

Securities at amortised cost as at 31 December 2019

	Baa3	Not rate	Total
Government bonds	1,435,068	-	1,435,068
Other corporate bonds	-	12,156	12,156
Total	**1,435,068**	**12,156**	**1,447,224**

[1] Moody's ratings

NOTE 34: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

34.1. Credit risk [continued]

An analysis of securities (held for trading, mandatorily FVTPL, FVOCI and amortised cost) in a country breakdown is as follows:

Country	2019 Gross carrying amount	2019 Loss allowance	2018 Gross carrying amount	2018 Loss allowance
Hungary	1,448,667	(1,443)	1,433,457	(1,668)
Securities at amortised cost total	**1,448,667**	**(1,443)**	**1,433,457**	**(1,668)**
Hungary	1,341,792	-	1,306,872	-
Russia	40,120	-	34,154	-
Poland	15,636	-	15,300	-
Slovakia	15,025	-	27,342	-
Romania	13,126	-	11,752	-
Bulgaria	10,817	-	12,684	-
Slovenia	6,984	-	7,052	-
Serbia	6,902	-	6,501	-
Lithuania	6,536	-	6,220	-
Germany	3,559	-	-	-
Croatia	1,657	-	3,211	-
Sweden	1,503	-	1,443	-
FVOCI securities total	**1,463,657**	**-**	**1,432,531**	**-**
Austria	12,412	-	11,318	-
United States of America	4,735	-	3,146	-
Luxembourg	4,486	-	4,249	-
Hungary	530	-	566	-
Portugal	157	-	95	-
Non-trading equity instruments designated to measure at fair value through other comprehensive income	**22,320**	**-**	**19,374**	**-**
Hungary	28,027	-	20,902	-
Luxembourg	10,482	-	759	-
Russia	7,279	-	-	-
Germany	306	-	269	-
Netherlands	153	-	-	-
Romania	8	-	-	-
United States of America	-	-	390	-
Canada	-	-	2	-
Held for trading securities total	**46,255**	**-**	**22,322**	**-**
Hungary	17,100	-	15,879	-
Luxembourg	5,180	-	4,779	-
Securities mandatorily measured at fair value through profit or loss	**22,280**	**-**	**20,658**	**-**
Securities total	**3,003,179**	**(1,443)**	**2,928,342**	**(1,668)**

NOTE 34: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

34.2. Maturity analysis of assets and liabilities and liquidity risk

Liquidity risk is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments. The Bank maintains its liquidity profiles in accordance with regulations laid down by the NBH.

The essential aspect of the liquidity risk management strategy is to identify all relevant systemic and idiosyncratic sources of liquidity risk and to measure the probability and severity of such events. During liquidity risk management the Bank considers the effect of liquidity risk events caused by reasons arising in the bank business line (deposit withdrawal), the national economy (exchange rate shock, yield curve shock) and the global financial system (capital market shock).

In line with the Bank's risk management policy liquidity risks are measured and managed on multiply hierarchy levels and applying integrated unified VaR based methodology. The basic requirement is that the Bank must keep high quality liquidity reserves by means it can fulfil all liabilities when they fall due without material additional costs.

The liquidity reserves can be divided into two parts. There are separate decentralized liquid asset portfolios at subsidiary level and a centralized flexible liquidity pool at Group level. The reserves at subsidiary levels are held to cover the relevant shocks of the subsidiaries which may arise in local currencies (deposit withdrawal, local capital market shock, unexpected business expansion), while the centralized liquidity pool is held to cover the OTP Bank's separate shocks (deposit-, yield curve- and exchange rate shocks) and all group member's potential shocks that may arise in foreign currencies (deposit withdrawal, capital market shock).

The recalculation of shocks is made at least quarterly while the recalibration of shock measurement models and review of the risk management methodology is an annual process. The monitoring of liquidity reserves for both centralized and decentralized liquid asset portfolio has been built into the daily reporting process.

Due to the balance sheet adjustment process (deleveraging) experienced in the last few years, the liquidity reserves of the Bank increased significantly while the liquidity risk exposure has decreased considerably. Currently the (over)coverage of risk liquidity risk exposure by high quality liquid assets is at all-time record highs. There were no material changes in the liquidity risk management process for the year ended 31 December 2019.

The following tables provide an analysis of assets and liabilities about the non-discounted cash flow into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

The contractual amounts disclosed in the maturity analyses are the contractual undiscounted cash flows like gross finance lease obligations (before deducting finance charges); prices specified in forward agreements to purchase financial assets for cash; net amounts for pay-floating/receive-fixed interest rate swaps for which net cash flows are exchanged; contractual amounts to be exchanged in a derivative financial instrument for which gross cash flows are exchanged; gross loan commitments.

Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in that statement is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the end of the period.

NOTE 34: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

34.2. Maturity analysis of assets and liabilities and liquidity risk [continued]

As at 31 December 2019	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	289,686	-	-	-	-	289,686
Placements with other banks, net of allowance for placement losses	314,057	892,859	251,037	105,782	-	1,563,735
Repo receivables	45,545	-	-	-	-	45,545
Financial assets at fair value through profit or loss	6,347	5,855	17,810	12,678	15,618	58,308
Securities at fair value through other comprehensive income	200,724	408,955	499,697	268,379	22,360	1,400,115
Loans at amortised cost	921,170	707,899	944,275	791,911	-	3,365,255
Loans mandatorily measured at fair value through profit or loss	706	1,927	11,614	16,612	-	30,859
Investment properties	-	-	-	-	2,381	2,381
Investments in subsidiaries, associates and other investments	-	-	-	-	1,542,538	1,542,538
Securities at amortised cost	16,828	84,903	895,227	399,029	-	1,395,987
Other financial assets	93,158	475	30	6	1,460	95,129
TOTAL ASSETS	**1,888,221**	**2,102,873**	**2,619,690**	**1,594,397**	**1,584,357**	**9,789,538**
Amounts due to banks and deposits from the National Bank of Hungary and other banks	477,237	17,302	202,653	40,862	-	738,054
Deposits from customers	6,407,569	121,985	28,404	15,592	-	6,573,550
Repo liabilities	20,419	-	442,202	-	-	462,621
Liabilities from issued securities	4,193	17,912	19,817	104	-	42,026
Subordinated bonds and loans	2,695	-	-	277,591	-	280,286
Financial liabilities at fair value through profit or loss	677	1,928	9,605	16,651	-	28,861
Leasing liabilities	593	3,234	8,086	1,747	-	13,660
Other financial liabilities	176,696	105	-	-	-	176,801
TOTAL LIABILITIES	**7,090,079**	**162,466**	**710,767**	**352,547**	**-**	**8,315,859**
NET POSITION[1]	**(5,201,858)**	**1,940,407**	**1,908,923**	**1,241,850**	**1,584,357**	**1,473,679**
Receivables from derivative financial instruments classified as held for trading	1,784,183	1,498,417	957,269	502,071	-	4,741,940
Liabilities from derivative financial instruments classified as held for trading	(2,271,319)	(1,202,620)	(903,040)	(396,707)	-	(4,773,686)
Net position of derivative financial instruments classified as held for trading	***(487,136)***	***295,797***	***54,229***	***105,364***	***-***	***(31,746)***
Receivables from derivative financial instruments designated as hedge accounting	238	93,792	151,536	164,409	-	409,975
Liabilities from derivative financial instruments designated as hedge accounting	(6,611)	(249,914)	(233,863)	(74,862)	-	(565,250)
Net position of derivative financial instruments designated as hedging accounting	**(6,373)**	**(156,122)**	**(82,327)**	**89,547**	**-**	**(155,275)**
Net position of derivative financial instruments total	**(493,509)**	**139,675**	**(28,098)**	**194,911**	**-**	**(187,021)**
Commitments to extend credit	1,494,508	-	-	-	-	*1,494,508*
Confirmed letters of credit	749	-	-	-	-	*749*
Factoring loan commitment	228,145	-	-	-	-	*228,145*
Bank guarantees	49,506	104,474	170,493	762,827	-	*1,087,300*
Off-balance sheet commitments	**1,772,908**	**104,474**	**170,493**	**762,827**	**-**	**2,810,702**

[1] Analysis for net position of assets and liabilities are calculated in accordance with IFRS 7, therefore certain financial instruments are presented in the earliest period in which the Bank could be required to pay. On-demand deposits are presented in the earliest (within 3 month) period category, however based on Management's discretion the Bank has appropriate liquidity reserves as maintenance and management of liquidity risk.

NOTE 34: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

34.2. Maturity analysis of assets and liabilities and liquidity risk [continued]

As at 31 December 2018	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	360,855	-	-	-	-	360,855
Placements with other banks, net of allowance for placement losses	178,639	584,616	215,106	98,526	-	1,076,887
Repo receivables	14,150	-	-	-	-	14,150
Financial assets at fair value through profit or loss	3,666	3,684	4,112	3,457	20,743	35,662
Securities at fair value through other comprehensive income	161,230	316,138	649,969	236,262	19,104	1,382,703
Loans	766,676	541,893	865,651	498,517	-	2,672,737
Investment properties	-	-	-	-	2,333	2,333
Investments in subsidiaries, associates and other investments	-	-	-	-	1,177,573	1,177,573
Securities at amortised cost	25,394	110,812	719,339	518,041	-	1,373,586
Other financial assets	40,148	217	-	-	-	40,365
TOTAL ASSETS	**1,550,758**	**1,557,360**	**2,454,177**	**1,354,803**	**1,219,753**	**8,136,851**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	247,223	19,869	149,473	41,617	-	458,182
Deposits from customers	5,606,687	86,398	32,161	16,252	-	5,741,498
Repo liabilities	21,093	-	258,761	-	-	279,854
Liabilities from issued securities	5,367	8,873	29,878	837	-	44,955
Subordinated bonds and loans	459	-	-	109,998	-	110,457
Financial liabilities at fair value through profit or loss	576	2,757	10,418	18,480	-	32,231
Other financial liabilities	99,942	-	-	-	-	99,942
TOTAL LIABILITIES	**5,981,347**	**117,897**	**480,691**	**187,184**	**-**	**6,767,119**
NET POSITION[1]	**(4,430,589)**	**1,439,463**	**1,973,486**	**1,167,619**	**1,219,753**	**1,369,732**
Receivables from derivative financial instruments classified as held for trading	2,706,784	910,253	491,372	493,496	-	4,601,905
Liabilities from derivative financial instruments classified as held for trading	(2,681,228)	(911,351)	(399,983)	(351,368)	-	(4,343,930)
Net position of derivative financial instruments classified as held for trading	***25,556***	***(1,098)***	***91,389***	***142,128***	***-***	***257,975***
Receivables from derivative financial instruments designated as hedge accounting	3,469	5,093	253,412	71,025	-	332,999
Liabilities from derivative financial instruments designated as hedge accounting	(3,215)	(163,000)	(426,646)	(32,099)	-	(624,960)
Net position of derivative financial instruments designated as hedging accounting	**254**	**(157,907)**	**(173,234)**	**38,926**	**-**	**(291,961)**
Net position of derivative financial instruments total	**25,810**	**(159,005)**	**(81,845)**	**181,054**	**-**	**(33,986)**
Commitments to extend credit	283,691	827,693	189,721	12,610	-	*1,313,715*
Bank guarantees	105,742	64,370	91,755	566,976	-	*828,843*
Off-balance sheet commitments	**389,433**	**892,063**	**281,476**	**579,586**	**-**	**2,142,558**

[1] Analysis for net position of assets and liabilities are calculated in accordance with IFRS 7, therefore certain financial instruments are presented in the earliest period in which the Bank could be required to pay. On-demand deposits are presented in the earliest (within 3 month) period category, however based on Management's discretion the Bank has appropriate liquidity reserves as maintenance and management of liquidity risk.

NOTE 34: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

34.3. Net foreign currency position and foreign currency risk

As at 31 December 2019

	USD	**EUR**	**CHF**	**Others**	**Total**
Assets[1]	257,687	1,762,176	28,949	247,647	2,296,459
Liabilities	(297,771)	(1,418,426)	(35,679)	(164,325)	(1,916,201)
Derivative financial instruments	45,528	(427,768)	6,977	(85,447)	(460,710)
Net position	**5,444**	**(84,018)**	**247**	**(2,125)**	**(80,452)**

As at 31 December 2018

	USD	**EUR**	**CHF**	**Others**	**Total**
Assets[1]	264,205	1,279,816	35,863	218,536	1,798,420
Liabilities	(280,240)	(872,965)	(26,934)	(137,730)	(1,317,869)
Derivative financial instruments	31,969	(510,272)	(8,775)	(78,002)	(565,080)
Net position	**15,934**	**(103,421)**	**154**	**2,804**	**(84,529)**

The table above provides an analysis of the Bank's main foreign currency exposures. The remaining foreign currencies are shown within 'Others'. The Bank monitors its foreign exchange position for compliance with the regulatory requirements of the NBH and its own limit system established in respect of limits on open positions. The measurement of the Bank's open its currency position involves monitoring the VaR limit on the foreign exchange exposure of the Bank.

34.4. Interest rate risk management

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk.

The majority of the Bank's interest bearing assets and liabilities are structured to match either short-term assets and short-term liabilities, or long-term assets and liabilities with repricing opportunities within one year, or long-term assets and corresponding liabilities where repricing is performed simultaneously.

In addition, the significant spread existing between the different types of interest bearing assets and liabilities enables the Bank to benefit from a high level of flexibility in adjusting for its interest rate matching and interest rate risk exposure.

The following table presents the interest repricing dates of the Bank. Variable yield assets and liabilities have been reported in accordance with their next repricing date. Fixed income assets and liabilities have been reported in accordance with their maturity.

[1] The assets category contains foreign currency investments in subsidiaries that are measured at cost, and are deducted from the net position calculation.

NOTE 34: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

34.4. Interest rate risk management [continued]

As at 31 December 2019	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest -bearing		Total		Total
ASSETS	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	
Cash, amounts due from banks and balances with the National Bank of Hungary	**3,997**	**44,924**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**216,133**	**24,632**	**220,130**	**69,556**	**289,686**
fixed interest	3,997	44,924	-	-	-	-	-	-	-	-	-	-	3,997	44,924	**48,921**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	216,133	24,632	216,133	24,632	**240,765**
Placements with other banks, net of allowance for placement losses	**279,847**	**102,963**	**409,557**	**192,520**	**182,348**	**172,320**	**27,926**	**-**	**137,228**	**30,155**	**18,324**	**6,954**	**1,055,230**	**504,912**	**1,560,142**
fixed interest	1,041	39,292	33,137	151,361	637	168,730	27,926	-	137,228	30,155	-	-	199,969	389,538	**589,507**
variable interest	278,806	63,671	376,420	41,159	181,711	3,590	-	-	-	-	-	-	836,937	108,420	**945,357**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	18,324	6,954	18,324	6,954	**25,278**
Repo receivables	**45,539**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**45,539**	**-**	**45,539**
fixed interest	45,539	-	-	-	-	-	-	-	-	-	-	-	45,539	-	**45,539**
Securities held for trading	**632**	**458**	**1**	**5,929**	**2,124**	**3,908**	**4,400**	**9,166**	**10,571**	**1,181**	**7,541**	**344**	**25,269**	**20,986**	**46,255**
fixed interest	-	458	1	5,529	2,124	3,908	4,400	9,166	10,571	1,181	-	-	17,096	20,242	**37,338**
variable interest	632	-	-	400	-	-	-	-	-	-	-	-	632	400	**1,032**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	7,541	344	7,541	344	**7,885**
Securities mandatorily measured at fair value through profit or loss	**-**	**-**	**-**	**5,180**	**-**	**-**	**-**	**-**	**-**	**-**	**17,100**	**-**	**17,100**	**5,180**	**22,280**
variable interest	-	-	-	5,180	-	-	-	-	-	-	-	-	-	5,180	**5,180**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	17,100	-	17,100	-	**17,100**
Securities at fair value through other comprehensive income	**110,186**	**9,073**	**138,245**	**6,845**	**425,639**	**2,443**	**108,947**	**93,663**	**445,303**	**123,313**	**528**	**21,792**	**1,228,848**	**257,129**	**1,485,977**
fixed interest	47,975	9,073	123,562	6,845	410,889	2,443	108,947	93,663	445,303	123,313	-	-	1,136,676	235,337	**1,372,013**
variable interest	62,211	-	14,683	-	14,750	-	-	-	-	-	-	-	91,644	-	**91,644**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	528	21,792	528	21,792	**22,320**

NOTE 34: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

34.4. Interest rate risk management [continued]

As at 31 December 2019	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest -bearing		Total		Total
ASSETS [continued]	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	
Loans measured at amortised cost	**364,375**	**50,168**	**359,263**	**273,935**	**340,900**	**1,023,840**	**30,040**	**6,595**	**646,948**	**55,290**	**113,446**	**20,538**	**1,854,972**	**1,430,366**	**3,285,338**
fixed interest	152	28,661	814	107,804	10,851	7,685	25,644	6,595	433,294	55,290	-	-	470,755	206,035	**676,790**
variable interest	364,223	21,507	358,449	166,131	330,049	1,016,155	4,396	-	213,654	-	-	-	1,270,771	1,203,793	**2,474,564**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	113,446	20,538	113,446	20,538	**133,984**
Loans mandatorily measured at fair value through profit or loss	**29,731**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**29,731**	**-**	**29,731**
variable interest	29,731	-	-	-	-	-	-	-	-	-	-	-	29,731	-	**29,731**
Securities at amortised cost	**-**	**-**	**-**	**-**	**86,578**	**-**	**38,125**	**-**	**1,322,521**	**-**	**-**	**-**	**1,447,224**	**-**	**1,447,224**
fixed interest	-	-	-	-	86,578	-	38,125	-	1,322,521	-	-	-	1,447,224	-	**1,447,224**
Other financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**80,862**	**8,620**	**80,862**	**8,620**	**89,482**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	80,862	8,620	80,862	8,620	**89,482**
Derivative financial assets	**963,211**	**434,210**	**847,077**	**359,966**	**765,879**	**460,639**	**15,461**	**273,268**	**20,355**	**85,686**	**326,585**	**206,753**	**2,938,568**	**1,820,522**	**4,759,090**
fixed interest	927,322	424,177	697,547	335,776	766,569	424,851	15,461	273,268	20,355	85,686	-	-	2,427,254	1,543,758	**3,971,012**
variable interest	35,889	10,033	149,530	24,190	(690)	35,788	-	-	-	-	-	-	184,729	70,011	**254,740**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	326,585	206,753	326,585	206,753	**533,338**

NOTE 34: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

34.4. Interest rate risk management [continued]

As at 31 December 2019	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest -bearing		Total		Total
LIABILITIES	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	
Amounts due to banks and deposits from the National Bank of Hungary and other banks	**285,808**	**189,729**	**65,914**	**76,986**	**4,820**	**17,091**	**1,102**	**-**	**94,949**	**-**	**8**	**1,647**	**452,601**	**285,453**	**738,054**
fixed interest	231,909	83,070	65,914	3,430	4,820	5,053	1,102	-	94,949	-	-	-	398,694	91,553	**490,247**
variable interest	53,899	106,659	-	73,556	-	12,038	-	-	-	-	-	-	53,899	192,253	**246,152**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	8	1,647	8	1,647	**1,655**
Repo liabilities	**20,574**	**-**	**-**	**-**	**-**	**-**	**263,554**	**178,493**	**-**	**-**	**-**	**-**	**284,128**	**178,493**	**462,621**
fixed interest	20,574	-	-	-	-	-	263,554	178,493	-	-	-	-	284,128	178,493	**462,621**
Financial liabilities designated to measure at fair value through profit or loss	**28,861**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**28,861**	**-**	**28,861**
fixed interest	102	-	-	-	-	-	-	-	-	-	-	-	102	-	**102**
variable interest	28,759	-	-	-	-	-	-	-	-	-	-	-	28,759	-	**28,759**
Deposits from customers	**5,210,837**	**1,059,229**	**170,649**	**19,293**	**92,329**	**10,290**	**215**	**-**	**-**	**-**	**7,192**	**3,516**	**5,481,222**	**1,092,328**	**6,573,550**
fixed interest	392,749	124,384	170,649	19,293	92,329	10,290	215	-	-	-	-	-	655,942	153,967	**809,909**
variable interest	4,818,088	934,845	-	-	-	-	-	-	-	-	-	-	4,818,088	934,845	**5,752,933**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	7,192	3,516	7,192	3,516	**10,708**
Liabilities from issued securities	**16,708**	**552**	**12,565**	**1,265**	**4,728**	**1,936**	**3,451**	**-**	**2,079**	**-**	**-**	**-**	**39,531**	**3,753**	**43,284**
fixed interest	218	-	-	-	3,282	-	3,451	-	2,079	-	-	-	9,030	-	**9,030**
variable interest	16,490	552	12,565	1,265	1,446	1,936	-	-	-	-	-	-	30,501	3,753	**34,254**
Subordinated bonds and loans	**-**	**-**	**-**	**112,792**	**-**	**166,602**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**279,394**	**279,394**
variable interest	-	-	-	112,792	-	166,602	-	-	-	-	-	-	-	279,394	**279,394**
Leasing liabilities	**62**	**136**	**123**	**272**	**1,107**	**2,126**	**1,147**	**1,702**	**4,399**	**2,586**	**-**	**-**	**6,838**	**6,822**	**13,660**
fixed interest	62	136	123	272	1,107	2,126	1,147	1,702	4,399	2,586	-	-	6,838	6,822	**13,660**
Other financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**139,657**	**51,434**	**139,657**	**51,434**	**191,091**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	139,657	51,434	139,657	51,434	**191,091**
Derivative financial liabilities	**1,272,904**	**127,050**	**829,127**	**357,480**	**623,979**	**588,255**	**281,358**	**8,783**	**36,475**	**72,359**	**278,557**	**255,503**	**3,322,400**	**1,409,430**	**4,731,830**
fixed interest	1,222,356	121,202	688,335	341,669	624,021	567,255	281,358	8,783	36,475	72,148	-	-	2,852,545	1,111,057	**3,963,602**
variable interest	50,548	5,848	140,792	15,811	(42)	21,000	-	-	-	211	-	-	191,298	42,870	**234,168**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	278,557	255,503	278,557	255,503	**534,060**
NET POSITION	**(5,063,201)**	**(734,900)**	**675,765**	**276,287**	**1,076,505**	**876,850**	**(62,374)**	**372,207**	**2,445,024**	**220,680**	**355,105**	**(22,467)**	**(573,176)**	**988,657**	**415,481**

NOTE 34: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

34.4. Interest rate risk management [continued]

As at 31 December 2018	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest - bearing		Total		Total
ASSETS	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	
Cash, amounts due from banks and balances with the National Bank of Hungary	**26,894**	**117,623**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**197,766**	**18,572**	**224,660**	**136,195**	**360,855**
fixed interest	26,894	117,623	-	-	-	-	-	-	-	-	-	-	26,894	117,623	**144,517**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	197,766	18,572	197,766	18,572	**216,338**
Placements with other banks, net of allowance for placement losses	**130,405**	**60,039**	**487,764**	**65,592**	**51,692**	**75,304**	**1,151**	**3,208**	**131,682**	**25,597**	**31,174**	**11,232**	**833,868**	**240,972**	**1,074,840**
fixed interest	4,401	12,062	27,509	46,364	22,371	73,711	1,151	3,208	131,682	25,597	-	-	187,114	160,942	**348,056**
variable interest	126,004	47,977	460,255	19,228	29,321	1,593	-	-	-	-	-	-	615,580	68,798	**684,378**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	31,174	11,232	31,174	11,232	**42,406**
Repo receivables	**14,139**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**14,139**	**-**	**14,139**
fixed interest	14,139	-	-	-	-	-	-	-	-	-	-	-	14,139	-	**14,139**
Securities held for trading	**197**	**564**	**1,510**	**112**	**6,879**	**5,521**	**-**	**-**	**-**	**-**	**7,244**	**295**	**15,830**	**6,492**	**22,322**
fixed interest	2	-	67	112	4,910	5,521	-	-	-	-	-	-	4,979	5,633	**10,612**
variable interest	195	564	1,443	-	1,969	-	-	-	-	-	-	-	3,607	564	**4,171**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	7,244	295	7,244	295	**7,539**
Securities mandatorily measured at fair value through profit or loss	**-**	**4,778**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**15,880**	**-**	**15,880**	**4,778**	**20,658**
variable interest	-	4,778	-	-	-	-	-	-	-	-	-	-	-	4,778	**4,778**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	15,880	-	15,880	-	**15,880**
Securities at fair value through other comprehensive income	**68,525**	**5,464**	**141,848**	**30,405**	**366,647**	**1,930**	**242,827**	**18,083**	**355,750**	**201,051**	**566**	**18,809**	**1,176,163**	**275,742**	**1,451,905**
fixed interest	48,869	5,464	60,908	17,549	320,053	1,930	242,827	18,083	355,750	201,051	-	-	1,028,407	244,077	**1,272,484**
variable interest	19,656	-	80,940	12,856	46,594	-	-	-	-	-	-	-	147,190	12,856	**160,046**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	566	18,809	566	18,809	**19,375**
Loans at amortised cost	**86,826**	**131,383**	**557,742**	**865,556**	**45,658**	**61,812**	**22,359**	**1,752**	**635,415**	**45,254**	**98,355**	**19,867**	**1,446,355**	**1,125,624**	**2,571,979**
fixed interest	2,588	125,609	628	1,268	14,922	10,847	20,092	1,752	627,631	45,254	-	-	665,861	184,730	**850,591**
variable interest	84,238	5,774	557,114	864,288	30,736	50,965	2,267	-	7,784	-	-	-	682,139	921,027	**1,603,166**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	98,355	19,867	98,355	19,867	**118,222**

NOTE 34: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

34.4. Interest rate risk management [continued]

As at 31 December 2018	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest -bearing		Total		Total
ASSETS [continued]	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	
Loans mandatorily measured at fair value through profit or loss	**32,741**	**-**	**4**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**32,745**	**-**	**32,745**
variable interest	32,741	-	4	-	-	-	-	-	-	-	-	-	32,745	-	**32,745**
Securities at amortised cost	**-**	**-**	**5,063**	**-**	**114,843**	**-**	**87,284**	**-**	**1,224,599**	**-**	**-**	**-**	**1,431,789**	**-**	**1,431,789**
fixed interest	-	-	5,063	-	114,843	-	87,284	-	1,224,599	-	-	-	1,431,789	-	**1,431,789**
Other financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**36,245**	**4,120**	**36,245**	**4,120**	**40,365**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	36,245	4,120	36,245	4,120	**40,365**
Derivative financial assets	**842,720**	**477,551**	**906,538**	**442,944**	**645,964**	**447,835**	**19,192**	**264,144**	**21,335**	**86,116**	**234,159**	**126,585**	**2,669,908**	**1,845,175**	**4,515,083**
fixed interest	814,446	475,487	756,961	409,011	643,141	409,508	19,192	264,144	21,335	86,116	-	-	2,255,075	1,644,266	**3,899,341**
variable interest	28,274	2,064	149,577	33,933	2,823	38,327	-	-	-	-	-	-	180,674	74,324	**254,998**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	234,159	126,585	234,159	126,585	**360,744**

NOTE 34: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

34.4. Interest rate risk management [continued]

As at 31 December 2018	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest -bearing		Total		Total
LIABILITIES	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	
Amounts due to banks and deposits from the National Bank of Hungary and other banks	**142,166**	**122,668**	**4,153**	**55,330**	**1,152**	**22,846**	**1,514**	**-**	**98,302**	**280**	**8,593**	**1,178**	**255,880**	**202,302**	**458,182**
fixed interest	115,278	27,499	4,153	16,450	1,152	2,798	1,514	-	98,302	280	-	-	220,399	47,027	**267,426**
variable interest	26,521	95,026	-	38,880	-	20,048	-	-	-	-	-	-	26,521	153,954	**180,475**
non-interest-bearing	367	143	-	-	-	-	-	-	-	-	8,593	1,178	8,960	1,321	**10,281**
Repo liabilities	**1,804**	**19,289**	**-**	**-**	**-**	**-**	**258,761**	**-**	**-**	**-**	**-**	**-**	**260,565**	**19,289**	**279,854**
fixed interest	1,804	19,289	-	-	-	-	258,761	-	-	-	-	-	260,565	19,289	**279,854**
Financial liabilities at fair value through profit or loss	**32,231**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**32,231**	**-**	**32,231**
fixed interest	127	-	-	-	-	-	-	-	-	-	-	-	127	-	**127**
variable interest	32,104	-	-	-	-	-	-	-	-	-	-	-	32,104	-	**32,104**
Deposits from customers	**776,851**	**186,738**	**137,071**	**66,001**	**43,433**	**21,122**	**316**	**-**	**3,878,011**	**628,739**	**1,026**	**2,190**	**4,836,708**	**904,790**	**5,741,498**
fixed interest	409,363	121,045	137,071	66,001	43,433	21,122	316	-	3,878,011	628,739	-	-	4,468,194	836,907	**5,305,101**
variable interest	367,488	65,693	-	-	-	-	-	-	-	-	-	-	367,488	65,693	**433,181**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	1,026	2,190	1,026	2,190	**3,216**
Liabilities from issued securities	**23,609**	**838**	**12,114**	**1,903**	**4,211**	**2,094**	**780**	**-**	**1,145**	**-**	**-**	**-**	**41,859**	**4,835**	**46,694**
fixed interest	-	-	-	-	2,156	-	780	-	1,145	-	-	-	4,081	-	**4,081**
variable interest	23,609	838	12,114	1,903	2,055	2,094	-	-	-	-	-	-	37,778	4,835	**42,613**
Subordinated bonds and loans	**-**	**-**	**-**	**110,454**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**110,454**	**110,454**
variable interest	-	-	-	110,454	-	-	-	-	-	-	-	-	-	110,454	**110,454**
Other financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**88,899**	**11,043**	**88,899**	**11,043**	**99,942**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	88,899	11,043	88,899	11,043	**99,942**
Derivative financial liabilities	**1,100,223**	**222,002**	**963,409**	**364,545**	**615,478**	**473,561**	**273,251**	**14,581**	**39,921**	**60,613**	**219,675**	**133,304**	**3,211,957**	**1,268,606**	**4,480,563**
fixed interest	1,072,047	212,543	823,305	341,397	613,026	441,110	273,251	14,581	39,921	60,613	-	-	2,821,550	1,070,244	**3,891,794**
variable interest	28,176	9,459	140,104	23,148	2,452	32,451	-	-	-	-	-	-	170,732	65,058	**235,790**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	219,675	133,304	219,675	133,304	**352,979**
NET POSITION	**(886,772)**	**265,156**	**983,722**	**806,376**	**567,409**	**72,779**	**96,952**	**272,606**	**(1,648,598)**	**(331,614)**	**303,196**	**51,765**	**(584,091)**	**1,137,068**	**552,977**

NOTE 34: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

34.5. Market risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Bank applies a Value-at-Risk ("VaR") methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Management Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis. (Analysis of liquidity risk, foreign currency risk and interest rate risk is detailed in Notes 34.2, 34.3 and 34.4 respectively.)

34.5.1. Market risk sensitivity analysis

The VaR risk measure estimates the potential loss in pre-taxation profit over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99% VaR number used by the Group reflects the 99% probability that the daily loss will not exceed the reported VaR.

VaR methodologies are employed to calculate daily risk numbers include the historical and variance-covariance approaches. In addition to these two methodologies, Monte Carlo simulations are applied to the various portfolios on a monthly basis to determine potential future exposure.

The VaR of the trading portfolio can be summarized as follows (in HUF mn):

Historical VaR (99%, one-day) by risk type	**Average**	
	2019	**2018**
Foreign exchange	337	430
Interest rate	97	134
Equity instruments	21	33
Diversification	-	-
Total VaR exposure	**455**	**597**

While VaR captures the OTP's daily exposure to currency and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year. The longer time frame of sensitivity analysis complements VaR and helps the OTP to assess its market risk exposures. Details of sensitivity analysis for foreign currency risk are set out in Note 34.5.2., for interest rate risk in Note 34.5.3., and for equity price sensitivity analysis in Note 34.5.4.

34.5.2. Foreign currency sensitivity analysis

The following table details the OTP's sensitivity to an increase and decrease in the HUF exchange rate against the EUR and USD, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign activities. The strategic open position related to the foreign operations was EUR (310) million as of 31 December 2019. The strategic EUR open FX position kept to hedge the currency risk of the expected FX-denominated net earnings of the main foreign subsidiaries. High portion of strategic positions are considered as effective hedge of future profit inflows of foreign subsidiaries, and so FX risk alters the bank's capital and not its earnings.[1] A positive number below indicates an increase in profit where the HUF strengthens against the EUR. For a weakening of the HUF against the EUR, there would be an equal and opposite impact on the profit, and the balances below would be negative.

[1] Significant events after the reporting period related to strategic open position please see Note 44.

NOTE 34: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

34.5. Market risk [continued]

34.5.2. Foreign currency sensitivity analysis [continued]

Probability	Effects to the P&L in 3 months period 2019 In HUF billion	2018 In HUF billion
1%	(12.2)	(12.2)
5%	(8.4)	(8.3)
25%	(3.5)	(3.5)
50%	(0.4)	(0.4)
25%	2.6	2.6
5%	6.8	6.7
1%	9.7	9.6

Notes:
(1) The short term loss on the strategic open position is compensated by the long-term exchange rate gain on the foreign operations.
(2) Monte Carlo simulation is based on the empirical distribution of the historical exchange rate movements between 2002 and 2019.

34.5.3. Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. The analysis is prepared assuming the amount of assets and liabilities outstanding at the balance sheet date were outstanding for the whole year. The analysis was prepared by assuming only the adverting interest rate changes. The main assumptions were as follows:

- Floating-rate assets and liabilities were repriced to the modeled benchmark yields at the repricing dates assuming the unchanged margin compared to the last repricing.
- Fixed-rate assets and liabilities were repriced at the contractual maturity date.
- As for liabilities with discretionary repricing feature by the Bank were assumed to be repriced with two-weeks delay, assuming no change in the margin compared to the last repricing date.
- The assets and liabilities with interest rate lower than 0.3% assumed to be unchanged during the whole period.

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

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

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

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

Description	2019 Effects to the net interest income (one-year period)	2019 Effects to shareholder's equity (Price change of FVOCI government bonds)	2018 Effects to the net interest income (one-year period)	2018 Effects to shareholder's equity (Price change of FVOCI government bonds)
HUF (0.1%) parallel shift	(1,793)	558	(1,662)	671
EUR (0.1%) parallel shift	(673)	-	(93)	-
USD (0.1%) parallel shift	(104)	-	(40)	-
Total	**(2,570)**	**558**	**(1,795)**	**671**

NOTE 34: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

34.5. Market risk [continued]

34.5.4. Equity price sensitivity analysis

The following table shows the effect of the equity price sensitivity. The Group uses VaR calculation with 1 day holding period and 99% confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. The daily loss will not exceed the reported VaR number with 99% of probability.

The stress test assumes the largest price movement of the last year and calculates with it as the adverse direction. These scenario shows the loss of the portfolio when all prices change with the maximum amount of the last year.

Description	2019	2018
VaR (99%, one day, million HUF)	21	33
Stress test (million HUF)	(52)	(43)

34.6. Capital management

Capital management

The primary objective of the capital management of the Bank is to ensure the prudent operation, the entire compliance with the prescriptions of the regulator for a persistent business operation and maximising the shareholder value, accompanied by an optimal financing structure.

The capital management of the Bank includes the management and evaluation of the shareholders` equity available for hedging risks, other types of funds to be recorded in the equity and all material risks to be covered by the capital.

The basis of the capital management of the Bank in the short run is the continuous monitoring of its capital position, in the long run the strategic and the business planning, which includes the monitoring and forecast of the capital position of the Bank.

The Bank maintains the capital adequacy required by the regulatory bodies and the planned risk taking mainly by means of ensuring and developing its profitability. In case the planned risk level of the Bank exceeded its Core and Supplementary capital, the Bank ensures the prudent operation by occasional measures. A further tool in the capital management of the Bank is the dividend policy, and the transactions performed with the treasury shares.

Capital adequacy

The Capital Requirements Directive package (CRDIV/CRR) transposes the global standards on banking regulation (commonly known as the Basel III agreement) into the EU legal framework. The rules are applied from 1 January 2014. They set stronger prudential requirements for institutions, requiring them to keep sufficient capital reserves and liquidity. This framework makes institutions in the EU more solid and strengthens their capacity to adequately manage the risks linked to their activities, and absorb any losses they may incur in doing business.

The Bank has entirely complied with the regulatory capital requirements in 2019 as well as in 2018.

The Bank's capital adequacy calculation is in line with IFRS and based on Basel III as at 31 December 2019 and 2018. The Bank uses the standard method for determining the regulatory capital requirements of the credit risk and market risk while in case of the operational risk the Advanced Measurement Approach (AMA).

NOTE 34: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

34.6. Capital management [continued]

Capital adequacy [continued]

The calculation of the Capital Adequacy ratio as at 31 December 2019 and 2018 is as follows:

	2019 Basel III	**2018 Basel III**
Tier 1 capital	1,559,656	1,433,839
Common equity Tier 1 capital (CET1)	*1,559,656*	*1,433,839*
Additional Tier 1 capital (AT1)	-	-
Tier 2 capital	276,699	109,994
Regulatory capital	**1,836,355**	**1,543,833**
Credit risk capital requirement	511,588	401,989
Market risk capital requirement	9,628	9,263
Operational risk capital requirement	31,569	26,466
Total requirement regulatory capital	**552,785**	**437,718**
Surplus capital	**1,283,570**	**1,106,115**
CET 1 ratio	22.57%	26.21%
Capital adequacy ratio	**26.58%**	**28.22%**

Basel III:

Common equity Tier 1 capital (CET1):

Issued capital, Capital reserve, useable part of Tied-up reserve, General reserve, Profit reserve, Profit for the year, Treasury shares, Intangible assets, deductions due to investments, adjustments due to temporary disposals

Tier 2 capital:

Subsidiary loan capital, Subordinated loan capital, deductions due to repurchased loan capital and Subordinated loan capital issued by the OTP Bank, adjustments due to temporary disposals.

NOTE 35: TRANSFER AND RECLASSIFICATION OF FINANCIAL INSTRUMENTS (in HUF mn)

Reclassification from securities held-for-trading to securities measured at fair value through other comprehensive income

in HUF million

Date of reclassification	Reason for reclassification	Type of securities	Nominal value at reclassification	Fair value at the date of reclassification	EIR at the date of reclassification	Interest income
1 September 2018	Change in business model	retail Hungarian government bonds	66,506	66,484	2%-6.4%	643

During the year 2018, securities issued by the Hungarian Government with the nominal value of HUF 66.506 million were transferred from the trading portfolio to the securities measured at fair value through other comprehensive income. The Bank has previously held retail government bonds in the portfolio measured at fair value through other comprehensive income. During 2018 the Bank changed the business model of the retail government bonds to manage all on the basis of a single business model aimed at collecting the future contractual cash flows and/or selling them.

In 2018, the terms and conditions of sale of retail government bonds and the pricing environment have changed significantly, as a result of which the Bank is no longer able to maintain its sole trading intent with these securities that the Bank applied earlier. Furthermore there is an option-agreement between the Bank and the Government Debt Management Agency ("GDMA") that GDMA will buy back this portfolio therefore it has been reclassified.

Financial assets transferred but not derecognised

	2019		2018	
	Transferred assets Carrying amount	Associated liabilities Carrying amount	Transferred assets Carrying amount	Associated liabilities Carrying amount
Financial assets at fair value through other comprehensive income				
Debt securities	110	111	19,105	19,290
Total:	**110**	**111**	**19,105**	**19,290**
Financial assets at amortised cost				
Debt securities	438,846	462,510	261,824	260,362
Total:	**438,846**	**462,510**	**261,824**	**260,362**
Total:	**438,956**	**462,621**	**280,929**	**279,652**

As at 31 December 2019 and 2018, the Bank had obligation from repurchase agreements about HUF 439 billion and HUF 280 billion respectively. Securities sold temporarily under repurchase agreements will continue to be recognized in the Statement of Financial Position of the Bank in the appropriate securities category. The related liability is measured at amortized cost in the Statement of Financial Position as 'Amounts due to banks and deposits from the National Bank of Hungary and other banks'. Under these repurchase agreements only Hungarian and foreign government bonds were transferred.

NOTE 36: OFF-BALANCE SHEET ITEMS (in HUF mn)

In the normal course of business, the Bank becomes a party to various financial transactions that are not reflected on the statement of financial position and are referred to as off-balance sheet financial instruments. The following represents notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

Contingent liabilities and commitments

	2019	**2018**
Loan commitments	1,494,508	1,313,715
Guarantees arising from banking activities	1,087,300	828,843
from this: Payment undertaking liabilities (related to issue of mortgage bonds) of OTP Mortgage Bank	558,100	*472,213*
Factoring loan commitments	228,145	179,448
Confirmed letters of credit	749	96
Contingent liabilities and commitments total in accordance with IFRS 9	**2,810,702**	**2,322,102**
Legal disputes (disputed value)	5,233	3,772
Other	19,807	12,459
Contingent liabilities and commitments total in accordance with IAS 37	**25,040**	**16,231**
Total	**2,835,742**	**2,338,333**

Legal disputes

At the balance sheet date the Bank was involved in various claims and legal proceedings of a nature considered normal to its business. The level of these claims and legal proceedings corresponds to the level of claims and legal proceedings in previous years.

The Bank believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation.
Provision due to legal disputes was HUF 663 million and HUF 691 million as at 31 December 2019 and 2018, respectively. (See Note 23)

Commitments to extend credit, guarantees and letter of credit

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans. The Management of the Bank believes the market risk associated with guarantees, irrevocable letters of credit and undrawn loan commitments are minimal.

NOTE 36: OFF-BALANCE SHEET ITEMS (in HUF mn) [continued]

Guarantees, payment undertakings arising from banking activities

Payment undertaking is a promise by the Bank to assume responsibility for the debt obligation of a borrower if that borrower defaults until a determined amount and until a determined date, in case of fulfilling conditions, without checking the underlying transactions. The guarantee's liability is joint and primary with the principal, in case of payment undertaking, while the Bank assumes the obligation derived from guarantee independently by the conditions established by the Bank. A guarantee is most typically required when the ability of the primary obligor or principal to perform its obligations under a contract is in question, or when there is some public or private interest which requires protection from the consequences of the principal's default or delinquency. A contract of guarantee is subject to the statute of frauds (or its equivalent local laws) and is only enforceable if recorded in writing and signed by the surety and the principal.

If the surety is required to pay or perform due to the principal's failure to do so, the law will usually give the surety a right of subrogation, allowing the surety to use the surety's contractual rights to recover the cost of making payment or performing on the principal's behalf, even in the absence of an express agreement to that effect between the surety and the principal.

Contingent liabilities related to OTP Mortgage Bank Ltd.

Under a syndication agreement with its wholly owned subsidiary, OTP Mortgage Bank Ltd., the Bank had guaranteed, in return for an annual fee, to purchase all mortgage loans held by OTP Mortgage Bank Ltd. that become non-performing. The repurchase guarantee contract of non-performing loans between OTP Mortgage Bank Ltd. and OTP Bank Plc. was modified in 2010. According to the new arrangement the repurchase guarantee was cancelled and OTP Bank Plc. gives bail to the loans originated or purchased by the Bank.

NOTE 37: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF mn)

Previously approved option program required a modification thanks to the introduction of the Bank Group Policy on Payments accepted in resolution of Annual General Meeting regarding to the amendment of CRD III. Directives and Act on Credit Institutions and Financial Enterprises.

Key management personnel affected by the Bank Group Policy receive compensation based on performance assessment generally in the form of cash bonus and equity shares in a ratio of 50-50%. Assignment is based on OTP shares, furthermore performance based payments are deferred in accordance with the rules of Credit Institutions Act.

OTP Bank ensures the share-based payment part for the management personnel of OTP Group members.

During implementation of the Remuneration Policy of the Group it became apparent that in case of certain foreign subsidiaries it is not possible to ensure the originally determined share-based payment because of legal reasons – incompatible with relevant EU-directives –, therefore a decision was made to cancel the share-based payment in affected countries, and virtual share based payment – cash payment fixed to share price - was made from 2017.

The quantity of usable shares for individuals calculated for settlement of share-based payment shall be determined as the ratio of the amount of share-based payment and share price determined by Supervisory Board[1].

The value of the share-based payment at the performance assessment is determined within 10 days by Supervisory Board based on the average of the three previous trade day's middle rate of OTP Bank's equity shares fixed on the Budapest Stock Exchange.

At the same time the conditions of discounted share-based payment are determined, and share-based payment shall contain maximum HUF 2,000 discount at the assessment date, and earnings for the shares at the payment date is maximum HUF 4,000.

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment. IAS 19 Employee Benefits shall be applied in accounting for all employee benefits, except those to which IFRS 2 Share-based Payment applies. In case of the jubilee benefits both standards contain regulations.

[1] Until the end of 2014 Board of Directors

NOTE 37: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF mn) [continued]

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Post-employment benefits are employee benefits (other than termination and short-term employee benefits) that are payable after the completion of employment. Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees. Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions.

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either: an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. Other long-term employee benefits are all employee benefits other than short-term employee benefits, postemployment benefits and termination benefits.

The parameters for the share-based payment relating to the year 2014 were determined by Board of Directors for periods of each year as follows:

Year	Share purchasing at a discounted price	
	Exercise price	Maximum earnings per share
	HUF per share	
	for the year 2014	
2014	-	-
2015	3,930	2,500
2016	3,930	3,000
2017	3,930	3,000
2018	3,930	3,000

The parameters for the share-based payment relating to the years from 2015 by Supervisory Board for periods of each year as follows:

Year	Share purchasing at a discounted price		Price of remuneration exchanged to share	Share purchasing at a discounted price		Price of remuneration exchanged to share	Share purchasing at a discounted price		Price of remuneration exchanged to share
	Exercise price	Maximum earnings per share		Exercise price	Maximum earnings per share		Exercise price	Maximum earnings per share	
					HUF per share				
		for the year 2015			**for the year 2016**			**for the year 2017**	
2016	4,892	2,500	6,892	-	-	-	-	-	-
2017	4,892	3,000	6,892	7,200	2,500	9,200	-	-	-
2018	4,892	3,000	6,892	7,200	3,000	9,200	8,064	3,000	10,064
2019	4,892	3,000	6,892	7,200	3,500	9,200	8,064	3,500	10,064
2020	-	-	-	7,200	4,000	9,200	8,064	4,000	10,064
2021	-	-	-	-	-	-	8,064	4,000	10,064
2022	-	-	-	-	-	-	8,064	4,000	10,064

Year	Share purchasing at a discounted price		Price of remuneration exchanged to share
	Exercise price	Maximum earnings per share	
		HUF per share	
		for the year 2018	
2019	10,413	4,000	12,413
2020	10,413	4,000	12,413
2021	10,413	4,000	12,413
2022	10,913	4,000	12,413
2023	10,913	4,000	12,413
2024	10,913	4,000	12,413
2025	10,913	4,000	12,413

NOTE 37: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF mn) [continued]

Based on parameters accepted by Board of Directors, relating to the year **2014** effective pieces are follows as at 31 December 2019:

	Approved pieces of shares	Exercised until 31 December 2019	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable at 31 December 2019
Share-purchasing period started in 2015	176,459	176,459	5,828	-	-
Share-purchasing period started in 2016	360,425	359,524	7,011	901	-
Share-purchasing period started in 2017	189,778	189,778	9,362	-	-
Share-purchasing period started in 2018	223,037	223,037	10,311	-	-

Based on parameters accepted by Supervisory Board, relating to the year **2015** effective pieces are follows as at 31 December 2019:

	Approved pieces of shares	Exercised until 31 December 2019	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable at 31 December 2019
Share-purchasing period started in 2016	152,247	152,247	7,373	-	-
Remuneration exchanged to share provided in 2016	10,947	10,947	6,509	-	-
Share-purchasing period started in 2017	299,758	299,758	9,403	-	-
Remuneration exchanged to share provided in 2017	20,176	20,176	9,257	-	-
Share-purchasing period started in 2018	166,047	166,047	10,238	-	-
Remuneration exchanged to share provided in 2018	9,229	9,229	10,098	-	-
Share-purchasing period started in 2019	199,215	199,215	12,025	-	-
Remuneration exchanged to share provided in 2019	9,774	9,774	11,813	-	-

Based on parameters accepted by Supervisory Board, relating to the year **2016** effective pieces are follows as at 31 December 2019:

	Approved pieces of shares	Exercised until 31 December 2019	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable at 31 December 2019
Share-purchasing period started in 2017	147,984	147,984	9,544	-	-
Remuneration exchanged to share provided in 2017	4,288	4,288	9,194	-	-
Share-purchasing period started in 2018	321,528	321,528	10,387	-	-
Remuneration exchanged to share provided in 2018	8,241	8,241	10,098	-	-
Share-purchasing period started in 2019	161,446	148,111	11,794	-	13,335
Remuneration exchanged to share provided in 2019	4,033	4,033	11,813	-	-
Share-purchasing period starting in 2020	-	-	-	-	172,356
Remuneration exchanged to share applying in 2020	-	-	-	-	4,567

NOTE 37: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF mn) [continued]

Based on parameters accepted by Supervisory Board, relating to the year **2017** effective pieces are follows as at 31 December 2019:

	Approved pieces of shares	Exercised until 31 December 2019	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable at 31 December 2019
Share-purchasing period started in 2018	108,243	108,243	11,005	-	-
Remuneration exchanged to share provided in 2018	11,926	11,926	10,098	-	-
Share-purchasing period started in 2019	216,253	198,195	12,101	-	14,087
Remuneration exchanged to share provided in 2019	26,538	26,538	11,813	-	-
Share-purchasing period starting in 2020	-	-	-	-	101,577
Remuneration exchanged to share applying in 2020	-	-	-	-	12,838
Share-purchasing period starting in 2021	-	-	-	-	120,981
Remuneration exchanged to share applying in 2021	-	-	-	-	12,838
Share-purchasing period starting in 2022	-	-	-	-	42,820
Remuneration exchanged to share applying in 2022	-	-	-	-	3,003

Based on parameters accepted by Supervisory Board, relating to the year **2018** effective pieces are follows as at 31 December 2019:

	Approved pieces of shares	Exercised until 31 December 2019	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable at 31 December 2019
Share-purchasing period started in 2019	82,854	82,854	13,843	-	-
Remuneration exchanged to share provided in 2019	17,017	17,017	11,829	-	-
Share-purchasing period starting in 2020	-	-	-	-	150,230
Remuneration exchanged to share applying in 2020	-	-	-	-	33,291
Share-purchasing period starting in 2021	-	-	-	-	74,529
Remuneration exchanged to share applying in 2021	-	-	-	-	16,167
Share-purchasing period starting in 2022	-	-	-	-	99,341
Remuneration exchanged to share applying in 2022	-	-	-	-	17,042
Share-purchasing period starting in 2023	-	-	-	-	45,155
Remuneration exchanged to share applying in 2023	-	-	-	-	4,114
Remuneration exchanged to share applying in 2024	-	-	-	-	864
Remuneration exchanged to share applying in 2025	-	-	-	-	432

Effective pieces relating to the periods starting in 2019-2025 settled during valuation of performance of year 2016-2018, can be modified based on risk assessment and personal changes.

In connection with shares given as a part of payments detailed in the *Direction Chief Executive about Remuneration of Work in OTP Bank* and the share-based compensation for Board of Directors and connecting compensation based on performance assessment accounted as equity-settled share based transactions, HUF 3,548 million was recognized as expense for the year ended 31 December 2019.

NOTE 38: RELATED PARTY TRANSACTIONS (in HUF mn)

The Bank provides loans to related parties, and collects deposits.

Transactions with related parties (subsidiaries), other than increases in share capital or dividend received, are summarized below:

38.1. Loans provided to related parties

	2019		2018	
	Gross carrying amount	**Loss allowance**	**Gross carrying amount**	**Loss allowance**
OTP Financing Malta Company Ltd. (Malta)	716,721	(4,053)	540,722	(1,715)
OTP Mortgage Bank Ltd.	676,761	(956)	508,617	(690)
Merkantil Bank Ltd.	361,671	(1,348)	303,294	(784)
OTP banka Srbija a.d. (Serbia)	123,244	(523)	41,564	(94)
Vojvodanska Banka ad Novi Sad	86,756	(347)	38,118	(126)
OTP banka Hrvatska d.d. (Croatia)	56,188	-	19,290	-
OTP Banka Slovensko a.s. (Slovakia)	47,980	(152)	12,907	(48)
OTP Real Estate Leasing Ltd.	32,936	(566)	19,752	(299)
D-ÉG Thermoset Llc.	-	-	859	(837)
Other	116,219	(310)	113,353	(534)
Total	**2,218,476**	**(8,255)**	**1,598,476**	**(5,127)**

38.2. Deposits from related parties

	2019	**2018**
DSK Bank EAD (Bulgaria)	363,072	260,921
Expressbank AD (Bulgaria)	134,235	-
JSC "OTP Bank" (Russia)	108,691	94,394
OTP Funds Servicing and Consulting Ltd.	84,035	43,132
OTP Bank Romania S.A. (Romania)	43,608	26,329
OTP Building Society Ltd.	41,383	36,424
OTP Mortgage Bank Ltd.	31,789	44,891
OTP banka Hrvatska d.d. (Croatia)	21,964	33,386
OTP Holding Ltd. / OTP Financing Ciprus Co. Ltd. (Ciprus)	17,095	11,434
OTP Factoring Ltd.	16,064	9,225
OTP Bank JSC (Ukraine)	11,493	6,429
Inga Kettő Ltd.	10,615	12,455
Crnogorska komercijalna banka a.d. (Montenegro)	8,864	12,541
Merkantil Bank Ltd.	7,289	6,746
OTP Employee Stock Ownership Program (OTP ESOP)	7,089	4,063
Other	79,699	45,672
Total	**986,985**	**648,042**

NOTE 38: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

38.3. Interests received by the Bank[1]

	2019	2018
OTP Financing Malta Company Ltd. (Malta)	15,538	9,829
Merkantil Bank Ltd.	4,621	3,996
OTP Mortgage Bank Ltd.	1,416	916
Other	1,057	718
Total	**22,632**	**15,459**

38.4. Interests paid by the Bank[1]

	2019	2018
JSC "OTP Bank" (Russia)	7,688	6,027
DSK Bank EAD (Bulgaria)	3,532	355
Expressbank AD (Bulgaria)	1,448	-
OTP Funds Servicing and Consulting Ltd.	225	208
Crnogorska komercijalna banka a.d. (Montenegro)	113	120
OTP banka Hrvatska d.d. (Croatia)	94	102
Other	373	255
Total	**13,473**	**7,067**

38.5. Commissions received by the Bank

	2019	2018
From OTP Real Estate Investment Fund Management Ltd. in relation to trading activity	4,886	3,411
From OTP Fund Management Ltd. in relation to trading activity	4,596	4,744
From OTP Building Society Ltd. (agency fee in relation to finalised customer contracts)	4,550	1,808
OTP Funds Servicing and Consulting Ltd.	512	527
OTP Mobile Service Llc.	1,656	440
From OTP Fund management Ltd. in relation to deposit services	269	341
Other	908	596
Total	**17,377**	**11,867**

38.6. Commissions paid by the Bank

	2019	2018
OTP Factoring Ltd. related to commission fee	224	248
OTP Pénzügyi Pont Ltd.	173	-
Total	**397**	**248**

38.7. Transactions related to OTP Mortgage Bank Ltd.:

	2019	2018
Fees and commissions received from OTP Mortgage Bank Ltd. relating to the loans	11,836	12,792
Loans sold to OTP Mortgage Bank Ltd. with recourse (including interest)	-	402
The gross book value of the loans sold	-	398

[1] Derivatives and interest on securities are not included.

NOTE 38: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

38.8. Transactions related to OTP Factoring Ltd.:

	2019	2018
The gross book value of the loans sold	16,410	13,654
Provision for loan losses on the loans sold	10,950	8,348
Loans sold to OTP Factoring Ltd. without recourse (including interest)	3,304	4,747
Loss on these transaction (recorded in the separate financial statements as loan and placement loss)	2,156	559

The underlying mortgage rights were also transferred to OTP Factoring Ltd.

38.9. Transactions related to OTP Banka Slovensko a.s. (Slovakia)

	2019	2018
Securities issued by OTP Banka Slovensko a.s. (Slovakia) held by OTP Bank (nominal value in HUF million)	14,873	27,328

38.10. Related party transactions with key management

The compensation of key management, such as the members of the Board of Directors, the members of the Supervisory Board and the employees involved in the decision-making process in accordance with the compensation categories defined in IAS 24 Related Party Disclosures, is summarised below:

Compensations	**2019**	**2018**
Short-term employee benefits	2,143	2,316
Share-based payment	2,732	2,431
Long-term employee benefits (on the basis of IAS 19)	304	209
Total	**5,179**	**4,956**

	2019	2018
Loans provided to companies owned by the Management (in the normal course of business)	54,325	61,692
Commitments to extend credit and bank guarantees	27,624	37,567
Credit lines of the members of Board of Directors and the Supervisory Board and their close family members (at market conditions)	-	4,450

An analysis of Credit lines "A" is as follows (in HUF mn):

	2019	2018
Members of Board of Directors and their close family members	84	84
Members of Supervisory Board and their close family members	3	4
Executive	-	117
Total	**87**	**205**

Interest	central bank base rate + 5%	central bank base rate + 5%
Handling fee	1%	1%
Collateral	income received to bank account	income received to bank account

NOTE 38: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

38.10. Related party transactions with key management [continued]

An analysis of credit limit related to MasterCard Gold is as follows (in HUF mn):

	2019	2018
Members of Board of Directors and their close family members	11	14
Executive	1	5
Total	**12**	**19**
Interest	floating, monthly	floating, monthly
Annual fee	15,834 HUF/year	15,044 HUF/year
Collateral	income received to bank account	income received to bank account

An analysis of loans related related to MasterCard Bonus is as follows (in HUF mn):

	2019	2018
Executive	-	2
Total	**-**	**2**
Interest	-	floating, monthly 2.63%
Annual fee	-	4,084 HUF/year
Collateral	-	income received to bank account

An analysis of credit limit related to Amex Gold/Mastercard Bonus Gold is as follows (in HUF mn):

	2019	2018
Members of Board of Directors and their close family members	5	2
Executive	33	35
Total	**38**	**37**
Interest	floating, monthly 2.46%	floating, monthly 2.44%
Annual fee	16,966 HUF/year	16,504 HUF/year
Collateral	income received to bank account	income received to bank account

An analysis of Amex Platinum/Visa Infinite is as follows (in HUF mn):

	2019	2018
Members of Board of Directors and their close family members	20	17
Members of Supervisory board	5	-
Executive and their close family members	69	79
Total	**94**	**96**
Interest	floating, monthly 2.49%	floating, monthly 2.47%
Annual fee	20,288 Ft/year	19,678 Ft/year
Collateral	income received to bank account	income received to bank account

NOTE 38: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

38.10. Related party transactions with key management [continued]

An analysis of Lombard loans is as follows (in HUF mn):

	2019	2018
Members of Board of Directors and their close family members	53,661	29,084
Interest	0.66%-0.76%	0.66%
Collateral	Securities bail	Securities bail
Executive and their close family members	1,419	230
Interest	1.66%-2.39%	2.39%
Collateral	Government bond, Long Term Investment Account, Shares in investment funds	Government bond, Long Term Investment Account, Shares in investment funds
Total	**55,080**	**29,314**

An analysis of Personal loans is as follows (in HUF mn):

	2019	2018
Executive	7	12
Interest	11.99%-17.99%	9.99%-11.55%
Collateral	income received to bank account	income received to bank account

An analysis of Loans distributed by OTP in its capacity of employee is as follows (in HUF mn):

	2019	2018
Executive	-	2
Interest	-	0.00%
Collateral	-	real estate

An analysis of payment to Executives related to their activity in Board of Directors and Supervisory Board is as follows (in HUF mn):

	2019	2018
Members of Board of Directors	1,310	1,119
Members of Supervisory Board	113	113
Total	**1,423**	**1,232**

In the normal course of business, OTP Bank enters into other transactions with its subsidiaries, the amounts and volumes of which are not significant to these financial statements taken as a whole.

NOTE 39: TRUST ACTIVITIES (in HUF mn)

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds. As these loans and related funds are not considered to be assets or liabilities of the Bank, they have been excluded from the accompanying separate statement of financial position.

	2019	2018
Loans managed by the Bank as a trustee	29,239	30,156

NOTE 40: CONCENTRATION OF ASSETS AND LIABILITIES

	2019	2018
In the percentage of the total assets		
Receivables from, or securities issued by the Hungarian Government or the NBH	23.18%	26.19%
Securities issued by the OTP Mortgage Bank Ltd.	1.76%	1.80%

There were no other significant concentrations of the assets or liabilities of the Bank as at 31 December 2019 or 2018.

OTP Bank continuously provides the Authority with reports on the extent of dependency on large depositors as well as the exposure of the largest 50 depositors towards OTP Bank. Further to this obligatory reporting to the Authority, OTP Bank pays particular attention on the exposure of its largest partners and cares for maintaining a closer relationship with these partners in order to secure the stability of the level of deposits.

The organisational unit of OTP Bank in charge of partner-risk management analyses the largest partners on a constant basis and sets limits on OTP Bank’s and the Group’s exposure separately partner-by-partner. If necessary, it modifies partner-limits in due course thereby reducing the room for manoeuvring of the Treasury and other business areas.

The Bank’s internal regulation (Limit-management regulation) controls risk management which related to exposures of clients. Bank makes a difference between clients or clients who are economically connected with each other, partners, partners operating in the same geographical region or in the same economic sector, exposures from customers. Limit-management regulation includes a specific range provisions system used by Bank to control risk exposures. This regulation has to be used by the Bank for its business (lending) risk-taking activity both in retail and corporate sector.

To specify credit risk limits Bank strives their clients get an acceptable margin of risk based on their financial situation. In the Bank limit system has to be provided a lower level decision-making delegation.

If an OTP group member takes risk against a client or group of clients (either inside the local economy or outside) the client will be qualified as a group level risk and these limits will be specified at group level.

The validity period of this policy is 12 months. The limit shall be reviewed prior to the expiry date but at least once a year based on the relevant information required to limit calculations.

NOTE 41: EARNINGS PER SHARE

Earnings per share attributable to the Bank's ordinary shares are determined by dividing Net profit for the year attributable to ordinary shareholders, after the deduction of declared preference dividends, by the weighted average number of ordinary shares outstanding during the year. Dilutive potential ordinary shares are deemed to have been converted into ordinary shares.

	2019	2018
Net profit for the year attributable to ordinary shareholders (in HUF mn)	193,354	173,442
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	279,697,301	279,237,071
Basic Earnings per share (in HUF)	**691**	**621**
Separate net profit for the year attributable to ordinary shareholders (in HUF mn)	193,354	173,442
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	279,721,775	279,302,400
Diluted Earnings per share (in HUF)	**691**	**621**

	2019	2018
	number of shares	
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	(302,709)	(762,939)
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	**279,697,301**	**279,237,071**
Dilutive effect of options issued in accordance with the Remuneration Policy / Management Option Program and convertible into ordinary shares[1]	24,474	65,329
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	**279,721,775**	**279,302,400**

The ICES bonds could potentially dilute basic EPS in the future, but were not included in the calculation of diluted EPS because they are antidilutive for the period presented.

[1] In 2019 and 2018 dilutive effect is in connection with the Remuneration Policy.

NOTE 42: NET GAIN OR LOSS REALISED ON FINANCIAL INSTRUMENTS (in HUF mn)

For the year ended 31 December 2019	Net interest income and expense	Net non-interest gain and loss	Loss allowance	Other comprehensive income
Financial assets measured at amortised cost				
Cash, amounts due from banks and balances with the National Bank of Hungary	1,188	-	-	-
Placements with other banks, net of allowance for placement losses	5,789	-	1,545	-
Repo receivables	95	-	(6)	-
Loans	140,223	19,674	12,352	-
Securities at amortised cost	47,119	714	(225)	-
Financial assets measured at amortised cost total	**194,414**	**20,388**	**13,666**	**-**
Financial assets measured at fair value				
Securities held for trading	231	739	-	-
Securities at fair value through other comprehensive income	40,329	8,408[1]	(176)	20,599
Loans mandatorily measured at fair value through profit or loss	654	(418)	-	-
Financial assets measured at fair value total	**41,214**	**8,729**	**(176)**	**20,599**
Financial liabilities measured at amortised cost				
Amounts due to banks and deposits from the National Bank of Hungary and other banks	(11,300)	-	-	-
Repo liabilities	(3,995)	-	-	-
Deposits from customers	(3,726)	210,822	-	-
Leasing liabilities	(244)	-	-	-
Liabilities from issued securities	(2,214)	-	-	-
Subordinated bonds and loans	(5,323)	-	-	-
Financial liabilities measured at amortised cost total	**(26,802)**	**210,822**	**-**	**-**
Financial liabilities designated to measure at fair value through profit or loss	**(367)**	**(21)**	**-**	**-**
Derivative financial instruments[2]	**(5,064)**	**3,675**	**-**	**-**
Total	**203,395**	**243,593**	**13,490**	**20,599**

[1] For the year ended 31 December 2019 HUF 8,408 million net non-interest gain on securities at fair value through other comprehensive income was transferred from other comprehensive income to profit or loss.

[2] Gains/losses from derivative financial instruments recognised in net interest income as Income similar to interest income.

NOTE 42: NET GAIN OR LOSS REALISED ON FINANCIAL INSTRUMENTS (in HUF mn) [continued]

For the year ended 31 December 2018	Net interest income and expense	Net non-interest gain and loss	Loss allowance	Other comprehensive income
Financial assets measured at amortised cost				
Cash, amounts due from banks and balances with the National Bank of Hungary	280	-	-	-
Placements with other banks, net of allowance for placement losses	6,103	-	895	-
Repo receivables	58	-	-	-
Loans	119,806	13,765	(8,002)	-
Securities at amortised cost	47,342	12,430	191	-
Financial assets measured at amortised cost total	**173,589**	**26,195**	**(6,916)**	**-**
Financial assets measured at fair value				
Securities held for trading	3,155	(2,639)	-	-
Securities at fair value through other comprehensive income	40,551	2,305[3]	(553)	(29,313)
Loans mandatorily measured at fair value through profit or loss	681	367	-	-
Financial assets measured at fair value total	**44,387**	**33**	**(553)**	**(29,313)**
Financial liabilities measured at amortised cost				
Amounts due to banks and deposits from the National Bank of Hungary and other banks	(10,105)	-	-	-
Repo liabilities	(643)	-	-	-
Deposits from customers	(4,552)	133,571	-	-
Liabilities from issued securities	(796)	-	-	-
Subordinated bonds and loans	(2,994)	-	-	-
Financial liabilities measured at amortised cost total	**(19,090)**	**133,571**	**-**	**-**
Financial liabilities designated to measure at fair value through profit or loss	**(355)**	**144**	**-**	**-**
Derivative financial instruments[4]	**11,619**	**4,224**	**-**	**-**
Total	**210,150**	**164,167**	**(7,469)**	**(29,313)**

[3] For the year ended 31 December 2018 HUF 2,305 million net non-interest gain on securities at fair value through other comprehensive income was transferred from other comprehensive income to profit or loss.

[4] Gains/losses from derivative financial instruments recognised in net interest income as Income similar to interest income.

NOTE 43: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn)

In determining the fair value of a financial asset or liability the Bank in the case of instruments that are quoted on an active market uses the market price. In most cases market price is not publicly available so the Bank has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 43. d) for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.

To provide a reliable estimate of the fair value of those financial instrument that are originally measured at amortised cost, the Bank used the discounted cash flow analysis (loans, placements with other banks, amounts due to banks, deposits from customers). The fair value of issued securities and subordinated bonds is based on quoted prices (e.g. Reuters). Cash and amounts due from banks and balances with the National Bank of Hungary represent amounts available immediately thus the fair value equals to the cost.

The assumptions used when calculating the fair value of financial assets and liabilities when using valuation technique are the following:

- the discount rates are the risk free rates related to the denomination currency adjusted by the appropriate risk premium as of the end of the reporting period,
- the contractual cash flows are considered for the performing loans and for the non-performing loans, the amortised cost less impairment is considered as fair value,
- the future cash flows for floating interest rate instruments are estimated from the yield curves as of the end of the reporting period,
- the fair value of the deposit which can be due in demand cannot be lower than the amount payable on demand.

For classes of assets and liabilities not measured at fair value in the statement of financial position, the income approach was used to convert future cash flows to a single current amount. Fair value of current assets is equal to carrying amount, fair value of liabilities from issued securities and other bond-type classes of assets and liabilities not measured at fair value measured based on Reuters market rates and, fair value of other classes not measured at fair value of the statement of financial position are measured using the discounted cash flow method. Fair value of loans, net of allowance for loan losses measured using discount rate adjustment technique, the discount rate is derived from observed rates of return for comparable assets or liabilities that are traded in the market.

Fair value measurements – in relation to instruments measured not at fair value – are categorized in level 2 of the fair value hierarchy.

NOTE 43: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

a) *Fair value of financial assets and liabilities*

	2019		2018	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash, amounts due from banks and balances with the National Bank of Hungary	289,686	289,686	360,855	360,855
Placements with other banks, net of allowance for placement losses	1,560,142	1,532,900	1,074,840	1,074,283
Repo receivables	45,539	45,546	14,139	14,138
Financial assets at fair value through profit or loss	172,229	172,229	155,042	155,042
Held for trading securities	*46,255*	*46,255*	*22,322*	*22,322*
Derivative financial instruments classified as held for trading	*103,694*	*103,694*	*112,062*	*112,062*
Securities mandatorily measured at fair value through profit or loss	*22,280*	*22,280*	*20,658*	*20,658*
Securities at fair value through other comprehensive income	1,485,977	1,485,977	1,451,905	1,451,905
Loans at amortised cost[1]	3,285,338	3,609,477	2,571,979	2,744,750
Loans mandatorily at fair value through profit or loss	29,731	29,731	32,745	32,745
Securities at amortised cost	1,447,224	1,570,899	1,431,789	1,495,025
Derivative financial instruments designated as hedging instruments	16,677	16,677	12,221	12,221
Other financial assets	89,482	89,482	40,365	40,365
FINANCIAL ASSETS TOTAL	**8,422,025**	**8,842,604**	**7,145,880**	**7,381,329**
Amounts due to banks and deposits from the National Bank of Hungary and other banks	738,054	737,235	458,182	450,303
Deposits from customers	6,573,550	6,574,041	5,741,498	5,739,024
Repo liabilities	462,621	464,901	279,854	276,641
Leasing liabilities	13,660	13,660	-	-
Liabilities from issued securities	43,284	49,282	46,694	55,199
Derivative financial instruments designated as hedging instruments	10,023	10,023	6,925	6,925
Financial liabilities at fair value through profit or loss	28,861	28,861	32,231	32,231
Held for trading derivative financial liabilities	83,088	83,088	82,838	82,838
Subordinated bonds and loans	279,394	276,838	110,454	101,648
Other financial liabilities	191,091	191,091	99,942	99,942
FINANCIAL LIABILITIES TOTAL	**8,423,626**	**8,429,020**	**6,858,618**	**6,844,751**

b) *Derivative financial instruments*

OTP Bank regularly enters into hedging transactions in order to decrease its financial risks. However some economically hedging transaction do not meet the criteria to account for hedge accounting, therefore these transactions were accounted as derivatives held for trading. Net investment hedge in foreign operations is not applicable in separate financial statements.

The assessment of the hedge effectiveness (both for fair value hedges and cash flow hedges) to determine the economic relationship between the hedged item and the hedging instrument is accomplished with prospective scenario analysis via different rate shift scenarios of the relevant risk factor(s) of the hedged risk component(s). The fair value change of the hedged item and the hedging instrument is compared in the different scenarios. Economic relationship is justified if the change of the fair value of the hedged item and the hedging instrument are in the opposite direction and the absolute changes are similar amounts. The hedge ratio is determined as the ratio of the notional of the hedged item and the notional of the hedging instrument. The sources of hedge ineffectiveness are the not hedged risk components (e.g. change of cross currency basis spreads in case of interest rate risk hedges), slight differences in maturity dates and interest payment dates in case of fair value hedges, and differences between the carrying amount of the hedged item and the carrying amount of the hedging instrument in case of FX hedges (e.g. caused by interest rate risk components in the fair value of the hedging instrument).

[1] Fair value of loans increased due to decrease of short-term and long-term interests.

NOTE 43: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

b) Derivative financial instruments [continued]

Fair value of derivative financial instruments

The Bank has the following held for trading derivatives and derivatives designated as hedge accounting:

	2019		2018	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Held for trading derivative financial instruments				
Interest rate derivatives				
Interest rate swaps	29,008	(26,622)	22,862	(21,669)
Cross currency interest rate swaps	1,141	(1,037)	17,078	(17,164)
OTC options	298	(298)	256	(256)
Forward rate agreement	13	(32)	17	(57)
Total interest rate derivatives (OTC derivatives)	**30,460**	**(27,989)**	**40,213**	**(39,146)**
From this: Interest rate derivatives cleared by central counterparty	-	*(61)*	*581*	*(142)*
Foreign exchange derivatives				
Foreign exchange swaps	31,666	(24,607)	27,705	(25,982)
Foreign exchange forward	2,538	(4,839)	2,435	(2,914)
OTC options	3,126	(3,129)	3,310	(3,377)
Foreign exchange spot conversion	18	(50)	69	(32)
Total foreign exchange derivatives (OTC derivatives)	**37,348**	**(32,625)**	**33,519**	**(32,305)**
From this: Foreign exchange derivatives cleared by central counterparty	*4,166*	*(259)*	*5,859*	*(1,741)*
Equity stock and index derivatives				
Commodity Swaps	1,213	(960)	1,883	(1,048)
Equity swaps	4,530	(558)	6,728	(568)
OTC derivatives total	**5,743**	**(1,518)**	**8,611**	**(1,616)**
Exchange traded futures and options	5	(248)	105	(965)
Total equity stock and index derivatives	**5,748**	**(1,766)**	**8,716**	**(2,581)**
Derivatives held for risk management not designated in hedge				
Interest rate swaps	23,508	(16,219)	23,495	(8,107)
Foreign exchange swaps	6,547	(4,477)	5,675	(615)
Foreign exchange spot conversion	-	-	436	(57)
Forward	8	(12)	9	(26)
Cross currency interest rate swaps	75	-	-	-
Total derivatives held for risk management not designated in hedge	**30,138**	**(20,708)**	**29,615**	**(8,805)**
From this: Total derivatives cleared by central counterparty held for risk management	*1,305*	*(6,689)*	119	(8,329)
Total Held for trading derivative financial instruments	**103,694**	**(83,088)**	**112,063**	**(82,837)**
Derivative financial instruments designated as hedge accounting				
Derivatives designated in cash flow hedges				
Interest rate swaps	9,214	-	3,751	(523)
Total derivatives designated in cash flow hedges	**9,214**	**-**	**3,751**	**(523)**
Derivatives designated in fair value hedges				
Interest rate swaps	3,758	(8,265)	4,467	(6,050)
Cross currency interest rate swaps	3,705	(1,758)	4,002	(352)
Foreign exchange swaps	-	-	-	-
Total derivatives designated in fair value hedges	**7,463**	**(10,023)**	**8,469**	**(6,402)**
From this: Total derivatives cleared by NBH held for hedging	-	*(2,886)*	*21*	*(5,057)*
Total derivatives held for risk management (OTC derivatives)	**16,677**	**(10,023)**	**12,220**	**(6,925)**

NOTE 43: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) *Hedge accounting*

Amount, timing and uncertainty of future cash flows - hedging instruments as at 31 December 2019

Type of hedge	Type of risk	Type of instrument	Within one month	Within three months and over one month	Within one year and over three months	Within five years and over one year	More than five years	Total
Fair Value Hedge	**Interest rate risk**	**Interest rate swap**						
		HUF						
		Notional	-	-	229,600	65,268	145,510	**440,378**
		Average Interest Rate (%)	-	-	1.84%	1.29%	1.26%	
		EUR						
		Notional	-	20	-	177	27	**224**
		Average Interest Rate (%)	-	3.88%	-	0.14%	0.61%	
		USD						
		Notional	-	-	8	437	29	**474**
		Average Interest Rate (%)	-	-	2.64%	1.92%	2.35%	
		RUB						
		Notional	-	-	-	2,100	-	**2,100**
		Average Interest Rate (%)	-	-	-	7.38%	-	
Fair Value Hedge	**FX & IR risk**	**Cross currency interest rate swap**						
		EUR/HUF						
		Notional	-	-	2	15	14	**31**
		Average Interest Rate (%)	-	-	(1.60%)	(1.63%)	(1.66%)	
		Average FX Rate	-	-	310.37	309.79	308.69	
Fair Value Hedge	**FX risk**	**Cross currency interest rate swap**						
		RON/HUF						
		Notional	-	-	150	1,050	-	**1,200**
		Average FX Rate	-	-	67.50	68.83	-	
		RUB/HUF						
		Notional	-	-	2,000	9,100	-	**11,100**
		Average FX Rate	-	-	4.20	4.33	-	
Fair Value Hedge	**Other**	**Interest rate swap**						
		HUF						
		Notional	-	-310	13,644	15,763	-	**29,097**
Cash flow Hedge	**Interest rate risk**	**Interest rate swap**						
		HUF						
		Notional	-	-	-	12,194	28,027	**40,221**
		Average FX Rate	-	-	-	1.77	2.46	

NOTE 43: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) Hedge accounting [continued]

Amount, timing and uncertainty of future cash flows - hedging instruments as at 31 December 2018

Type of hedge	Type of risk	Type of instrument	Within one month	Within three months and over one month	Within one year and over three months	Within five years and over one year	More than five years	Total
Fair Value Hedge	**Interest rate risk**	**Interest rate swap**						
		HUF						
		Notional	-	-	163,114	289,600	368	**453,082**
		Average Interest Rate (%)	-	-	1.72%	1.73%	1.57%	
		EUR						
		Notional	10	-	-	187	27	**224**
		Average Interest Rate (%)	6.00%	-	-	0.54%	0.58%	
		USD						
		Notional	-	-	6	400	74	**480**
		Average Interest Rate (%)	-	-	2.68%	1.91%	2.22%	
Fair Value Hedge	**FX & IR risk**	**Cross currency interest rate swap**						
		EUR/HUF						
		Notional	-	1	-2	15	16	**30**
		Average Interest Rate (%)	(1.67%)	(1.58%)	(1.70%)	(1.61%)	(1.63%)	
		Average FX Rate	306.30	310.86	304.09	309.85	308.81	
Fair Value Hedge	**FX risk**	**Cross currency interest rate swap**						
		RON/HUF						
		Notional	-	-	-	1,200	-	**1,200**
		Average FX Rate	-	-	-	68.66	-	
		RUB/HUF						
		Notional	-	-	-	7,000	-	**7,000**
		Average FX Rate	-	-	-	4.23	-	
Fair Value Hedge	**Other**	**Interest rate swap**						
		HUF						
		Notional	-	2,879	1,776	30,479	837	**35,971**
Cash flow Hedge	**Interest rate risk**	**Interest rate swap**						
		HUF						
		Notional	-	-	-	12,194	28,027	**40,221**
		Average FX Rate	-	-	-	1.77	2.46	

NOTE 43: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Hedge accounting [continued]

Derivative financial instruments designated as hedge accounting as follows:

	Type of instrument	Type of risk	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument for the year ended 2019 Assets	Liabilities	Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness for the year ended 2019
Fair value hedge							
	Interest rate swap	Interest rate risk	663,949	2,251	(8,265)	Derivative financial instruments designated as hedge accounting	341
	Cross-currency swap	FX & IR risk	9,523	-	(376)	Derivative financial instruments designated as hedge accounting	(113)
	Cross-currency swap	FX risk	137,390	3,705	(1,382)	Derivative financial instruments designated as hedge accounting	(271)
	Interest rate swap	Other	30,983	1,507	-	Derivative financial instruments designated as hedge accounting	7
Cash flow hedge							
	Interest rate swap	Interest rate risk	133,379	9,214	-	Derivative financial instruments designated as hedge accounting	(98)

	Type of risk	Carrying amount of the hedged item for the year ended 31 December 2019		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item for the year ended 31 December 2019		Line item in the statement of financial position in which the hedged item is included
		Assets	Liabilities	Assets	Liabilities	
Fair value hedges						
- Loans	***Interest rate risk***	36,709	-	521	-	Loans
- Government bonds	***Interest rate risk***	578,026	-	109	-	Securities at amortised cost
- Government bonds	***Interest rate risk***	144,234	-	1,074	-	Securities at fair value through other comprehensive income
- Government bonds	***Interest rate risk***	-	-	-	-	Financial assets at fair value through profit or loss
- Other securities	***Interest rate risk***	85,231	-	166	-	Securities at fair value through other comprehensive income
- Loans	***FX & IR risk***	10,076	-	2	-	Loans
- Loans	***FX risk***	136,088	-	1,465	-	Loans
- Other securities	***Other risk***	-	(29,018)	-	(5,765)	Liabilities from issued securities
Fair value hedges total		**990,364**	**(29,018)**	**3,337**	**(5,765)**	
Cash flow hedges						
- Loans	***Interest rate risk***	40,221	-	32	-	Loans

NOTE 43: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Hedge accounting [continued]

Derivative financial instruments designated as hedge accounting as follows:

	Type of instrument	Type of risk	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument for the year ended 2018 Assets	Liabilities	Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness for the year ended 2018
Fair value hedge							
	Interest rate swap	Interest rate risk	661,704	2,649	(6,051)	Derivative financial instruments designated as hedge accounting	1,551
	Cross-currency swap	FX & IR risk	8,982	-	(181)	Derivative financial instruments designated as hedge accounting	(149)
	Cross-currency swap	FX risk	115,060	4,003	(170)	Derivative financial instruments designated as hedge accounting	(438)
	Interest rate swap	Other	38,834	1,818	-	Derivative financial instruments designated as hedge accounting	(3)
Cash flow hedge							
	Interest rate swap	Interest rate risk	133,379	3,751	(523)	Derivative financial instruments designated as hedge accounting	(118)

	Type of risk	Carrying amount of the hedged item for the year ended 31 December 2018		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item for year ended 31 December 2018		Line item in the statement of financial position in which the hedged item is included
		Assets	Liabilities	Assets	Liabilities	
Fair value hedges						
- Loans	***Interest rate risk***	25,958	-	(162)	-	Loans
- Government bonds	***Interest rate risk***	1,236,599	-	(2,298)	-	Securities at amortised cost
- Government bonds	***Interest rate risk***	101,707	-	(280)	-	Securities at fair value through other comprehensive income
- Government bonds	***Interest rate risk***	1,891	-	(1,563)	-	Financial assets at fair value through profit or loss
- Other securities	***Interest rate risk***	185,576	-	(68)	-	Securities at fair value through other comprehensive income
- Loans	***FX & IR risk***	9,282	-	7	-	Loans
- Loans	***FX risk***	103,905	-	(590)	-	Loans
- Other securities	***Other risk***	-	(35,716)	-	5,978	Liabilities from issued securities
Fair value hedges total		**1,664,918**	**(35,716)**	**(4,954)**	**5,978**	
Cash flow hedges						
- Loans	***Interest rate risk***	40,204	-	1,100	-	Loans

NOTE 43: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Hedge accounting [continued]

31 December 2019

Type of instrument	Type of risk	Change in the value of the hedging instrument recognised in cash flow hedge reserve	Hedge ineffectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness
Interest rate swap	Interest rate risk	2,086	(98)	Interest Income from Placements with other banks, net of allowance for placement losses

31 December 2018

Type of instrument	Type of risk	Change in the value of the hedging instrument recognised in cash flow hedge reserve	Hedge ineffectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness
Interest rate swap	Interest rate risk	949	118	Interest Income from Placements with other banks, net of allowance for placement losses

d) Fair value classes

Methods and significant assumptions used to determine fair value of the different classes of financial instruments:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Fair value measurements – in relation with instruments measured not at fair value – are categorized in level 2;
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

As at 31 December 2019	**Total**	**Level 1**	**Level 2**	**Level 3**
Loans mandatorily measured at fair value through profit or loss	29,731	-	-	29,731
Financial assets at fair value through profit or loss	172,229	52,247	119,982	-
from this: securities held for trading	*46,255*	*29,961*	*16,294*	-
from this: positive fair value of derivative financial instruments classified as held for trading	*103,694*	*6*	*103,688*	-
from this: securities mandatorily measured at fair value through profit or loss	*22,280*	*22,280*	-	-
Securities at fair value through other comprehensive income	1,485,977	1,082,071	399,171	4,735
Positive fair value of derivative financial instruments designated as fair value hedge	16,677	-	16,677	-
Financial assets measured at fair value total	**1,704,614**	**1,134,318**	**535,830**	**34,466**
Financial liabilities at fair value through profit or loss	28,861	-	-	28,861
Negative fair value of derivative financial instruments classified as held for trading	83,088	249	82,839	-
Short position	7,040	7,040	-	-
Negative fair value of derivative financial instruments designated as hedge accounting	10,023	-	10,023	-
Financial liabilities measured at fair value total	**129,012**	**7,289**	**92,862**	**28,861**

NOTE 43: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) *Fair value classes [continued]*

As at 31 December 2018	Total	Level 1	Level 2	Level 3
Loans mandatorily measured at fair value through profit or loss	32,745	-	-	32,745
Financial assets at fair value through profit or loss	155,042	41,143	113,899	-
from this: securities held for trading	*22,322*	*20,380*	*1,942*	-
from this: positive fair value of derivative financial instruments classified as held for trading	*112,062*	*105*	*111,957*	-
from this: securities mandatorily measured at fair value through profit or loss	*20,658*	*20,658*	-	-
Securities at fair value through other comprehensive income	1,451,905	1,045,782	402,977	3,146
Positive fair value of derivative financial instruments designated as fair value hedge	12,221	-	12,221	-
Financial assets measured at fair value total	**1,651,913**	**1,086,925**	**529,097**	**35,891**
Financial liabilities at fair value through profit or loss	32,231	-	-	32,231
Negative fair value of derivative financial instruments classified as held for trading	82,838	965	81,873	-
Short position	13,784	13,784	-	-
Negative fair value of derivative financial instruments designated as cash flow hedge	6,925	-	6,925	-
Financial liabilities measured at fair value total	**135,778**	**14,749**	**88,798**	**32,231**

Valuation techniques and sensitivity analysis on Level 3 instruments

Sensitivity analysis is performed on products with significant unobservable inputs (Level 3) to generate a range of reasonably possible alternative valuations. The sensitivity methodologies applied take account of the nature of the valuation techniques used, as well as the availability and reliability of observable proxy and historical date and the impact of using alternative models.
The calculation is based on range or spread data of reliable reference source or a scenario based on relevant market analysis alongside the impact of using alternative models. Sensitivities are calculated without reflecting the impact of any diversification in the portfolio.

Unobservable inputs used in measuring fair value

Type of financial instrument	Valuation technique	Significant unobservable input	Range of estimates for unobservable input
VISA C shares	Market approach combined with expert judgement	Discount applied due to illiquidity and litigation	+/-12%
Loans mandatory measured at fair value through profit and loss	Discounted cash flow model	Probability of default	+/- 20%

NOTE 43: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) *Fair value classes [continued]*

The effect of unobservable inputs on fair value measurement

Although the Bank believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing the assumptions used to reasonably possible alternative assumptions would have the following effects.

31 December 2019	Fair values		Effect on profit and loss	
	Favourable	Unfavourable	Favourable	Unfavourable
VISA C shares	2,609	1,983	313	(313)
Loans mandatory measured at fair value through profit and loss	29,951	29,511	220	(220)
Total	**32,560**	**31,494**	**533**	**(533)**

31 December 2018	Fair values		Effect on profit and loss	
	Favourable	Unfavourable	Favourable	Unfavourable
VISA C shares	1,875	1,425	225	(225)
Loans mandatory measured at fair value through profit and loss	33,094	32,396	349	(349)
Total	**34,969**	**33,821**	**574**	**(574)**

The favourable and unfavourable effects of using reasonably possible alternative assumptions for the valuation of Visa C shares have been calculated by modifying the discount rate used for the valuation by +/-12% as being the best estimates of the management as at 31 December 2019 and 2018 respectively.

In the case of loans mandatory measured at fair value through profit and loss the Bank calculated the favourable and unfavourable effects of using reasonably possible alternative assumptions by modifying the rates of probability of default by +/- 20% as the most significant unobservable input.

Reconciliation of the opening and closing balances of Level 3 instruments for the year ended 31 December 2019

	Opening balance	Settlement	FVA	Closing balance
Loans at fair value through other comprehensive income	32,745	(3,557)	543	29,731
Securities mandatorily measured at fair value through profit or loss	3,146	-	1,589	4,735
Financial liabilities at fair value through profit or loss	(32,231)	3,349	21	(28,861)
Total	**3,660**	**(208)**	**2,153**	**5,605**

NOTE 44: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2019

1) **Capital increase at DSK Bank**
2) **Capital increase at OTP banka Slovensko**
3) **Financial closure of the Albanian acquisition**
4) **Acquisition in Montenegro**
5) **Acquisition in Moldova**
6) **The financial closure of OTP Bank's Serbian acquisition has been completed**
7) **Acquisition in Slovenia**
8) **Capital increase at CKB banka**
9) **Sale of Express Life Bulgaria**
10) **Capital increase in OTP Bank Romania**
11) **Capital increase at OTP Mortgage Bank Ltd.**

See details about the events in Note 10.

12) **Issued securities**

Notes have been issued at 99.738% of the face value on 15 July 2019 as value date, in the nominal amount of EUR 500 million. The 10 Non-Call 5 years Tier 2 Notes carry a fix coupon of 2.875% p.a., paid annually in the first five years. Starting from year 6 until maturity, the yearly fix coupon is calculated as the sum of the initial margin (320 basis points) and the 5 year mid-swap rate prevailing at the end of year 5. The notes are rated 'Ba1' by Moody's Investors Service Cyprus Limited. The Notes are listed on the Luxembourg Stock Exchange.

NOTE 45: SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

Sale of the Slovakian subsidiary

OTP Bank has signed with KBC Bank NV an agreement to sell its 99.44% stake in OTP Banka Slovensko a.s., the Slovakian subsidiary of OTP Bank.

Closing of the strategic open position

At the end of 2019 the Management has decided to close during 2020 the strategic open EUR (short) position, which is kept to hedge the currency risk of the expected FX-denominated net earnings of the main foreign subsidiaries.

Potential impact of COVID-19 virus

The Bank is continuously assessing the potential impact of corona virus on the social and economic environment, and the consequences of those on the lending activity and on loan portfolio performance. Based on our current knowledge it is difficult to estimate the medium and long term financial impact of the virus.