OTP BANK PLC.

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

FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2019

CONTENTS

OTP BANK PLC.
SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019 (UNAUDITED)
(in HUF mn)

	Note	30 June 2019	31 December 2018	30 June 2018
Cash, amounts due from banks and balances with the National Bank of Hungary	*4.*	420,324	360,855	298,870
Placements with other banks, net of allowance for placement losses	*5.*	1,321,424	1,074,840	1,278,831
Financial assets at fair value through profit or loss	*6.*	138,184	155,042	316,268
Securities at fair value through other comprehensive income	*7.*	1,548,907	1,451,905	1,440,613
Loans	*8.*	2,929,327	2,618,863	2,405,165
Investments in subsidiaries, associates and other investments	*9.*	1,201,535	1,177,573	970,710
Securities at amortised cost	*10.*	1,439,115	1,431,789	1,359,752
Property and equipment	*11.*	71,870	70,442	65,548
Intangible assets	*11.*	40,129	39,883	34,693
Right of use assets		14,691	-	-
Investment properties	*12.*	2,400	2,333	2,355
Deferred tax assets	*13.*	-	1,241	6,556
Derivative financial assets designated as hedge accounting	*13.*	12,630	12,221	10,035
Other assets	*13.*	129,725	109,201	93,771
TOTAL ASSETS		**9,270,261**	**8,506,188**	**8,283,167**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	*14.*	1,130,049	738,036	805,859
Deposits from customers	*15.*	6,013,073	5,741,498	5,459,156
Leasing liabilities		14,468	-	-
Liabilities from issued securities	*16.*	44,055	46,694	53,861
Financial liabilities at fair value through profit or loss	*17.*	29,924	32,231	33,166
Derivative financial liabilities designated as held for trading	*18.*	71,134	82,838	144,558
Derivative financial liabilities designated as hedge accounting	*19.*	11,135	6,925	8,889
Deferred tax liabilities	*19.*	2,771	-	-
Other liabilities	*19.*	283,355	236,570	220,807
Subordinated bonds and loans	*20.*	110,605	110,454	113,367
TOTAL LIABILITIES		**7,710,569**	**6,995,246**	**6,839,663**
Share capital	*21.*	28,000	28,000	28,000
Retained earnings and reserves	*22.*	1,535,512	1,484,906	1,421,731
Treasury shares	*23.*	(3,820)	(1,964)	(6,227)
TOTAL SHAREHOLDERS' EQUITY		**1,559,692**	**1,510,942**	**1,443,504**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**9,270,261**	**8,506,188**	**8,283,167**

OTP BANK PLC.
SEPARATE STATEMENT OF PROFIT OR LOSS FOR SIX MONTH PERIOD ENDED 30 JUNE 2019 (UNAUDITED) (in HUF mn)

	Note	Six month period ended 30 June 2019	Six month period ended 30 June 2018	Year ended 31 December 2018
Interest income calculated using the effective interest method		115,461	116,417	218,346
Interest income		40,385	33,221	75,908
Total Interest Income		**155,846**	**149,638**	**294,254**
Total Interest Expense		**(54,565)**	**(58,721)**	**(87,299)**
NET INTEREST INCOME		**101,281**	**90,917**	**206,955**
Loss allowance on loan and placement losses	*5.,8.,24.*	(9,123)	(1,996)	(7,822)
NET INTEREST INCOME AFTER LOSS ALLOWANCE ON LOAN AND PLACEMENT LOSSES		**92,158**	**88,921**	**199,133**
Income from fees and commissions	*25.*	109,559	101,792	212,556
Expenses from fees and commissions	*25.*	(14,899)	(13,881)	(34,339)
Net profit from fees and commissions		**94,660**	**87,911**	**178,217**
Foreign exchange gains		5,367	2,640	9,510
Gains on securities, net		5,319	1,711	1,960
Gains / (Losses) on financial instruments at fair value through profit or loss		543	(196)	625
Gains on derivative instruments, net		1,246	2,283	3,706
Dividend income	*9.*	78,859	68,459	68,481
Other operating income	*26.*	2,712	1,895	5,179
Net other operating expenses	*26.*	(18,039)	(3,052)	(5,023)
Net operating expense		**76,007**	**73,740**	**84,438**
Personnel expenses	*26.*	(54,174)	(47,747)	(104,819)
Depreciation and amortization	*26.*	(13,988)	(10,307)	(21,232)
Other administrative expenses	*26.*	(82,115)	(73,915)	(151,104)
Other administrative expenses		**(150,277)**	**(131,969)**	**(277,155)**
PROFIT BEFORE INCOME TAX		**112,548**	**118,603**	**184,633**
Income tax expense	*27.*	(4,641)	(5,689)	(11,191)
NET PROFIT FOR THE PERIOD		**107,907**	**112,914**	**173,442**
Earnings per share (in HUF)				
Basic	*35.*	386	405	621
Diluted	*35.*	386	405	621

OTP BANK PLC.
SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR SIX MONTH PERIOD ENDED 30 JUNE 2019 (UNAUDITED) (in HUF mn)

	Note	Six month period ended 30 June 2019	Six month period ended 30 June 2018	Year ended 31 December 2018
NET PROFIT FOR THE PERIOD		**107,907**	**112,914**	**173,442**
Items that may be reclassified subsequently to profit or loss:				
Fair value adjustment of debt instruments through other comprehensive income		9,816	(42,427)	(35,709)
Gains / (Losses) on separated currency spread of financial instruments designated as hedging instrument		697	(73)	445
Gains / (Losses) on derivative financial instruments designated as cash flow hedge		1,153	(1,122)	949
Deferred tax (9%) related to items that may be reclassified subsequently to profit or loss	*27.*	(950)	3,793	3,347
Items that will not be reclassified to profit or loss:				
Fair value adjustment of equity instruments through other comprehensive income		3,126	9,742	6,396
Deferred tax (9%) related to equity instruments at fair value through other comprehensive income	*27.*	(281)	(877)	(576)
Total		**13,561**	**(30,964)**	**(25,148)**
NET COMPREHENSIVE INCOME		**121,468**	**81,950**	**148,294**

OTP BANK PLC.
SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2019 (UNAUDITED) (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**	**1,300,734**	**70,200**	**59,444**	**(55,468)**	**(9,540)**	**1,425,257**
Effect of transition to application of IFRS 9		-	-	-	(7,507)	2,754	-	-	-	(4,753)
Balance as at 1 January 2018 in accordance with IFRS 9		**28,000**	**52**	**31,835**	**1,293,227**	**72,954**	**59,444**	**(55,468)**	**(9,540)**	**1,420,504**
Net profit for the year		-	-	-	112,914	-	-	-	-	112,914
Other comprehensive income		-	-	-	-	(30,964)	-	-	-	(30,964)
Total comprehensive income		**-**	**-**	**-**	**112,914**	**(30,964)**	**-**	**-**	**-**	**81,950**
Transfer to general reserve		-	-	-	(11,291)	-	11,291	-	-	-
Share-based payment	*31.*	-	-	1,737	-	-	-	-	-	1,737
Payments to ICES holders		-	-	-	1,024	-	-	-	-	1,024
Sale of treasury shares	*23.*	-	-	-	(3,704)	-	-	-	10,128	6,424
Loss on sale of treasury shares	*23.*	-	-	-	-	-	-	-	(6,815)	(6,815)
Dividend for the year 2017		-	-	-	(61,320)	-	-	-	-	(61,320)
Other transactions with owners		**-**	**-**	**1,737**	**(75,291)**	**-**	**11,291**	**-**	**3,313**	**(58,950)**
Balance as at 30 June 2018		**28,000**	**52**	**33,572**	**1,330,850**	**41,990**	**70,735**	**(55,468)**	**(6,227)**	**1,443,504**
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		-	-	-	107,907	-	-	-	-	107,907
Other comprehensive income		-	-	-	-	13,561	-	-	-	13,561
Total comprehensive income		**-**	**-**	**-**	**107,907**	**13,561**	**-**	**-**	**-**	**121,468**
Transfer to general reserve		-	-	-	(10,791)	-	10,791	-	-	-
Share-based payment	*31.*	-	-	1,603	-	-	-	-	-	1,603
Payments to ICES holders		-	-	-	969	-	-	-	-	969
Sale of treasury shares	*23.*	-	-	-	-	-	-	-	31,311	31,311
Acquisition of treasury shares	*23.*	-	-	-	-	-	-	-	(33,167)	(33,167)
Loss on sale of treasury shares		-	-	-	(12,114)	-	-	-	-	(12,114)
Dividend for the year 2018		-	-	-	(61,320)	-	-	-	-	(61,320)
Other transactions with owners		**-**	**-**	**1,603**	**(83,256)**	**-**	**10,791**	**-**	**(1,856)**	**(72,718)**
Balance as at 30 June 2019		**28,000**	**52**	**37,235**	**1,407,694**	**58,420**	**87,579**	**(55,468)**	**(3,820)**	**1,559,692**

OTP BANK PLC.
SEPARATE STATEMENT OF CASH-FLOWS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2019 (UNAUDITED) (in HUF mn)

	Note	Six month period ended 30 June 2019	Six month period ended 30 June 2018	Year ended 31 December 2018
OPERATING ACTIVITIES				
Profit before income tax		**112,548**	**118,603**	**184,633**
Net interest (paid) / received		(4,089)	4,703	1,586
Depreciation and amortization	*11.*	1,393	10,307	21,232
Loss allowance on loan and placement losses	*5.,8.,24.*	1,819	1,996	7,822
Release of loss allowance on securities at fair value through other comprehensive income	*7.*	(258)	(398)	(553)
Loss allowance on investments in subsidiaries	*9.*	656	(1,001)	4,436
Loss allowance on securities at amortised cost	*10.*	9,727	488	191
Release of loss allowance on other assets	*13.*	(37)	(390)	(10,078)
Provision / (Release of provision) on off-balance sheet commitments and contingent liabilities	*19.*	174	(3,445)	(4,343)
Share-based payment	*31.*	1,603	1,737	3,797
Unrealised losses / (gains) on fair value adjustment of financial instruments mandatorily at fair value through profit or loss or held for trading financial instruments		2,638	(14,986)	(13,528)
Unrealised losses on fair value adjustment of derivative financial instruments		10,503	1,385	16,903
Net changes in assets and liabilities in operating activities				
Changes in held for trading derivative and other financial assets	*6.*	(6,689)	38,690	51,078
Changes in securities mandatorily measured at fair value through profit or loss	*6.*	(200)	-	(20,658)
Changes in held for trading derivative and other financial liabilities	*6.*	(466)	3,627	6,503
Net increase in loans	*8.*	(311,421)	(269,858)	(487,561)
Decrease / (Increase) in other assets, excluding advances for investments and before provisions for losses	*13.*	20,038	(1,512)	(11,468)
Net increase in deposits from customers	*15.*	286,690	265,926	548,626
Increase in other liabilities	*19.*	44,842	25,198	46,090
Net increase in the compulsory reserve established by the National Bank of Hungary	*4.*	(3,937)	(4,677)	(6,227)
Dividend income		(5,725)	(63,197)	(63,198)
Income tax paid		(217)	-	-
Net cash provided by operating activities		**159,592**	**113,196**	**275,283**
INVESTING ACTIVITIES				
Net increase in placements with other banks before allowance for placement losses	*5.*	(244,610)	(299,503)	(95,933)
Purchase securities at fair value through other comprehensive income	*7.*	(662,154)	(286,505)	(848,937)
Proceeds from sale of securities at fair value through other comprehensive income	*7.*	583,102	550,942	1,194,838
Change in derivative financial instruments designated as hedge accounting		422	5,327	1,180
Increase in investments in subsidiaries	*9.*	(24,618)	(2,295)	(214,595)
Dividend income		(34,811)	65,569	65,570
Increase in securities at amortised cost	*10.*	(120,551)	(349,942)	(455,497)
Redemption of securities at amortised cost	*10.*	105,767	35,295	70,422
Additions to property, equipment and intangible assets	*11.*	(21,200)	(12,722)	(36,836)
Disposal of property, equipment and intangible assets	*11.*	3,442	337	3,442
Net (increase) / decrease in investment properties	*12.*	(67)	19	41
Net increase in advances for investments included in other assets	*13.*	11	48	37
Net cash used in investing activities		**(415,267)**	**(293,430)**	**(316,268)**

SEPARATE STATEMENT OF CASH-FLOWS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2019 (UNAUDITED) (in HUF mn) [continued]

	Note	Six month period ended 30 June 2019	Six month period ended 30 June 2018	Year ended 31 December 2018
FINANCING ACTIVITIES				
Net increase in amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	*14.*	390,946	125,042	57,729
Financial liabilities designated as fair value through profit or loss	*17.*	(2,965)	12,834	12,177
Cash received from issuance of securities	*16.*	8,438	4,301	8,537
Cash used for redemption of issued securities	*16.*	(11,056)	(10,744)	(22,144)
Increase in subordinated bonds and loans	*20.*	149	4,552	1,620
Payments to ICES holders	*22.*	969	1,024	(1,256)
Increase of Treasury shares	*23.*	(6,800)	(6,815)	(14,238)
Decrease of Treasury shares	*23.*	(7,170)	6,424	15,383
Dividend paid	*22.*	(61,304)	(61,315)	(61,319)
Net cash provided by / (used in) financing activities		**311,207**	**75,303**	**(3,511)**
Net increase / (decrease) in cash and cash equivalents		**55,532**	**(104,931)**	**(44,496)**
Cash and cash equivalents at the beginning of the period		303,358	347,854	347,854
Cash and cash equivalents at the end of the period[1]		**358,890**	**242,923**	**303,358**

[1] See Note 4

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 Department, 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: Attila dr. 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.

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

	30 June 2019	31 December 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 375 branches in Hungary.

Number of the employees of the Bank:

	30 June 2019	31 December 2018
Number of employees	8,906	8,721
Average number of employees	8,835	8,461

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 won't be forced to halt operations and liquidate its assets in the near term at what may be very low fire-sale prices.

The Bank maintains its accounting records and prepares 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).

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 no 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.

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 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),
- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of Material (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

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.

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

According to the Bank estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to **IAS 39: "Financial Instruments: Recognition and Measurement"** would not significantly impact the financial statements, if applied as at the balance sheet date.

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 statement 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.

Associated companies where the Bank has the ability to exercise significant influence are accounted for using the equity method.

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, mortgage bonds and Hungarian Government discounted Treasury Bills.

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 spot 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.

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 is 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.7. Derivative financial instruments designated as a fair value or cash-flow hedge [continued]

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 or the Bank revokes the designation.

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 financial instrument 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.

If 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.

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 and calculated based on fair value on equity 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 equity instruments 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 and loss allowance for loan and placement losses

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

Loans and placements with other banks are accounted at amortised cost, stated at the principal amounts outstanding including accrued interest, net of allowance for loan or placement losses, respectively. Transaction fees and charges should adjust the carrying amount at initial recognition and be included in effective interest calculation. Loans and placements with other banks 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 using effective interest rate method.

Initially financial assets shall be recognized at fair value which is usually equal to 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 and placements with other banks represent management assessment for potential losses in relation to these activities.

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. Historical loss experience is the basis for calculating the expected loss, which is adjusted by the loss confirmation period, which represents the average time lag between occurrence of a loss event and confirmation of the loss. This concept enables recognition of those losses that have occurred in the portfolio at the balance sheet date.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

At subsequent measurement the Bank recognises through "Loss allowance on loan and placement 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, in a subsequent period, the amount of the loss allowance decreases and the decrease can be related objectively to an event occurring after the loss allowance was recognised (such as an improvement in the debtor's credit rating), the previously recognised loss allowance shall be reversed by adjusting an allowance account. As a result of the reversal the carrying amount shall not exceed the amortised cost, which would be at the date of reversal, if no loss allowance had been recognised previously. 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.

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 and placement 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. A loan will be written off if it has mature or was terminated by the Bank.

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.

Loan receivables legally demanded from clients are equal to the former gross amount of the loan before the partial write-off.

2.12. 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 the Hungarian Government, 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.

2.13. 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.13. Property, equipment and intangible assets [continued]

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.

2.14. 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.

2.15. Financial liabilities

The financial liabilities are presented within financial liabilities at fair value through profit or loss or financial liabilities measured at amortized costs. 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 amortized cost, fees and commissions related to the origination of the financial liability are recognized through profit or loss during the maturity of the instrument. In certain cases the Bank repurchases a part of financial liabilities (mainly issued securities or subordinated bonds) and the difference between the carrying amount of the financial liability and the amount paid for it is recognized in the statement of profit or loss and included in other operating income.

2.16. 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]

2.16. 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 %

2.17. 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 credited or charged directly to shareholder's equity in the treasury shares. Derecognition of treasury shares is based on the FIFO method.

2.18. 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.

The Bank recognizes interest income when it considers that the interest associated with the transaction will flow to the Bank and the amount of the revenue can be reasonably measured. All interest income and expense arising from loans, placements with other banks, FVOCI securities, securities at amortised cost and amounts due to banks, deposits from customers, liabilities from issued securities, subordinated bonds and loans are presented under these lines of financial statement.

2.19. Fees and Commissions

Fees and commissions are recognised using effective interest method referring to provisions of IFRS 9, when they relate and have to be included in the amortised cost model. Certain 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 based on IFRS 15. See further details in Note 25.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.20. Dividend income

The Bank recognizes dividend income in the separate financial statements when its right to receive the payment is established.

2.21. 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 carryforward of unused tax losses and the carryforward of unused tax credits.

2.22. 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. 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 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.

2.23. 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.

2.24. 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.

2.25. 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.

2.26. Comparative figures

These separate financial statements are prepared in accordance with the same accounting policies in all respects as the authorised Separate Financial Statements prepared in accordance with IFRS as adopted by the EU for the year ended 31 December 2018, which were approved on 8 March 2019.

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 28.1.1.)

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

Other provision is recognized 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 19.)

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

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

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)

	30 June 2019	31 December 2018
Cash on hand:		
In HUF	136,920	166,419
In foreign currency	14,613	11,517
	151,533	**177,936**
Amounts due from banks and balances with National Bank of Hungary:		
Within one year:		
In HUF	104,946	58,241
In foreign currency	163,845	124,678
	268,791	**182,919**
Subtotal	**420,324**	**360,855**
Average amount of compulsory reserve	61,434	57,497
Total	**358,890**	**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)

	30 June 2019	31 December 2018
Within one year:		
In HUF	692,686	551,930
In foreign currency	267,173	212,990
	959,859	**764,920**
Over one year		
In HUF	327,318	283,467
In foreign currency	36,669	28,500
	363,987	**311,967**
Total placements	**1,323,846**	**1,076,887**
Loss allowance	(2,422)	(2,047)
Total	**1,321,424**	**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:

	30 June 2019	31 December 2018
Balance as at 1 January	**2,047**	**-**
Effect of transition to application of IFRS 9	-	1,257
Reclassification	-	(105)
Loss allowance	1,759	2,760
Release of loss allowance	(1,384)	(1,865)
Closing balance	**2,422**	**2,047**

Interest conditions of placements with other banks (%):

	30 June 2019	31 December 2018
Placements with other banks in HUF	(0.15%)-3.84%	0%-3.84%
Placements with other banks in foreign currency	(0.73%)-4.48%	(0.8%)-3.7%
Average interest of placements with other banks	0.62%	0.52%

NOTE 6: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn)

	30 June 2019	31 December 2018
Securities held for trading:		
Government bonds	10,190	10,645
Other non-interest bearing securities	7,334	7,169
Hungarian government discounted Treasury Bills	3,123	1,059
Corporate shares and investments	825	371
Mortgage bonds	-	978
Other bonds	8,246	2,100
Subtotal	**29,718**	**22,322**
Securities mandatorily measured at fair value through profit or loss:		
Shares in investment funds	16,282	15,880
Bonds	5,026	4,778
Subtotal	**21,308**	**20,658**
Held for trading derivative financial instruments:		
Interest rate swaps	48,282	46,357
Foreign currency swaps	24,497	33,816
CCIRS and mark-to-market CCIRS[1] swaps	1,307	17,078
Other derivative transactions[2]	13,072	14,811
Subtotal	**87,158**	**112,062**
Total	**138,184**	**155,042**

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

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

	30 June 2019	31 December 2018
Within one year:		
variable interest	2	1,972
fixed interest	8,106	5,312
	8,108	**7,284**
Over one year:		
variable interest	1,991	2,198
fixed interest	11,460	5,300
	13,451	**7,498**
Non-interest bearing securities	8,159	7,540
Total	**29,718**	**22,322**
Securities held for trading denominated in HUF	57%	71%
Securities held for trading denominated in foreign currency	43%	29%
Securities held for trading total	**100%**	**100%**
Government bonds denominated in HUF	52%	62%
Government bonds denominated in foreign currency	48%	38%
Government securities total	**100%**	**100%**
Interest rates on securities held for trading	0.01%-7.5%	0.01%-6.5%
Average interest on securities held for trading	0.02%	3.98%

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

	30 June 2019	31 December 2018
Over one year:		
variable interest	25	25
Over one year:		
variable interest	5,000	4,753
Subtotal	**5,025**	**4,778**
Non-interest bearing securities	16,283	15,880
Total	**21,308**	**20,658**
Securities mandatorily measured at fair value through profit or loss denominated in HUF	76%	77%
Securities mandatorily measured at fair value through profit or loss denominated in foreign currency	24%	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	2.69%	2.68%
Average interest on securities mandatorily measured at fair value through profit or loss	2.69%	2.68%

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

	30 June 2019	31 December 2018
Government bonds	827,478	879,546
Interest bearing treasury bills	384,096	237,552
Mortgage bonds	239,745	228,380
Other securities	76,328	87,053
- *listed securities*	37,786	35,295
in HUF	2,056	-
in foreign currency	35,730	35,295
- *non-listed securities*	38,542	51,758
in HUF	19,104	22,974
in foreign currency	19,438	28,784
Subtotal	**1,527,647**	**1,432,531**
Non-trading equity instruments designated to measure at fair value through other comprehensive income		
- *non-listed securities*	21,260	19,374
in HUF	529	566
in foreign currency	20,731	18,808
Subtotal	**21,260**	**19,374**
Securities at fair value through other comprehensive income total	**1,548,907**	**1,451,905**

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

	30 June 2019	31 December 2018
Within one year:	3,196	16,587
variable interest	771,048	464,830
fixed interest	**774,244**	**481,417**
Over one year:	100,947	143,458
variable interest	652,456	807,656
fixed interest	**753,403**	**951,114**
Non-interest bearing securities	21,260	19,374
Total	**1,548,907**	**1,451,905**

	30 June 2019	31 December 2018
FVOCI securities denominated in HUF	84%	81%
FVOCI securities denominated in foreign currency	16%	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	2.23%	2.26%

NOTE 7: SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (in HUF mn) [continued]

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

	30 June 2019	31 December 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 28.4.)

	30 June 2019	31 December 2018
Net gain / (loss) reclassified from other comprehensive income to statement of profit or loss	3,263	(12,833)
Fair value of the hedged securities:		
Government bonds	731,355	1,340,197
Other bonds	-	185,576
	731,355	**1,525,773**

During 2019 and 2018 the Bank didn't sell any of equity instruments designated to measure at fair value through other comprehensive income.

NOTE 8: LOANS (in HUF mn)

Loans measured at fair value through profit or loss

	30 June 2019	31 December 2018
Gross loans	32,107	34,515
Fair value adjustment	(1,644)	(1,770)
Loans measured at fair value through profit or loss total	**30,463**	**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

	30 June 2019	31 December 2018
Within one year	1,552,189	1,322,097
Over one year	1,415,320	1,330,274
Loans gross total	**2,967,509**	**2,652,371**
Loss allowance	(68,645)	(66,253)
Loans measured at amortised cost, net of allowance for loan losses total	**2,898,864**	**2,586,118**
Loans total	**2,929,327**	**2,618,863**

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

	30 June 2019	31 December 2018
In HUF	55%	57%
In foreign currency	45%	43%
Total	**100%**	**100%**

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

	30 June 2019	31 December 2018
Loans denominated in HUF	1.5%-10.8%	1.19%-10.08%
Average interest on loans denominated in HUF	2.07%	2.08%

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

	30 June 2019	31 December 2018
Loans denominated in HUF, with a maturity within one year	(0.1%)-37.5%	(0.2%)-37.5%
Loans denominated in HUF, with a maturity over one year	0%-37.5%	0.01%-37.5%
Loans denominated in foreign currency	(0.36%)-13%	(0.50%)-15.1%
Average interest on loans denominated in HUF	6.75%	6.7%
Average interest on loans denominated in foreign currency	2.29%	2.07%

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

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

	30 June 2019		31 December 2018	
Retail loans	**580,385**	**19%**	**550,607**	**20%**
Retail consumer loans	445,000	14%	401,419	15%
Retail mortgage backed loans[1]	135,385	5%	149,188	5%
Corporate loans	**2,387,124**	**80%**	**2,101,764**	**79%**
Loans to corporates	2,271,531	76%	2,004,954	75%
Municipality loans	115,593	4%	96,810	4%
Loans at amortised cost total	**2,967,509**	**99%**	**2,652,371**	**99%**
Loans at fair value total	**30,463**	**1%**	**32,745**	**1%**
Gross loans total	**2,997,972**	**100%**	**2,685,116**	**100%**

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

	30 June 2019	31 December 2018
Balance as at 1 January	**66,253**	**69,508**
Change as a result of applying IFRS 9	-	8,931
Reclassification	-	26
Loss allowance	57,891	102,203
Release of loss allowance	(52,927)	(104,855)
Portional write-off	(2,572)	(3,444)
Partial write-off	-	(6,116)
Closing balance	**68,645**	**66,253**

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

	30 June 2019	31 December 2018
Loss allowance on placements with other banks	375	895
Loss allowance on loans at amortised cost	8,748	6,927
Total	**9,123**	**7,822**

The Bank sells non-performing loans without recourse at estimated fair value to a wholly owned subsidiary, OTP Factoring Ltd. (See Note 32.)

NOTE 9: INVESTMENTS IN SUBSIDIARIES, ASSOCIATES, JOINT VENTURES AND OTHER INVESTMENTS (in HUF mn)

	30 June 2019	31 December 2018
Investments in subsidiaries:		
Controlling interest	1,677,491	1,712,635
Other investments	395	1,013
Subtotal	**1,677,886**	**1,713,648**
Loss allowance	(476,351)	(536,075)
Total	**1,201,535**	**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.

[1] incl. housing loans

NOTE 9: INVESTMENTS IN SUBSIDIARIES, ASSOCIATES, JOINT VENTURES AND OTHER INVESTMENTS (in HUF mn) [continued]

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:

	30 June 2019		**31 December 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%	144,294	100%	144,294
OTP banka Srbija a.d. (Serbia)	100%	131,164	100%	131,164
OTP Bank Romania S.A. (Romania)	100%	111,544	100%	111,544
JSC "OTP Bank" (Russia)	97.90%	74,333	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%	29,151	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
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		44,024		34,744
Total		**1,677,491**		**1,712,635**

NOTE 9: INVESTMENTS IN SUBSIDIARIES, ASSOCIATES, JOINT VENTURES AND OTHER INVESTMENTS (in HUF mn) [continued]

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

	30 June 2019	31 December 2018
Balance as at 1 January	**536,075**	**538,846**
Provision for the period	9,732	39,430
Release of provision	(5)	(34,994)
Use of provision	(69,451)	(7,207)
Closing balance	**476,351**	**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 loss allowance by significant subsidiaries is as follows:

	30 June 2019	31 December 2018
OTP Bank JSC (Ukraine)	258,448	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
R.E. Four d.o.o. (Serbia)	3,763	3,763
OTP Real Estate Ltd.	3,456	3,456
OTP Buildings s.r.o (Romania)	3,327	3,327
OTP Factoring Ukraine LLC (Ukraine)	-	69,451
Total	**473,481**	**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:

	30 June 2019	31 December 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 Building Society Ltd.	3,000	1,500
OTP Real Estate Investment Fund Management Ltd.	1,500	-
DSK Bank EAD (Bulgaria)	-	42,037
Other	637	1,411
Subtotal	**72,972**	**63,198**
Dividend from shares held-for-trading	5,725	5,125
Dividend from shares measured at fair value through other comprehensive income	162	158
Total	**78,859**	**68,481**

NOTE 9: 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 30 June 2019

	D-ÉG Thermoset Ltd.[2]	Company for Cash Services Llc.	Total
Assets	3,883	2,571	**6,454**
Liabilities	4,629	207	**4,836**
Shareholders' equity	(746)	2,364	**1,618**
Total income	2,386	594	**2,980**
% Held	*0.1%*	*20%*	

As at 31 December 2018

	D-ÉG Thermoset Ltd.[3]	Szallas.hu Ltd.	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 Bak 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.

In 2018 OTP Bank signed an acquisition agreement on purchasing 87.85% shareholding of Mobiasbanca – Groupe Societe Generale S.A. („SGMB"), the Moldovan subsidiary of Societe Generale Group. With a market share of 13.3%, SGMB is the 4th largest bank on the Moldovan banking market and as a universal bank it has been active in the retail and corporate segment as well. The financial closure of the transaction is expected in the coming months subject to obtaining all the necessary regulatory approvals. The Bank is expected to have the control SGMB in 2019.

Crnogorska komercijalna banka a.d., the Montenegrin subsidiary of OTP Bank signed an acquisition agreement on purchasing 90.56% shareholding of Societe Generale banka Montenegro a.d. („SGM"), the Montenegrin subsidiary of Societe Generale Group. With a market share of 11.5%, SGM is the 4th largest bank on the Montenegrin banking market and as a universal bank it has been active in the retail and corporate segment as well.

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 it has been active in the retail and corporate segment as well. With the acquisition of the Albanian bank, OTP Group is already present in 10 countries in the Central and Eastern European region.

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. With a market share of nearly 9%, SKB Banka is the 4th largest bank on the Slovenian banking market and as a universal bank it has been active in the retail and corporate segment as well. The financial closure of the transaction is expected in the coming months subject to obtaining all the necessary regulatory approvals.

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

NOTE 10: SECURITIES AT AMORTISED COST (in HUF mn)

	30 June 2019	31 December 2018
Government bonds	1,440,525	1,428,393
Mortgage bonds	-	5,064
Subtotal	**1,440,525**	**1,433,457**
Loss allowance	(1,410)	(1,668)
Total	**1,439,115**	**1,431,789**

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

	30 June 2019	31 December 2018
Within one year:	60,192	136,590
fixed interest	**60,192**	**136,590**
Over one year:	1,380,333	1,296,867
fixed interest	**1,380,333**	**1,296,867**
Total	**1,440,525**	**1,433,457**

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

	30 June 2019	31 December 2018
Securities at amortised cost denominated in HUF	100%	100%
Securities at amortised cost total	**100%**	**100%**
Interest rates on securities at amortised cost	0.5%-7.5%	0.5%-9.48%
Average interest on securities at amortised cost denominated in HUF	3.51%	3.44%

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

	30 June 2019	31 December 2018
Balance as at 1 January	**1,668**	**-**
Change as a result of applying IFRS 9	-	1,477
Loss allowance	162	875
Release of loss allowance	(420)	(684)
Closing balance	**1,410**	**1,668**

NOTE 11: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn)

For the six month period ended 30 June 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	14,078	3,246	5,498	7,492	416	30,730
Disposals	(6,963)	(1,490)	(1,771)	(8,830)	-	(19,054)
Balance as at 30 June	**122,387**	**68,681**	**84,688**	**5,672**	**16,712**	**298,140**
Depreciation and Amortization						
Balance as at 1 January	**75,389**	**21,857**	**62,597**	**-**	**-**	**159,843**
Charge for the year	6,871	1,400	3,696	-	2,021	13,988
Disposals	(2)	(626)	(1,753)	-	-	(2,381)
Balance as at 30 June	**82,258**	**22,631**	**64,540**	**-**	**2,021**	**171,450**
Net book value						
Balance as at 1 January	**39,883**	**45,068**	**18,364**	**7,010**	**16,296**	**126,621**
Balance as at 30 June	**40,129**	**46,050**	**20,148**	**5,672**	**14,691**	**126,690**

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 12: INVESTMENT PROPERTIES (in HUF mn)

For the six month period ended 30 June 2019 and for the year ended 31 December 2018

Cost	30 June 2019	31 December 2018
Balance as at 1 January	**2,964**	**2,961**
Additions resulting from subsequent expenditure	90	3
Closing balance	**3,054**	**2,964**
Depreciation and Amortization		
Balance as at 1 January	**631**	**587**
Charge for the year	23	44
Closing balance	**654**	**631**
Net book value		
Balance as at 1 January	**2,333**	**2,374**
Closing balance	**2,400**	**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	30 June 2019	31 December 2018
Rental income	3	1
Depreciation	23	43

NOTE 13: OTHER ASSETS[1] (in HUF mn)

	30 June 2019	31 December 2018
Receivables from OTP Employee Stock Ownership Program (OTP ESOP)	37,529	18,535
Receivables from card operations	33,814	35,892
Prepayments and accrued income	24,235	23,610
Receivables from investment services	11,056	7,044
Stock exchange deposit	4,854	3,058
Receivable related to Hungarian Government subsidies	4,425	4,287
Receivables from OTP Mortgage Bank Ltd.	3,823	6,479
Trade receivables	3,080	5,232
Other advances	2,659	1,791
Receivables from supplementary payments	1,460	1,660
Other	10,339	9,034
Subtotal	**137,274**	**116,622**
Loss allowance on other assets[2]	(7,549)	(7,421)
Other assets total	**129,725**	**109,201**
Fair value of derivative financial instruments designated as hedge accounting	12,630	12,221
Deferred tax assets[3]	-	1,241
Other highlighted line items	**12,630**	**13,462**
Total	**142,355**	**122,663**

Positive fair value of derivative financial instruments designated as hedging instrument:

	30 June 2019	31 December 2018
Interest rate swaps designated as fair value hedge	2,518	4,467
CCIRS designated as fair value hedge	3,434	4,003
Interest rate swaps designated as cash flow hedge	6,678	3,751
Total	**12,630**	**12,221**

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

	30 June 2019	31 December 2018
Balance as at 1 January	**7,421**	**17,595**
Effect of transition to application of IFRS 9	-	(175)
Reclassification	-	79
Charge for the period	2,519	4,418
Release of loss allowance	(2,391)	(14,496)
Closing balance	**7,549**	**7,421**

[1] Other assets – except income tax receivable and fair value of derivative financial instruments designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Unrealised gains/losses on derivative financial instruments are recovering in accordance with their maturity.

[2] Loss allowance on other assets mainly consists of provision for trade receivables and inventories.

[3] See details in Note 27.

NOTE 14: AMOUNTS DUE TO BANKS AND HUNGARIAN GOVERNMENT, DEPOSITS FROM THE NATIONAL BANK OF HUNGARY AND OTHER BANKS (in HUF mn)

	30 June 2019	31 December 2018
Within one year:		
In HUF	210,668	167,560
In foreign currency	144,312	121,946
	354,980	**289,506**
Over one year:		
In HUF	349,266	348,885
In foreign currency	425,803	99,645
	775,069	**448,530**
Total[1]	**1,130,049**	**738,036**

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

	30 June 2019	31 December 2018
Within one year:		
In HUF	(0.3%)-0.9%	(15%)-1.04%
In foreign currency	(0.4%)-2.52%	(0.4%)-2.6%
Over one year:		
In HUF	0%-1.04%	0%-0.68%
In foreign currency	(0.39%)-8.14%	0.1%-8.49%
Average interest on amounts due to banks in HUF	1.11%	0.93%
Average interest on amounts due to banks in foreign currency	2.68%	2.29%

NOTE 15: DEPOSITS FROM CUSTOMERS (in HUF mn)

	30 June 2019	31 December 2018
Within one year:		
In HUF	4,996,736	4,788,339
In foreign currency	967,489	904,747
	5,964,225	**5,693,086**
Over one year:		
In HUF	41,239	48,412
In foreign currency	7,609	-
	48,848	**48,412**
Total	**6,013,073**	**5,741,498**

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

NOTE 15: DEPOSITS FROM CUSTOMERS (in HUF mn) [continued]

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

	30 June 2019	31 December 2018
Within one year in HUF	(4.94%)-9.69%	(5.11%)-9.69%
Over one year in HUF	0%-3.1%	0%-6.96%
In foreign currency	(0.42%)-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	0.27%	0.29%

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

	30 June 2019		31 December 2018	
Retail deposits	**3,001,834**	**50%**	**2,944,174**	**51%**
Household deposits	3,001,834	50%	2,944,174	51%
Corporate deposits	**3,011,239**	**50%**	**2,797,324**	**49%**
Deposits corporates	2,608,063	43%	2,340,640	41%
Municipality deposits	403,176	7%	456,684	8%
Total	**6,013,073**	**100%**	**5,741,498**	**100%**

NOTE 16: LIABILITIES FROM ISSUED SECURITIES (in HUF mn)

	30 June 2019	31 December 2018
Within one year:		
In HUF	7,593	9,399
In foreign currency	3,440	4,835
	11,033	**14,234**
Over one year:		
In HUF	33,022	32,460
	33,022	**32,460**
Total	**44,055**	**46,694**

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

	30 June 2019	31 December 2018
Issued securities denominated in HUF	0.01%	0.2%-1.7%
Issued securities denominated in foreign currency	1%-1.2%	1%-2.6%
Average interest on issued securities denominated in HUF	0.34%	0.29%
Average interest on issued securities denominated in foreign currency	1.95%	3.22%

NOTE 16: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

Issued securities denominated in foreign currency as at **30 June 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	2.48	704	2.49	708	1.20	variable
2	OTP_VK1_19/6	04/10/2018	04/10/2019	USD	2.07	587	2.08	590	2.05	variable
3	OTP_VK1_20/4	27/06/2019	27/06/2020	USD	1.92	544	1.92	544	1.20	variable
4	OTP_VK1_20/1	21/02/2019	21/02/2020	USD	1.53	435	1.54	437	1.20	variable
5	OTP_VK1_19/8	20/12/2018	20/12/2019	USD	1.50	425	1.50	425	1.70	variable
6	OTP_VK1_20/3	16/05/2019	16/05/2020	USD	0.89	254	0.89	254	1.20	variable
7	OTP_VK1_19/7	15/11/2018	15/11/2019	USD	0.87	247	0.87	247	1.99	variable
8	OTP_VK1_19/5	06/08/2018	06/08/2019	USD	0.82	233	0.83	235	2.20	variable
	Total issued securities				**12.08**	**3,429**	**12.12**	**3,440**		

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. The hedge is highly effective if changes in fair value or cash-flows attributable to the hedged risk during the period for which the hedge is designated are within a range of 80-125 per cent.

NOTE 16: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

Issued securities denominated in HUF as at **30 June 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	3,426	discount	NaN	
2	OTP_DK_20/I	15/12/2018	31/05/2020	3,294	3,266	discount	NaN	
3	OTPX2020E	18/06/2014	22/06/2020	3,137	3,111	indexed	0.70	hedged
4	OTPRF2021B	20/10/2011	25/10/2021	2,580	2,748	indexed	NaN	hedged
5	OTPRF2021A	05/07/2011	13/07/2021	2,368	2,741	indexed	NaN	hedged
6	OTPX2020F	10/10/2014	16/10/2020	2,803	2,731	indexed	0.20	hedged
7	OTPRF2020C	11/11/2010	05/11/2020	2,561	2,611	indexed	NaN	hedged
8	OTPX2020G	15/12/2014	21/12/2020	2,444	2,370	indexed	0	hedged
9	OTPRF2020A	12/07/2010	20/07/2020	2,141	2,260	indexed	NaN	hedged
10	OTPRF2022A	22/03/2012	23/03/2022	1,825	1,793	indexed	2	hedged
11	OTPRF2020B	12/07/2010	20/07/2020	1,249	1,400	indexed	NaN	hedged
12	OTP_DK_22/I	15/12/2018	31/05/2022	993	937	discount	NaN	
13	OTPRF2023A	22/03/2013	24/03/2023	698	702	indexed	1.70	hedged
14	OTPRF2022B	22/03/2012	23/03/2022	676	663	indexed	1.70	hedged
15	OTP_DK_23/I	15/12/2018	31/05/2023	717	656	discount	NaN	
16	OTPRF2022E	29/10/2012	31/10/2022	627	630	indexed	2	hedged
17	OTPRF2021C	21/12/2011	30/12/2021	485	528	indexed	NaN	hedged
18	OTPRF2022F	28/12/2012	28/12/2022	496	504	indexed	1.70	hedged
19	OTPX2019C	14/12/2009	20/12/2019	228	390	indexed	NaN	hedged
20	OTPX2022D	28/12/2012	27/12/2022	280	382	indexed	2	hedged
21	OTPX2023A	22/03/2013	24/03/2023	353	381	indexed	1.70	hedged
22	OTP_DK_24/I	30/05/2019	31/05/2024	426	375	discount	NaN	
23	OTPRF2021D	21/12/2011	30/12/2021	333	354	indexed	NaN	hedged
24	OTPX2020A	25/03/2010	30/03/2020	251	340	indexed	NaN	hedged
25	OTPX2022B	18/07/2012	18/07/2022	201	337	indexed	1.70	hedged
26	OTPX2021B	17/06/2011	21/06/2021	264	336	indexed	NaN	hedged
27	OTPX2021D	21/12/2011	27/12/2021	285	325	indexed	NaN	hedged
28	OTPX2024B	10/10/2014	16/10/2024	324	318	indexed	0.70	hedged
29	OTPX2019B	05/10/2009	14/10/2019	286	314	indexed	NaN	hedged
30	OTPX2021C	19/09/2011	24/09/2021	241	312	indexed	NaN	hedged
31	OTPX2021A	01/04/2011	01/04/2021	225	293	indexed	NaN	hedged
32	OTPX2020B	28/06/2010	09/07/2020	267	291	indexed	NaN	hedged
33	OTPX2022C	29/10/2012	28/10/2022	227	279	indexed	1.70	hedged
34	OTPX2023B	28/06/2013	26/06/2023	240	275	indexed	1	hedged
35	OTPRF2022D	28/06/2012	28/06/2022	236	266	indexed	2	hedged
36	OTPX2024C	15/12/2014	20/12/2024	272	264	indexed	0.60	hedged
37	OTPX2024A	18/06/2014	21/06/2024	241	249	indexed	1.30	hedged
38	OTPX2022A	22/03/2012	23/03/2022	229	243	indexed	NaN	hedged
39	OTPX2020C	11/11/2010	05/11/2020	176	227	indexed	NaN	hedged
40	OTPRF2022C	28/06/2012	28/06/2022	176	213	indexed	2	hedged
41	OTPX2020D	16/12/2010	18/12/2020	177	213	indexed	NaN	hedged
42	OTPX2019A	25/06/2009	01/07/2019	211	185	indexed	54	hedged
43	OTP_DK_25/I	30/05/2019	31/05/2025	104	87	discount	NaN	
44	OTPRF2021E	21/12/2011	30/12/2021	62	63	indexed	NaN	hedged
45	Egyéb			226	226			
	Subtotal issued securities in HUF			**39,155**	**40,615**			
	Total issued securities			**42,584**	**44,055**			

NOTE 17: FINANCIAL LIABILITIES DESIGNATED AS FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn)

	30 June 2019	31 December 2018
Within one year:		
In HUF	3,130	3,422
	3,130	**3,422**
Over one year:		
In HUF	26,794	28,809
	26,794	**28,809**
Total	**29,924**	**32,231**

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

	30 June 2019	31 December 2018
Within one year:		
In HUF	0.01%-2.69%	0.01%-2.68%
Over one year:		
In HUF	0.01%-2.69%	0.01%-2.68%
Average interest on amounts due to banks in HUF	1.39%	1.1%

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

	30 June 2019	31 December 2018
Contractual amount	29,172	30,911
Fair value adjustment due to market risk	752	1,320
Gross carrying amount	**29,924**	**32,231**

NOTE 18: HELD FOR TRADING DERIVATIVE FINANCIAL LIABILITIES (in HUF mn)

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

	30 June 2019	31 December 2018
IRS	37,366	29,776
Foreign currency swaps	23,289	26,654
CCIRS and mark-to-market CCIRS	1,193	17,164
Other derivative contracts[1]	9,286	9,244
Total	**71,134**	**82,838**

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

NOTE 19: OTHER LIABILITIES[1] (in HUF mn)

	30 June 2019	31 December 2018
Liabilities from investment services	119,447	68,036
Liabilities from customer's credit card payments	34,131	38,722
Technical accounts	28,709	32,414
Accrued expenses	22,633	20,139
Liabilities due to short positions	21,281	13,784
Current income tax payable	12,755	8,528
Provision on off-balance sheet commitments, contingent liabilities	12,095	11,385
Salaries and social security payable	11,968	10,967
Accounts payable	6,373	11,767
Liabilities related to housing loans	3,379	8,018
Other	10,584	12,810
Subtotal	**283,355**	**236,570**
Fair value of derivative financial instruments designated as hedge accounting	11,135	6,925
Deferred tax liabilities	2,771	-
Total	**297,261**	**243,495**

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

	30 June 2019	31 December 2018
Provision for losses on other off-balance sheet commitments and contingent liabilities	10,565	8,494
Provision for litigation	699	691
Provision for retirement pension and severance pay	137	1,000
Provision on other liabilities	694	1,200
Total	**12,095**	**11,385**

Fair value of derivative financial instruments designated as fair value hedge is detailed as follows:

	30 June 2019	31 December 2018
IRS designated as fair value hedge	10,394	6,050
IRS designated as cash flow hedge	1	523
CCIRS designated as fair value hedge	740	352
Total	**11,135**	**6,925**

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

	30 June 2019	31 December 2018
Opening balance	**11,385**	**19,759**
Effect of transition to application of IFRS 9	**-**	(4,030)
Provision for the period	12,527	23,000
Release of provision	(11,817)	(27,344)
Closing balance	**12,095**	**11,385**

[1] Other liabilities – except deferred tax liabilities and fair value of derivative financial instruments designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Unrealised gains/losses on derivative financial instruments is recovering in accordance with their maturity.

NOTE 20: SUBORDINATED BONDS AND LOANS (in HUF mn)

	30 June 2019	31 December 2018
Over one year:		
In foreign currency	110,605	110,454
Total	**110,605**	**110,454**

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

	30 June 2019	31 December 2018
Subordinated bonds and loans denominated in foreign currency	2.69%	2.68%
Average interest on subordinated bonds and loans denominated in foreign currency	2.77%	2.68%

Subordinated loans and bonds are detailed as follows as at 30 June 2019:

Type	Nominal value	Date of issuance	Date of maturity	Issue price	Interest conditions	Interest rate
Subordinated bond	EUR 340.5 million	07/11/2006	Perpetual	99.375%	Three-month EURIBOR + 3%, variable after year 10 (payable quarterly)	2.692%

NOTE 21: SHARE CAPITAL (in HUF mn)

	30 June 2019	31 December 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 22: 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.

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 22: 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 30 June 2019:

30 June 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**	**37,235**	**1,553,693**	**(55,468)**	**(3,820)**	**-**	**-**	**-**	**1,559,692**
Unused portion of reserve for developments	-	-	-	(1,473)	-	-	-	1,473	-	-
Other comprehensive income	-	-	-	(56,318)	-	-	56,318	-	-	-
Portion of supplementary payment recognised as an asset	-	-	-	(310)	-	-	-	-	-	**(310)**
Option reserve	-	(55,468)	-	-	55,468	-	-	-	-	-
Treasury shares	-	(3,820)	-	-	-	3,820	-	-	-	-
Share based payments	-	37,235	(37,235)	-	-	-	-	-	-	-
Net profit for the year	-	-	-	(107,907)	-	-	-	-	107,907	-
General reserve	-	-	-	(87,579)	-	-	-	87,579	-	-
Components of Shareholder's equity in accordance with paragraph 114/B of Act on Accounting	**28,000**	**(22,001)**	**-**	**1,300,106**	**-**	**-**	**56,318**	**89,052**	**107,907**	**1,559,382**

NOTE 22: 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 22: RETAINED EARNINGS AND RESERVES (in HUF mn) [continued]

	30 June 2019	1 January 2019
Retained earnings	1,300,106	1,208,767
Net profit for the year	107,907	173,442
Untied retained earnings	**1,408,013**	**1,382,209**

NOTE 23: TREASURY SHARES (in HUF mn)

	30 June 2019	31 December 2018
Nominal value (ordinary shares)	46	17
Carrying value at acquisition cost	3,820	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:

	30 June 2019	31 December 2018
Number of shares as at 1 January	**169,852**	**1,002,456**
Additions	2,896,514	1,358,018
Disposals	(2,607,828)	(2,190,622)
Number of shares at the end of the period	**458,538**	**169,852**

Change in carrying value:

	30 June 2019	31 December 2018
Balance as at 1 January	**1,964**	**9,540**
Additions	33,167	14,238
Disposals	(31,311)	(21,814)
Closing balance	**3,820**	**1,964**

	30 June 2019	31 December 2018
Treasury shares at OTP group members	1,784	1,831

NOTE 24: LOSS ALLOWANCE OF LOANS AT AMORTISED COST AND PLACEMENTS WITH OTHER BANKS (in HUF mn)

	30 June 2019	31 December 2018
Loss allowance of loan at amortised cost		
Loss allowance	55,319	98,759
Release of loss allowance	(52,941)	(106,761)
Loan losses	6,370	14,929
	8,748	**6,927**
Loss allowance of placements with other banks		
Loss allowance	1,759	2,760
Release of loss allowance	(1,384)	(1,865)
	375	**895**
Loss allowance of loans at amortised cost and placements with other banks	**9,123**	**7,822**

NOTE 25: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn)

Income from fees and commissions:

	30 June 2019	30 June 2018
Fees and commissions related to lending	**2,529**	**2,158**
Deposit and account maintenance fees and commissions	49,581	44,728
Fees and commission related to the issued bank cards	35,481	31,043
Fees and commissions related to security trading	11,657	11,476
Fees and commissions paid by OTP Mortgage Bank Ltd.	5,922	6,329
Net insurance fee income	2,800	3,879
Other	1,589	2,179
Fees and commissions from contracts with customers	**107,030**	**99,634**
Total Income from fees and commissions:	**109,559**	**101,792**

Contract balances

	30 June 2019	30 June 2018
Receivables, which are included in 'other assets'	10,225	9,993
Loss allowance	(51)	(100)
Liabilities which are included in 'other liabilities'	5	612

NOTE 25: 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 25: 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 25: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn) [continued]

Expenses from fees and commissions:	30 June 2019	30 June 2018
Other fees and commissions related to issued bank cards	12,097	9,528
Fees and commissions related to lending	833	836
Fees and commissions relating to deposits	579	524
Trust activites related to securities	443	233
Insurance fees	361	1,695
Fees and commissions related to security trading	248	599
Postal fees	126	125
Money market transaction fees and commissions	23	79
Other	189	262
Total Expenses from fees and commissions	**14,899**	**13,881**
Net profit from fees and commissions	**94,660**	**87,911**

NOTE 26: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn)

Other operating income:	30 June 2019	30 June 2018
Intermediary and other services	741	387
Other operating income from OTP Employee Stock Ownership Program (OTP ESOP)	683	-
Income from lease of tangible assets	287	312
Gains on derecognition of deposits	183	73
Gains on discount from advertising agency fees	170	-
Gains on sale of receivables	120	94
Gains on transactions related to property activities	97	108
Other	431	921
Total	**2,712**	**1,895**

Net other operating expenses:	30 June 2019	30 June 2018
Loss allowance/(Release of loss allowance) on investments in subsidiaries	9,727	(1,001)
Financial support for sport association and organization of public utility	3,084	5,011
Non-repayable assets contributed	2,966	951
Provision/(Release of provision) for off-balance sheet commitments and contingent liabilities	710	(3,445)
Losses on other assets	656	1,076
Loss allowance/(Release of loss allowance) on other assets	174	(390)
Fine imposed by Competition Authority	45	4
Release of loss allowance on securities at fair value through other comprehensive income	(37)	(398)
(Release of loss allowance)/Loss allowance on securities at amortised cost	(258)	488
Other	972	756
Total other operating expenses	**18,039**	**3,052**

NOTE 26: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn) [continued]

Other administrative expenses:	**30 June 2019**	**30 June 2018**
Personnel expenses:		
Wages	39,395	34,517
Taxes related to personnel expenses	8,618	7,982
Other personnel expenses	6,161	5,248
Subtotal	**54,174**	**47,747**
Depreciation and amortization:	**13,988**	**10,307**
Other administrative expenses:		
Taxes, other than income tax[1]	43,446	37,675
Services	20,749	13,082
Administration expenses, including rental fees	7,826	13,486
Professional fees	7,102	6,830
Advertising	2,992	2,842
Subtotal	**82,115**	**73,915**
Total	**150,277**	**131,969**

NOTE 27: 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:

	30 June 2019	**31 December 2018**
Current tax expense	1,860	1,670
Deferred tax expense	2,781	9,521
Total	**4,641**	**11,191**

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

	30 June 2019	**31 December 2018**
Balance as at 1 January	**1,241**	**7,991**
Deferred tax expense in recognised expense	(2,781)	(9,521)
Tax effect of fair value adjustment of FVOCI securities and ICES recognised in other comprehensive income	(1,231)	2,771
Closing balance	**(2,771)**	**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 six month period ended 30 June 2019 and for the year ended 31 December 2018, recognized as an expense thus decreased the corporate tax base. For the six month period ended 30 June 2019 financial transaction duty was paid by the Bank in the amount of HUF 56 billion.

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

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

	30 June 2019	31 December 2018
Unused tax allowance	2,832	5,330
Refundable tax in accordance with Acts on Customer Loans	-	245
Amounts unenforceable by tax law	-	13
Deferred tax assets	**2,832**	**5,588**
Fair value adjustment of held for trading and FVOCI securities	(5,266)	(4,034)
Difference in depreciation and amortization	(292)	(313)
Amounts unenforceable by tax law	(45)	-
Deferred tax liabilities	**(5,603)**	**(4,347)**
Net deferred tax (liability)/asset	**(2,771)**	**1,241**

A reconciliation of the income tax expense is as follows:

	30 June 2019	31 December 2018
Profit before income tax	112,548	184,633
Income tax at statutory tax rate (9%)	10,129	16,617
Income tax adjustments due to permanent differences are as follows:		
Deferred use of tax allowance	2,497	6,122
Share-based payment	144	342
Amounts unenforceable by tax law	57	(17)
Permanent differences from unused tax losses	-	118
Use of tax allowance in the current year	(1,206)	(4,835)
Dividend income	(7,098)	(6,164)
Other	118	(992)
Income tax	**4,641**	**11,191**
Effective tax rate	4.1%	6.1%

NOTE 28: 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:

28.1. 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.

28.1.1. Analysis by loan types

Classification into risk classes

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 IFRS 9:

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 Bank applies the simplified approach and calculates only lifetime expected credit loss.

A client or loan must be qualified as default if from the following two conditions, one or both of them occurs:

- if the client delays more than 90 days. This is objective criterion.
- there is the possibility that the client won't pay all of its obligation. This condition is examined on the basis of probability criterions of default.

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

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 and no hedge position exists in respect thereof,
- 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

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1.1. Analysis by loan types [continued]

Classification into risk classes [continued]

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.

Individual and collective assessment of expected credit losses

The following exposures are subject to collective valuation methods:

- retail exposures,
- SME exposures,
- any other type of exposure of the above ones, which are not significant individually or not in workout progress

Debt securities and corporate bonds are assessed collectively, excluding stage 3 portfolios and portfolios under workout management.

Exposures are classified into DPD categories based on their delinquencies.

The following non-retail or SME exposures are classified individually:

- stage 3 exposures
- exposures under workout management
- purchased or originated credit impaired financial assets

Exposures with an aggregated credit risk above HUF 100 million are assessed individually.

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

28.1.1. 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 30 June 2019:

		Gross carrying amount / Notional amount					Loss allowance / Provision				
	Carrying amount	**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	420,324	420,324	-	-	-	420,324	-	-	-	-	-
Placements with other banks, net of allowance for placement losses	1,321,424	1,323,843	3	-	-	1,323,846	2,419	3	-	-	2,422
Retail consumer loans	*429,366*	*423,332*	*14,115*	*7,536*	*17*	*445,000*	*5,373*	*4,679*	*5,574*	*8*	*15,634*
Mortgage loans	*129,814*	*101,524*	*18,938*	*9,590*	*5,333*	*135,385*	*76*	*619*	*3,969*	*907*	*5,571*
Municipal loans	*113,606*	*103,155*	*7,133*	*5,305*	-	*115,593*	*700*	*48*	*1,239*	-	*1,987*
Corporate loans	*2,226,078*	*2,141,823*	*80,658*	*38,754*	*10,296*	*2,271,531*	*14,466*	*8,168*	*22,529*	*290*	*45,453*
Loans at amortised cost	2,898,864	2,769,834	120,844	61,185	15,646	2,967,509	20,615	13,514	33,311	1,205	68,645
FVOCI securities[1]	1,548,907	1,548,907	-	-	-	1,548,907	1,826	-	-	-	1,826
Securities at amortised cost	1,439,115	1,440,525	-	-	-	1,440,525	1,410	-	-	-	1,410
Other financial assets	79,670	61,310	25,309	576	-	87,195	970	6,218	337	-	7,525
Total as at 30 June 2019	**7,708,304**	**7,564,743**	**146,156**	**61,761**	**15,646**	**7,788,306**	**27,240**	**19,735**	**33,648**	**1,205**	**81,828**
Loan commitments	1,261,140	1,247,975	18,509	489	-	1,266,973	4,561	1,081	191	-	5,833
Financial guarantees	787,325	780,990	8,369	2,447	-	791,806	2,098	647	1,736	-	4,481
Factoring loan commitments	204,288	203,314	169	1,056	-	204,539	198	-	53	-	251
Bill of credit	169	170	-	-	-	170	1	-	-	-	1
Loan commitments and financial guarantees total	**2,252,922**	**2,232,449**	**27,047**	**3,992**	**-**	**2,263,488**	**6,858**	**1,728**	**1,980**	**-**	**10,566**

[1] FVOCI securities are measured at fair value in the Statement of Financial Position (See Note 7). 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 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

28.1.1. 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	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	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
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	*1,957,031*	*1,862,267*	*88,900*	*41,110*	*10,426*	*2,002,703*	*11,039*	*9,287*	*24,465*	*881*	*45,672*
Loans at amortised cost	2,586,118	2,448,333	124,638	62,972	16,428	2,652,371	16,541	13,896	34,147	1,669	66,253
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	59,792	39,523	27,307	324	-	67,154	970	6,191	201	-	7,362
Total as at 31 December 2018	**6,965,299**	**6,809,354**	**153,551**	**63,296**	**16,428**	**7,042,629**	**23,073**	**20,099**	**34,348**	**1,669**	**79,189**
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 7). 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 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

28.1.1. Analysis by loan types [continued]

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

Loans at amortised cost

For the six month period ended 30 June 2019 and for the year ended 31 December 2018	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 1 January 2018	**11,995**	**8,970**	**55,959**	**1,515**	**78,439**
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	8,900	3,235	9,512	29	21,676
Financial assets that have been derecognised (other than write-offs)	(2,804)	(1,420)	(26,789)	(482)	(31,495)
Unwind of discount	-	-	2,939	505	3,444
Write-offs	(57)	(28)	(4,716)	(675)	(5,476)
Loss allowance as at 31 December 2018	**16,541**	**13,896**	**34,147**	**1,669**	**66,253**
Transfer to Stage 1	123	(2,186)	(116)	-	(2,179)
Transfer to Stage 2	(360)	4,352	(367)	-	3,625
Transfer to Stage 3	(81)	(654)	3,368	-	2,633
Net remeasurement of loss allowance	66	(907)	(942)	(437)	(2,220)
New financial assets originated or purchased	8,184	1,568	1,065	-	10,817
Financial assets that have been derecognised (other than write-offs)	(3,845)	(2,536)	(2,946)	(23)	(9,350)
Unwind of discount	-	-	1,752	820	2,572
Write-offs	(13)	(19)	(2,650)	(824)	(3,506)
Loss allowance as at 30 June 2019	**20,615**	**13,514**	**33,311**	**1,205**	**68,645**

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

28.1.1. Analysis by loan types [continued]

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

Loan commitments and financial guarantees

For the six month period ended 30 June 2019 and for the year ended 31 December 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	102	21	290
New financial assets originated or purchased	1,104	170	1	1,275
Decrease	(251)	140	(140)	(251)
Loss allowance as at 31 December 2018	**6,331**	**1,928**	**235**	**8,494**
Transfer to Stage 1	22	(425)	(11)	(414)
Transfer to Stage 2	(19)	185	(15)	151
Transfer to Stage 3	(11)	(7)	1,554	1,536
Net remeasurement of loss allowance	390	(84)	(1)	305
New financial assets originated or purchased	1,199	651	282	2,132
Decrease	(1,054)	(520)	(64)	(1,638)
Loss allowance as at 30 June 2019	**6,858**	**1,728**	**1,980**	**10,566**

Placements with other banks, net of allowance for placement losses

For the six month period ended 30 June 2019 and for the year ended 31 December 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	(15)	-	**(15)**
New financial assets originated or purchased	1,211	3	**1,214**
Financial assets that have been derecognised (other than write-offs)	(812)	(12)	**(824)**
Loss allowance as at 30 June 2019	**2,419**	**3**	**2,422**

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

28.1.1. Analysis by loan types [continued]

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

Securities at amortised cost

For the six month period ended 30 June 2019 and for the year ended 31 December 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	(124)	(124)
Financial assets that have been derecognised (other than write-offs)	(134)	(134)
Loss allowance as at 30 June 2019	**1,410**	**1,410**

FVOCI Securities

For the six month period ended 30 June 2019 and for the year ended 31 December 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	16	16
New financial assets originated or purchased	302	302
Financial assets that have been derecognised (other than write-offs)	(351)	(351)
Loss allowance as at 30 June 2019	**1,826**	**1,826**

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

28.1.1. Analysis by loan types [continued]

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

Other financial assets

For the six month period ended 30 June 2019 and for the year ended 31 December 2018	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 1 January 2018	**1,039**	**16,179**	**286**	**32**	**17,536**
Transfer to Stage 1	1	(27)	(17)	-	**(43)**
Transfer to Stage 2	(56)	155	(66)		**33**
Transfer to Stage 3	(30)	(62)	21	-	**(71)**
Net remeasurement of loss allowance	(27)	(8,249)	(76)	(23)	**(8,375)**
New financial assets originated or purchased	70	388	87	-	**545**
Financial assets that have been derecognised (other than write-offs)	(27)	(2,193)	(34)	(9)	**(2,263)**
Loss allowance as at 31 December 2018	**970**	**6,191**	**201**	**-**	**7,362**
Transfer to Stage 1	3	(33)	(1)	-	**(31)**
Transfer to Stage 2	(11)	220	(17)	-	**192**
Transfer to Stage 3	(1)	(2)	102	-	**99**
Net remeasurement of loss allowance	(5)	(10)	18	1	**4**
New financial assets originated or purchased	49	464	139	-	**652**
Financial assets that have been derecognised (other than write-offs)	(29)	(511)	(103)	(1)	**(644)**
Write-offs	(6)	(101)	(2)	-	**(109)**
Loss allowance as at 30 June 2019	**970**	**6,218**	**337**	**-**	**7,525**

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

28.1.1. 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	30 June 2019 Gross loan and placement with other banks portfolio	30 June 2019 Loss allowance	31 December 2018 Gross loan and placement with other banks portfolio	31 December 2018 Loss allowance
Hungary	2,933,723	(54,910)	2,631,797	(53,027)
Malta	769,063	(3,727)	565,112	(1,821)
Serbia	132,154	(3,463)	119,146	(3,630)
Slovakia	94,534	(202)	77,760	(54)
Bulgaria	67,651	(1,519)	67,964	(2,586)
Croatia	47,590	(79)	32,556	(75)
France	43,210	(5)	26,013	(3)
Romania	42,255	(1,157)	59,680	(1,325)
Belgium	25,055	(69)	26,812	(74)
Switzerland	20,740	(549)	24,743	(188)
Montenegro	19,937	(32)	10,535	(99)
United Kingdom	18,589	(27)	18,020	(24)
Cyprus	17,613	(600)	19,263	(620)
Albania	15,908	-	-	-
Russia	14,031	(2,605)	14,298	(2,398)
Other	29,302	(2,123)	35,559	(2,376)
Loans and placements with other banks at amortised cost total	**4,291,355**	**(71,067)**	**3,729,258**	**(68,300)**
Hungary	30,463	-	32,745	-
Loans at fair value total	**30,463**	**-**	**32,745**	**-**
Loans and placements with other banks total	**4,321,818**	**(71,067)**	**3,762,003**	**(68,300)**

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

28.1.2. 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	30 June 2019	31 December 2018
Mortgages	1,256,019	1,161,094
Guarantees and warranties	398,924	388,753
Deposit	129,991	127,856
from this: Cash	*43,253*	*42,160*
Securities	*82,679*	*82,079*
Other	*4,059*	*3,617*
Assignment	112	121
Other	701	682
Total	**1,785,747**	**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	30 June 2019	31 December 2018
Mortgage	455,714	429,424
Guarantees and warranties	279,271	264,171
Deposit	69,789	66,448
from this: Cash	*11,425*	*10,700*
Securities	*54,802*	*52,654*
Other	*3,562*	*3,094*
Assignment	52	67
Other	581	588
Total	**805,407**	**760,698**

The coverage level of loan portfolio to the extent of the exposures decreased from 20.40% to 18.77% as at 30 June 2019, while the coverage to the total collateral value decreased from 45.01% to 41.61%.

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

For the six month period ended 30 June 2019	Gross carrying amount	Loss allowance	Carrying amount	Collateral value
Mortgage loans	9,590	(3,969)	5,621	46,725
Municipal loans	40	(23)	17	40
Corporate loans	38,754	(22,529)	16,225	38,330
Total	**48,384**	**(26,521)**	**21,863**	**85,095**

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

28.1. Credit risk [continued]

28.1.3. Restructured loans

	30 June 2019		31 December 2018	
	Gross portfolio	Loss allowance	Gross portfolio	Loss allowance
Consumer loans	4,539	(1,996)	3,973	(1,729)
Mortgage loans	3,173	(204)	4,623	(331)
Corporate loans[1]	12,332	(2,629)	13,101	(2,303)
SME loans	5,721	(890)	2,469	(362)
Total	**25,765**	**(5,719)**	**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 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

Financial instruments by rating categories[1]

Held-for-trading securities as at 30 June 2019

	A1	A2	A3	Aa3	Aaa	Ba2	Baa1	Baa2	Baa3	Not rated	Total
Other non-interest bearing securities	-	-	-	-	-	-	-	-	-	7,334	7,334
Government bonds	-	-	-	-	284	-	-	-	9,905	-	10,189
Mortgage bonds	-	-	-	-	-	-	-	-	-	-	-
Hungarian government discounted Treasury Bills	-	-	-	-	-	-	-	-	3,123	-	3,123
Hungarian government interest bearing Treasury Bills	-	-	-	-	-	-	-	-	-	-	-
Shares	53	51	7	30	-	7	24	6	217	431	826
Other securities	-	-	504	-	-	-	-	4,402	2,859	481	8,246
Total	**53**	**51**	**511**	**30**	**284**	**7**	**24**	**4,408**	**16,104**	**8,246**	**29,718**

Securities mandatorily measured at fair value through profit or loss as at 30 June 2019

	Not rated	Total
Government bonds	5,026	5,026
Mortgage bonds	16,282	16,282
Total	**21,308**	**21,308**

[1] Moody's ratings

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

Financial instruments by rating categories[1]

FVOCI securities as at 30 June 2019

	A2	A3	Ba1	Ba2	Ba3	Baa1	Baa2	Baa3	Not rated	Total
Mortgage bonds	-	-	-	-	-	64,869	-	151,034	23,842	239,745
Government bonds	15,416	6,355	-	3,220	6,688	6,850	10,651	778,298	-	827,478
Hungarian government interest bearing Treasury Bills	-	-	-	-	-	-	-	384,096	-	384,096
Other non-interest bearing securities	-	-	-	-	-	-	-	-	4,409	4,409
Shares	-	-	-	-	-	-	-	-	16,851	16,851
Other bonds	-	3,722	3,291	-	-	-	1,457	34,064	33,794	76,328
Total	**15,416**	**10,077**	**3,291**	**3,220**	**6,688**	**71,719**	**12,108**	**1,347,492**	**78,896**	**1,548,907**

Securities at amortised cost as at 30 June 2019

	Baa3	Total
Government bonds	1,439,115	1,439,115
Total	**1,439,115**	**1,439,115**

[1] Moody's ratings

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

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

Country	30 June 2019 Gross carrying amount	30 June 2019 Loss allowance	31 December 2018 Gross carrying amount	31 December 2018 Loss allowance
Hungary	1,440,525	(1,410)	1,433,457	(1,668)
Securities at amortised cost total	**1,440,525**	**(1,410)**	**1,433,457**	**(1,668)**
Hungary	1,408,366	-	1,306,872	-
Russia	38,072	-	34,154	-
Poland	15,416	-	15,300	-
Slovakia	14,690	-	27,342	-
Romania	12,592	-	11,752	-
Bulgaria	10,651	-	12,684	-
Slovenia	6,850	-	7,052	-
Serbia	6,688	-	6,501	-
Lithuania	6,355	-	6,220	-
Germany	3,290	-	-	-
Croatia	3,220	-	3,211	-
Sweden	1,457	-	1,443	-
FVOCI securities total	**1,527,647**	**-**	**1,432,531**	**-**
Austria	12,100	-	11,318	-
Luxembourg	4,218	-	4,249	-
United States of America	4,215	-	3,146	-
Portugal	190	-	95	-
Hungary	537	-	566	-
Non-trading equity instruments designated to measure at fair value through other comprehensive income	**21,260**	**-**	**19,374**	**-**
Hungary	20,222	-	20,902	-
Russia	6,863	-	-	-
Luxembourg	2,046	-	759	-
Germany	296	-	269	-
United States of America	284	-	390	-
Romania	7	-	-	-
Canada	-	-	2	-
Held for trading securities total	**29,718**	**-**	**22,322**	**-**
Hungary	16,282	-	15,879	-
Luxembourg	5,026	-	4,779	-
Securities mandatorily measured at fair value through profit or loss	**21,308**	**-**	**20,658**	**-**
Securities total	**3,040,458**	**(1,410)**	**2,928,342**	**(1,668)**

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.2. 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 it 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 period ended 30 June 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 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

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

As at 30 June 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	420,324	-	-	-	-	420,324
Placements with other banks, net of allowance for placement losses	279,060	677,851	249,921	117,014	-	1,323,846
Financial assets at fair value through profit or loss	3,695	4,420	6,186	12,169	15,618	42,088
Securities at fair value through other comprehensive income	110,448	653,924	506,770	181,238	21,113	1,473,493
Loans	936,685	616,857	942,804	503,270	-	2,999,616
Investment properties	-	-	-	-	2,400	2,400
Investments in subsidiaries, associates and other investments	-	-	-	-	1,201,535	1,201,535
Securities at amortised cost	22,987	37,000	772,300	549,227	-	1,381,514
Other financial assets	85,366	355	14	-	1,460	87,195
TOTAL ASSETS	**1,858,565**	**1,990,407**	**2,477,995**	**1,362,918**	**1,242,126**	**8,932,011**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	332,238	20,215	736,399	41,197	-	1,130,049
Deposits from customers	5,878,674	85,550	32,533	16,316	-	6,013,073
Leasing liabilities	754	3,241	9,362	1,111	-	14,468
Liabilities from issued securities	669	10,394	30,822	699	-	42,584
Subordinated bonds and loans	-	-	-	110,151	-	110,151
Financial liabilities at fair value through profit or loss	882	2,164	9,356	17,522	-	29,924
Other financial liabilities	169,836	111	-	-	-	169,947
TOTAL LIABILITIES	**6,383,053**	**121,675**	**818,472**	**186,996**	**-**	**7,510,196**
NET POSITION	**(4,524,488)**	**1,868,732**	**1,659,523**	**1,175,922**	**1,242,126**	**1,421,815**
Receivables from derivative financial instruments classified as held for trading	1,203,210	1,351,198	921,649	479,619	-	3,955,676
Liabilities from derivative financial instruments classified as held for trading	(2,005,112)	(1,386,067)	(634,787)	(347,569)	-	(4,373,535)
Net position of derivative financial instruments classified as held for trading	***(801,902)***	***(34,869)***	***286,862***	***132,050***	***-***	***(417,859)***
Receivables from derivative financial instruments designated as hedge accounting	16,824	14,534	234,052	67,495	-	332,905
Liabilities from derivative financial instruments designated as hedge accounting	(86,596)	(331,439)	(235,095)	(75,085)	-	(728,215)
Net position of derivative financial instruments designated as hedging accounting	***(69,772)***	***(316,905)***	***(1,043)***	***(7,590)***	***-***	***(395,310)***
Net position of derivative financial instruments total	**(871,674)**	**(351,774)**	**285,819**	**124,460**	**-**	**(813,169)**
Commitments to extend credit	1,266,972	-	-	-	-	1,266,972
Confirmed letters of credit	170	-	-	-	-	170
Factoring loan commitment	204,540	-	-	-	-	204,540
Bank guarantees	57,133	90,348	94,672	550,384	-	792,537
Off-balance sheet commitments	**1,528,815**	**90,348**	**94,672**	**550,384**	**-**	**2,264,219**

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.2. 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
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	780,826	541,894	865,651	498,517	-	2,686,888
Investment properties	-	-	-	-	2,333	2,333
Investments in subsidiaries, associates and other investments	-	-	-	-	1,177,573	1,177,573
Securities at amortised cost	25,418	110,942	720,180	518,647	-	1,375,187
Other financial assets	65,272	223	-	-	1,660	67,155
TOTAL ASSETS	**1,575,906**	**1,557,497**	**2,455,018**	**1,355,409**	**1,221,413**	**8,165,243**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	268,317	19,868	408,234	41,617	-	738,036
Deposits from customers	5,606,687	86,398	32,161	16,252	-	5,741,498
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	113,826	101	-	-	-	113,927
TOTAL LIABILITIES	**5,995,232**	**117,997**	**480,691**	**187,184**	**-**	**6,781,104**
NET POSITION	**(4,419,326)**	**1,439,500**	**1,974,327**	**1,168,225**	**1,221,413**	**1,384,139**
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	1,313,715	-	-	-	-	*1,313,715*
Confirmed letters of credit	96	-	-	-	-	*96*
Factoring loan commitment	179,448	-	-	-	-	*179,448*
Bank guarantees	105,742	64,370	91,755	566,976	-	*828,843*
Off-balance sheet commitments	**1,599,001**	**64,370**	**91,755**	**566,976**	**-**	**2,322,102**

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.3. Net foreign currency position and foreign currency risk

As at 30 June 2019

	USD	EUR	CHF	Others	Total
Assets[1]	265,053	1,546,970	31,939	248,311	2,092,273
Liabilities	(336,785)	(1,204,895)	(29,778)	(138,727)	(1,710,185)
Derivative financial instruments	77,351	(330,614)	(1,833)	(110,910)	(366,006)
Net position	**5,619**	**11,461**	**328**	**(1,326)**	**16,082**

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.

28.4. 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 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.4. Interest rate risk management [continued]

As at 30 June 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	**73,354**	**156,905**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**31,592**	**158,473**	**104,946**	**315,378**	**420,324**
fixed interest	73,354	156,905	-	-	-	-	-	-	-	-	-	-	73,354	156,905	**230,259**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	31,592	158,473	31,592	158,473	**190,065**
Placements with other banks, net of allowance for placement losses	**195,341**	**117,107**	**453,508**	**81,484**	**175,990**	**62,047**	**-**	**3,228**	**159,519**	**29,091**	**32,070**	**12,039**	**1,016,428**	**304,996**	**1,321,424**
fixed interest	37,726	58,611	22,152	52,481	8,966	50,961	-	3,228	159,519	29,091	-	-	228,363	194,372	**422,735**
variable interest	157,615	58,496	431,356	29,003	167,024	11,086	-	-	-	-	-	-	755,995	98,585	**854,580**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	32,070	12,039	32,070	12,039	**44,109**
Securities held for trading	**2,606**	**904**	**324**	**1,598**	**1,805**	**2,708**	**137**	**3,599**	**4,264**	**3,614**	**7,826**	**333**	**16,962**	**12,756**	**29,718**
fixed interest	1,032	485	324	1,598	1,805	2,708	137	3,599	4,264	3,614	-	-	7,562	12,004	**19,566**
variable interest	1,574	419	-	-	-	-	-	-	-	-	-	-	1,574	419	**1,993**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	7,826	333	7,826	333	**8,159**
Securities mandatorily measured at fair value through profit or loss	**-**	**5,026**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**16,282**	**-**	**16,282**	**5,026**	**21,308**
variable interest	-	5,026	-	-	-	-	-	-	-	-	-	-	-	5,026	**5,026**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	16,282	-	16,282	-	**16,282**
Securities at fair value through other comprehensive income	**3,696**	**-**	**88,850**	**-**	**648,567**	**18,378**	**15,925**	**72,845**	**540,588**	**138,799**	**528**	**20,731**	**1,298,154**	**250,753**	**1,548,907**
fixed interest	3,696	-	88,850	-	646,015	18,378	9,905	72,845	445,017	138,799	-	-	1,193,483	230,022	**1,423,505**
variable interest	-	-	-	-	2,552	-	6,020	-	95,571	-	-	-	104,143	-	**104,143**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	528	20,731	528	20,731	**21,259**
Loans measured at amortised cost	**394,141**	**165,408**	**321,988**	**92,493**	**307,654**	**997,295**	**29,265**	**6,239**	**408,029**	**56,851**	**106,930**	**12,571**	**1,568,007**	**1,330,857**	**2,898,864**
fixed interest	9,578	135,991	667	31	10,025	7,027	24,122	6,239	394,329	56,851	-	-	438,721	206,139	**644,860**
variable interest	384,563	29,417	321,321	92,462	297,629	990,268	5,143	-	13,700	-	-	-	1,022,356	1,112,147	**2,134,503**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	106,930	12,571	106,930	12,571	**119,501**
Loans mandatorily measured at fair value through profit or loss	**30,463**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**30,463**	**-**	**30,463**
variable interest	30,463	-	-	-	-	-	-	-	-	-	-	-	30,463	-	**30,463**
Securities at amortised cost	**-**	**-**	**-**	**-**	**37,197**	**-**	**59,622**	**-**	**1,342,296**	**-**	**-**	**-**	**1,439,115**	**-**	**1,439,115**
fixed interest	-	-	-	-	37,197	-	59,622	-	1,342,296	-	-	-	1,439,115	-	**1,439,115**
Other financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**74,629**	**5,041**	**74,629**	**5,041**	**79,670**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	74,629	5,041	74,629	5,041	**79,670**

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.4. Interest rate risk management [continued]

As at 30 June 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**	
Derivative financial assets	**1,027,793**	**384,161**	**753,232**	**369,784**	**725,087**	**394,291**	**24,636**	**267,176**	**21,609**	**87,254**	**257,345**	**153,764**	**2,809,702**	**1,656,430**	**4,466,132**
fixed interest	991,719	374,215	610,709	342,334	725,579	359,834	24,636	267,167	21,609	87,254	-	-	2,374,252	1,430,804	**3,805,056**
variable interest	36,074	9,946	142,523	27,450	-492	34,457	-	9	-	-	-	-	178,105	71,862	**249,967**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	257,345	153,764	257,345	153,764	**411,109**
LIABILITIES															
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	**446,871**	**460,654**	**7,312**	**102,222**	**7,731**	**5,195**	**1,315**	**-**	**93,090**	**-**	**3,612**	**2,047**	**559,931**	**570,118**	**1,130,049**
fixed interest	396,033	318,056	7,312	3,539	7,731	5,195	1,315	-	93,090	-	-	-	505,481	326,790	**832,271**
variable interest	50,838	142,598	-	98,683	-	-	-	-	-	-	-	-	50,838	241,281	**292,119**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	3,612	2,047	3,612	2,047	**5,659**
Financial liabilities designated to measure at fair value through profit or loss	**29,924**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**29,924**	**-**	**29,924**
fixed interest	118	-	-	-	-	-	-	-	-	-	-	-	118	-	**118**
variable interest	29,806	-	-	-	-	-	-	-	-	-	-	-	29,806	-	**29,806**
Deposits from customers	**4,851,881**	**906,333**	**148,861**	**45,162**	**44,492**	**16,219**	**243**	**-**	**-**	**-**	**(138)**	**20**	**5,045,339**	**967,734**	**6,013,073**
fixed interest	537,333	158,428	148,861	45,162	44,469	16,219	243	-	-	-	-	-	730,906	219,809	**950,715**
variable interest	4,314,548	747,905	-	-	23	-	-	-	-	-	-	-	4,314,571	747,905	**5,062,476**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	(138)	20	(138)	20	**(118)**
Liabilities from issued securities	**-**	**17,922**	**-**	**12,471**	**-**	**7,954**	**-**	**3,427**	**-**	**2,055**	**226**	**-**	**226**	**43,829**	**44,055**
fixed interest	-	-	-	-	-	3,267	-	3,427	-	2,055	-	-	-	8,749	**8,749**
variable interest	-	17,922	-	12,471	-	4,687	-	-	-	-	-	-	-	35,080	**35,080**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	226	-	226	-	**226**
Subordinated bonds and loans	**-**	**-**	**-**	**110,605**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**110,605**	**110,605**
fixed interest	-	-	-	110,605	-	-	-	-	-	-	-	-	-	110,605	**110,605**
Leasing liabilities	**129**	**122**	**258**	**243**	**2,079**	**1,162**	**2,097**	**1,309**	**2,958**	**4,111**	**-**	**-**	**7,521**	**6,947**	**14,468**
fixed interest	129	122	258	243	2,079	1,162	2,097	1,309	2,958	4,111	-	-	7,521	6,947	**14,468**
Other financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**161,037**	**8,910**	**161,037**	**8,910**	**169,947**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	161,037	8,910	161,037	8,910	**169,947**
Derivative financial liabilities	**1,019,385**	**400,721**	**832,858**	**280,029**	**750,324**	**358,699**	**276,193**	**16,981**	**40,319**	**66,699**	**214,051**	**192,354**	**3,133,130**	**1,315,483**	**4,448,613**
fixed interest	973,448	393,553	697,044	261,496	750,428	333,405	276,193	16,981	40,319	66,699	-	-	2,737,432	1,072,134	**3,809,566**
variable interest	45,937	7,168	135,814	18,533	-104	25,294	-	-	-	-	-	-	181,647	50,995	**232,642**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	214,051	192,354	214,051	192,354	**406,405**
NET POSITION	**(4,620,796)**	**(956,241)**	**628,613**	**(5,373)**	**1,091,674**	**1,085,490**	**(150,263)**	**331,370**	**2,339,938**	**242,744**	**148,414**	**159,621**	**(562,420)**	**857,611**	**295,191**

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.4. 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**
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	**100,965**	**131,383**	**557,742**	**865,556**	**45,658**	**61,812**	**22,359**	**1,752**	**635,415**	**45,254**	**98,355**	**19,867**	**1,460,494**	**1,125,624**	**2,586,118**
fixed interest	16,727	125,609	628	1,268	14,922	10,847	20,092	1,752	627,631	45,254	-	-	680,000	184,730	**864,730**
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**
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 instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**36,245**	**4,120**	**36,245**	**4,120**	**40,365**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	36,245	4,120	36,245	4,120	**40,365**

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.4. 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**	
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**
LIABILITIES															
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	**405,239**	**139,449**	**4,153**	**55,330**	**1,152**	**22,846**	**1,514**	**-**	**98,302**	**280**	**8,593**	**1,178**	**518,953**	**219,083**	**738,036**
fixed interest	378,351	44,280	4,153	16,450	1,152	2,798	1,514	-	98,302	280	-	-	483,472	63,808	**547,280**
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**
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**
fixed interest	-	-	-	110,454	-	-	-	-	-	-	-	-	-	110,454	**110,454**
Other financial instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**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	**(1,135,706)**	**248,375**	**983,722**	**806,376**	**567,409**	**72,779**	**96,952**	**272,606**	**(1,648,598)**	**(331,614)**	**303,196**	**51,765**	**(833,025)**	**1,120,287**	**287,262**

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.5. 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 28.2, 28.3 and 28.4 respectively.)

28.5.1. 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 diversification effect has not been validated among the various market risk types.

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

Historical VaR (99%, one-day) by risk type	**Average**	
	30 June 2019	**31 December 2018**
Foreign exchange	273	430
Interest rate	77	134
Equity instruments	27	33
Diversification	-	-
Total VaR exposure	**377**	**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 28.5.2., for interest rate risk in Note 28.5.3., and for equity price sensitivity analysis in Note 28.5.4.

28.5.2. 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 30 June 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. 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.

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.5. Market risk [continued]

28.5.2. Foreign currency sensitivity analysis [continued]

Probability	Effects to the P&L in 3 months period 30 June 2019 In HUF billion	31 December 2018 In HUF billion
1%	(12.2)	(12.2)
5%	(8.4)	(8.3)
25%	(3.5)	(3.5)
50%	(0.3)	(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.

28.5.3. 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 July 2019 would be decreased by HUF 1,829 million (scenario 1) and HUF 3,418 million (scenario 2) as a result of these simulation. This effect is counterbalanced by capital gains (HUF 256 million for scenario 1, HUF 3,082 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	30 June 2019 Effects to the net interest income (one-year period)	30 June 2019 Effects to shareholder's equity (Price change of FVOCI government bonds)	31 December 2018 Effects to the net interest income (one-year period)	31 December 2018 Effects to shareholder's equity (Price change of FVOCI government bonds)
HUF (0.1%) parallel shift	(1,617)	641	(1,662)	671
EUR (0.1%) parallel shift	(675)	-	(93)	-
EUR 0.1% parallel shift	675	-	-	-
USD (0.1%) parallel shift	(87)	-	(40)	-
Total	**(1,704)**	**641**	**(1,795)**	**671**

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.5. Market risk [continued]

28.5.4. 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	30 June 2019	31 December 2018
VaR (99%, one day, million HUF)	27	33
Stress test (million HUF)	(38)	(43)

28.6. 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 30 June 2019 and 31 December 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 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.6. Capital management [continued]

Capital adequacy [continued]

The calculation of the Capital Adequacy ratio as at 30 June 2019 and 31 December 2018 is as follows:

	30 June 2019[1] **Basel III**	**31 December 2018 Basel III**
Tier 1 capital	1,422,305	1,433,839
Common equity Tier 1 capital (CET1)	*1,422,305*	*1,433,839*
Additional Tier 1 capital (AT1)	-	-
Tier 2 capital	110,144	109,994
Regulatory capital	**1,532,449**	**1,543,833**
Credit risk capital requirement	421,437	401,989
Market risk capital requirement	6,770	9,263
Operational risk capital requirement	31,854	26,466
Total requirement regulatory capital	**460,061**	**437,718**
Surplus capital	**1,072,388**	**1,106,115**
CET 1 ratio	24.73%	26.21%
Capital adequacy ratio	**26.65%**	**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.

[1] Capital adequacy ratio as at 30 June 2019 is not take into account the net profit for the six month period ended 30 June 2019. Regarding the calculation of eligible profit for the six month period ended 30 June 2019, the deducted dividend amount and any foreseeable charges were determined in accordance RTS Article 2. Paragraph (7).

NOTE 29: 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. Due to the decrease in transaction volume and the changes in conditions, the Bank has chosen to keep the securities and realise its cash-flows, however also realising potential gains by making favourable buy-sell transaction on the market.

Financial assets transferred but not derecognised

	30 June 2019		31 December 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	-	-	19,105	19,290
Total:	**-**	**-**	**19,105**	**19,290**
Financial assets at amortised cost				
Debt securities	756,827	744,399	261,824	260,362
Total:	**756,827**	**744,399**	**261,824**	**260,362**
Total:	**756,827**	**744,399**	**280,929**	**279,652**

As at 30 June 2019 and 31 December 2018, the Bank had obligation from repurchase agreements about HUF 744 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 Hungarian Government deposits from the National Bank of Hungary and other banks’. Under these repurchase agreements only Hungarian and foreign government bonds were transferred.

NOTE 30: 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

	30 June 2019	**31 December 2018**
Loan commitments	1,266,972	1,313,715
Guarantees arising from banking activities	792,537	828,843
from this: Payment undertaking liabilities (related to issue of mortgage bonds) of OTP Mortgage Bank	*446,485*	*472,213*
Confirmed letters of credit	170	96
Factoring loan commitments	204,540	179,448
Contingent liabilities and commitments total in accordance with IFRS 9	**2,264,219**	**2,322,102**
Legal disputes (disputed value)	3,095	3,772
Other	19,994	12,459
Contingent liabilities and commitments total in accordance with IAS 37	**23,089**	**16,231**
Total	**2,287,308**	**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 699 million and HUF 691 million as at 30 June 2019 and 31 December 2018, respectively. (See Note 19.)

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 30: 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 31: 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 31: 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 2013-2014 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 31: 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 30 June 2019:

	Approved pieces of shares	Exercised until 30 June 2019	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable at 30 June 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	212,950	10,201	-	10,087

Based on parameters accepted by Supervisory Board, relating to the year **2015** effective pieces are follows as at 30 June 2019:

	Approved pieces of shares	Exercised until 30 June 2019	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable at 30 June 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	154,462	10,053	-	11,585
Remuneration exchanged to share provided in 2018	9,229	9,229	10,098	-	-
Share-purchasing period starting in 2019	199,215	63,692	11,602	-	135,523
Remuneration exchanged to share applying 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 30 June 2019:

	Approved pieces of shares	Exercised until 30 June 2019	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable at 30 June 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	314,919	10,284	-	6,609
Remuneration exchanged to share provided in 2018	8,241	8,241	10,098	-	-
Share-purchasing period starting in 2019	161,446	31,641	11,583	-	129,805
Remuneration exchanged to share applying 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 31: 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 30 June 2019:

	Approved pieces of shares	Exercised until 30 June 2019	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable at 30 June 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 starting in 2019	216,253	61,210	11,779	-	155,043
Remuneration exchanged to share applying 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 30 June 2019:

	Approved pieces of shares	Exercised until 30 June 2019	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable at 30 June 2019
Share-purchasing period starting in 2019	83,139	951	11,759	-	82,188
Remuneration exchanged to share applying in 2019	17,017	15,122	11,813	-	1,895
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 1,603 million was recognized as expense for the year ended 30 June 2019.

NOTE 32: 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:

32.1. Loans provided to related parties

	30 June 2019		31 December 2018	
	Gross carrying amount	**Loss allowance**	**Gross carrying amount**	**Loss allowance**
OTP Financing Malta Company Ltd. (Malta)	739,987	(3,585)	540,722	(1,715)
OTP Mortgage Bank Ltd.	613,446	(865)	508,617	(690)
Merkantil Bank Ltd.	345,056	(952)	303,294	(784)
Vojvodanska Banka ad Novi Sad (Serbia)	93,292	(265)	38,118	(126)
OTP banka Hrvatska d.d. (Croatia)	46,460	-	19,290	-
OTP Employee Stock Ownership Program (OTP ESOP)	37,529	-	-	-
OTP Banka Slovensko a.s. (Slovakia)	29,869	(115)	12,907	(48)
OTP Holding Malta Ltd.	29,076	(142)	24,388	(105)
OTP Real Estate Leasing Ltd.	27,723	(167)	19,752	(299)
OTP Factoring Ltd.	10,732	(63)	33,119	(175)
D-ÉG Thermoset Llc.	-	-	859	(837)
Other	60,806	(148)	97,410	(348)
Total	**2,033,976**	**(6,302)**	**1,598,476**	**(5,127)**

32.2. Deposits from related parties

	30 June 2019	**31 December 2018**
DSK Bank EAD (Bulgaria)	390,209	260,921
Expressbank AD (Bulgaria)	193,986	-
JSC "OTP Bank" (Russia)	95,410	94,394
OTP Funds Servicing and Consulting Ltd.	82,756	43,132
OTP Mortgage Bank Ltd.	44,456	44,891
OTP Building Society Ltd.	35,047	36,424
OTP Bank Romania S.A. (Romania)	33,275	26,329
OTP banka Hrvatska d.d. (Croatia)	19,069	33,386
Crnogorska komercijalna banka a.d. (Montenegro)	24,563	12,541
OTP Bank JSC (Ukraine)	22,325	6,429
OTP Holding Ltd. / OTP Financing Ciprus Co. Ltd. (Ciprus)	10,708	11,434
Merkantil Bank Ltd.	10,172	6,746
Inga Kettő Ltd.	9,757	12,455
OTP Employee Stock Ownership Program (OTP ESOP)	7,808	4,063
OTP Factoring Ltd.	7,045	9,225
Balansz Private Open-end Investment Fund	6,672	7,814
Air-Invest Llc.	4,123	4,121
OTP Financing Malta Company Ltd. (Malta)	1,326	4,184
Other	90,954	29,553
Total	**1,089,661**	**648,042**

NOTE 32: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

32.3. Interests received by the Bank[1]

	30 June 2019	30 June 2018
OTP Financing Malta Company Ltd. (Malta)	7,636	4,239
Merkantil Bank Ltd.	2,203	1,892
OTP Mortgage Bank Ltd.	613	223
Other	288	342
Total	**10,740**	**6,696**

32.4. Interests paid by the Bank[1]

	30 June 2019	30 June 2018
JSC "OTP Bank" (Russia)	3,934	2,815
DSK Bank EAD (Bulgaria)	1,405	381
Expressbank AD (Bulgaria)	273	-
OTP Funds Servicing and Consulting Ltd.	111	93
Crnogorska komercijalna banka a.d. (Montenegro)	61	56
OTP banka Hrvatska d.d. (Croatia)	37	13
Other	136	169
Total	**5,957**	**3,527**

32.5. Commissions received by the Bank

	30 June 2019	30 June 2018
From OTP Real Estate Investment Fund Management Ltd. in relation to trading activity	2,486	1,356
From OTP Fund Management Ltd. in relation to trading activity	2,373	2,444
From OTP Building Society Ltd. (agency fee in relation to finalised customer contracts)	371	796
OTP Funds Servicing and Consulting Ltd.	229	269
OTP Mobile Service Llc.	737	64
From OTP Fund management Ltd. in relation to deposit services	48	174
From LLC MFO “OTP Finance” (Russia) (guarantee fee)	-	26
Other	294	155
Total	**6,538**	**5,284**

32.6. Commissions paid by the Bank

	30 June 2019	30 June 2018
OTP Factoring Ltd. related to commission fee	88	126
Total	**88**	**126**

32.7. Transactions related to OTP Mortgage Bank Ltd.:

	30 June 2019	30 June 2018
Fees and commissions received from OTP Mortgage Bank Ltd. relating to the loans	5,922	6,239
Loans sold to OTP Mortgage Bank Ltd. with recourse (including interest)	-	358
The gross book value of the loans sold	-	355

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

NOTE 32: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

32.8. Transactions related to OTP Factoring Ltd.:

	30 June 2019	**30 June 2018**
The gross book value of the loans sold	6,940	7,336
Provision for loan losses on the loans sold	4,636	4,487
Loans sold to OTP Factoring Ltd. without recourse (including interest)	1,379	2,194
Loss on these transaction (recorded in the separate financial statements as loan and placement loss)	925	655

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

32.9. 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	**30 June 2019**	**31 December 2018**
Short-term employee benefits	1,085	2,316
Share-based payment	1,150	2,431
Long-term employee benefits (on the basis of IAS 19)	152	209
Total	**2,387**	**4,956**

	30 June 2019	**31 December 2018**
Loans provided to companies owned by the Management (in the normal course of business)	-	61,692
Commitments to extend credit and bank guarantees	-	37,567
Credit lines of the members of Board of Directors and the Supervisory Board and their close family members (at market conditions)	5,580	4,450

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

	30 June 2019	**31 December 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	111	117
Total	**198**	**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 32: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

32.9. Related party transactions with key management [continued]

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

	30 June 2019	31 December 2018
Members of Board of Directors and their close family members	11	14
Executive	1	5
Total	**12**	**19**
Interest	floating, monthly 2.19%	floating, monthly 2.18%
Annual fee	15,384 HUF/year	15,044 HUF/year
Collateral	income received to bank account	income received to bank account

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

	30 June 2019	31 December 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):

	30 June 2019	31 December 2018
Members of Board of Directors and their close family members	5	2
Executive	34	35
Total	**39**	**37**
Interest	floating, monthly 2.45%	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):

	30 June 2019	31 December 2018
Members of Board of Directors and their close family members	20	17
Members of Supervisory board	5	-
Executive and their close family members	71	79
Total	**96**	**96**
Interest	floating, monthly 2.48%	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 32: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

32.9. Related party transactions with key management [continued]

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

	30 June 2019	**31 December 2018**
Members of Board of Directors and their close family members	29,084	29,084
Interest	0.66%	0.66%
Collateral	Securities bail	Securities bail
Executive and their close family members	855	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	**29,939**	**29,314**

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

	30 June 2019	**31 December 2018**
Executive	12	12
Interest	9.99%-11.55%	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):

	30 June 2019	**31 December 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):

	30 June 2019	**31 December 2018**
Members of Board of Directors	1,267	1,119
Members of Supervisory Board	56	113
Total	**1,323**	**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 33: 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.

	30 June 2019	**31 December 2018**
Loans managed by the Bank as a trustee	29,677	30,156

NOTE 34: CONCENTRATION OF ASSETS AND LIABILITIES

	30 June 2019	31 December 2018
In the percentage of the total assets		
Receivables from, or securities issued by the Hungarian Government or the NBH	24%	26%
Securities issued by the OTP Mortgage Bank Ltd.	1.96%	1.80%

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

OTP Bank continuously provides the Authority with reports on the extent of dependency on large depositors as well as the exposure of the biggest 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 biggest 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.

NOTE 35: 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.

	30 June 2019	31 December 2018
Net profit for the year attributable to ordinary shareholders (in HUF mn)	107,907	173,442
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	279,739,614	279,237,071
Basic Earnings per share (in HUF)	**386**	**621**
Separate net profit for the year attributable to ordinary shareholders (in HUF mn)	107,907	173,442
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	279,767,719	279,302,400
Diluted Earnings per share (in HUF)	**386**	**621**

	30 June 2019	31 December 2018
	number of shares	
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	(260,396)	(762,939)
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	**279,739,614**	**279,237,071**
Dilutive effect of options issued in accordance with the Remuneration Policy / Management Option Program and convertible into ordinary shares[1]	28,105	65,329
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	**279,767,719**	**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 36: NET GAIN OR LOSS REALISED ON FINANCIAL INSTRUMENTS (in HUF mn)

For the six month period ended 30 June 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	564	-	-	-
Placements with other banks, net of allowance for placement losses	2,683	-	375	-
Loans	66,126	7,618	2,378	-
Consumer loans	*32,451*	*198*	*2,485*	-
Mortgage loans	*3,832*	*6,597*	*(116)*	-
Corporate loans	*29,145*	*814*	*(219)*	-
Municipality loans	*698*	*9*	*228*	-
Securities at amortised cost	24,601	-	(258)	-
Financial assets measured at amortised cost total	**93,974**	**7,618**	**2,495**	**-**
Financial assets measured at fair value				
Securities held for trading	2	757	-	-
Securities at fair value through other comprehensive income	19,390	3,922[1]	(37)	12,942
Loans mandatorily measured at fair value through profit or loss	343	-	-	-
Consumer loans	*1*	-	-	-
Corporate loans	*112*	-	-	-
Municipality loans	*230*	-	-	-
Financial assets measured at fair value total	**19,735**	**4,679**	**(37)**	**12,942**
Financial liabilities measured at amortised cost				
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	(7,472)	-	-	-
Deposits from customers	(2,000)	72,383	-	-
Household deposits	*(572)*	*36,900*	-	-
Corporate deposits	*(1,391)*	*34,974*	-	-
Municipality deposits	*(37)*	*509*	-	-
Leasing liabilities	(123)	-	-	-
Liabilities from issued securities	(1,107)	-	-	-
Subordinated bonds and loans	(1,516)	-	-	-
Financial liabilities measured at amortised cost total	**(12,218)**	**72,383**	**-**	**-**
Financial liabilities designated to measure at fair value through profit or loss	**(193)**	**(664)**	**-**	**-**
Derivative financial instruments	**5**	**1,112**	**-**	**-**
Total	**101,303**	**85,128**	**2,458**	**12,942**

[1] For the six month period ended 30 June 2019 HUF 3,922 million net non-interest gain on securities at fair value through other comprehensive income was transferred from other comprehensive income to profit or loss.

NOTE 36: 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	6,143	-	895	-
Loans	119,824	13,765	(8,002)	-
Consumer loans	*59,835*	*377*	*2,093*	-
Mortgage loans	*8,537*	*11,988*	*(2,144)*	-
Corporate loans	*50,059*	*1,399*	*(8,186)*	-
Municipality loans	*1,393*	*1*	*234*	-
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[2]	(553)	(29,313)
Loans mandatorily measured at fair value through profit or loss	681	-	-	-
Consumer loans	*3*	-	-	-
Corporate loans	*305*	-	-	-
Municipality loans	*373*	-	-	-
Financial assets measured at fair value total	**44,387**	**(334)**	**(553)**	**(29,313)**
Financial liabilities measured at amortised cost				
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	(10,748)	-	-	-
Deposits from customers	(4,551)	133,571	-	-
Household deposits	(1,124)	66,234	-	-
Corporate deposits	(3,356)	65,998	-	-
Municipality deposits	(71)	1,339	-	-
Leasing liabilities	(1)	-	-	-
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	**11,619**	**4,224**	**-**	**-**
Total	**210,150**	**163,800**	**(7,469)**	**(29,313)**

[2] For the year ended 31 December 2019 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.

NOTE 37: 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 37. 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 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

a) Fair value of financial assets and liabilities

	30 June 2019		31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash, amounts due from banks and balances with the National Bank of Hungary	420,324	420,326	360,855	360,855
Placements with other banks, net of allowance for placement losses	1,321,424	1,337,670	1,074,840	1,074,283
Financial assets at fair value through profit or loss	138,184	138,184	155,042	155,042
Held for trading securities	*29,718*	*29,718*	*22,322*	*22,322*
Derivative financial instruments classified as held for trading	*87,158*	*87,158*	*112,062*	*112,062*
Securities mandatorily measured at fair value through profit or loss	*21,308*	*21,308*	*20,658*	*20,658*
Securities at fair value through other comprehensive income	1,548,907	1,548,907	1,451,905	1,451,905
Loans[1]	2,929,327	3,155,961	2,618,863	2,791,633
Securities at amortised cost	1,439,115	1,535,448	1,431,789	1,495,025
Derivative financial instruments designated as hedging instruments	12,630	12,630	12,221	12,221
Other financial assets	79,670	79,670	40,365	40,365
FINANCIAL ASSETS TOTAL	**7,889,581**	**8,228,796**	**7,145,880**	**7,381,329**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	1,130,049	1,132,356	738,036	726,944
Deposits from customers	6,013,073	6,027,834	5,741,498	5,739,024
Leasing liabilities	14,468	14,468	-	-
Liabilities from issued securities	44,055	53,893	46,694	55,199
Derivative financial instruments designated as hedging instruments	11,135	11,135	6,925	6,925
Financial liabilities at fair value through profit or loss	29,924	29,924	32,231	32,231
Held for trading derivative financial liabilities	71,134	71,134	82,838	82,838
Subordinated bonds and loans	110,605	104,323	110,454	101,648
Other financial liabilities	169,947	169,947	99,942	99,942
FINANCIAL LIABILITIES TOTAL	**7,594,390**	**7,615,014**	**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 37: 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:

	30 June 2019		31 December 2018	
	Assets	Liabilities	Assets	Liabilities
Held for trading derivative financial instruments				
Interest rate derivatives				
Interest rate swaps	25,977	(25,040)	22,862	(21,669)
Cross currency interest rate swaps	1,298	(1,100)	17,078	(17,164)
OTC options	401	(401)	256	(256)
Forward rate agreement	31	(108)	17	(57)
Total interest rate derivatives (OTC derivatives)	**27,707**	**(26,649)**	**40,213**	**(39,146)**
From this: Interest rate derivatives cleared by central counterparty	*205*	*(13)*	*581*	*(142)*
Foreign exchange derivatives				
Foreign exchange swaps	21,180	(20,741)	27,705	(25,982)
Foreign exchange forward	1,949	(3,841)	2,435	(2,914)
OTC options	3,488	(3,541)	3,310	(3,377)
Foreign exchange spot conversion	39	(45)	69	(32)
Total foreign exchange derivatives (OTC derivatives)	**26,656**	**(28,168)**	**33,519**	**(32,305)**
From this: Foreign exchange derivatives cleared by central counterparty	*971*	*(806)*	*5,859*	*(1,741)*
Equity stock and index derivatives				
Commodity Swaps	887	(930)	1,883	(1,048)
Equity swaps	6,188	(375)	6,728	(568)
OTC derivatives total	**7,075**	**(1,305)**	**8,611**	**(1,616)**
Exchange traded futures and options	33	(24)	105	(965)
Total equity stock and index derivatives	**7,108**	**(1,329)**	**8,716**	**(2,581)**
Derivatives held for risk management not designated in hedge				
Interest rate swaps	22,305	(12,326)	23,495	(8,107)
Foreign exchange swaps	3,317	(2,548)	5,675	(615)
Foreign exchange spot conversion	-	-	436	(57)
Forward	56	(21)	9	(26)
Cross currency interest rate swaps	9	(93)	-	-
Total derivatives held for risk management not designated in hedge	**25,687**	**(14,988)**	**29,615**	**(8,805)**
From this: Total derivatives cleared by central counterparty held for risk management	*4,740*	*(2,978)*	119	(8,329)
Total Held for trading derivative financial instruments	**87,158**	**(71,134)**	**112,063**	**(82,837)**
Derivative financial instruments designated as hedge accounting				
Derivatives designated in cash flow hedges				
Interest rate swaps	6,678	(1)	3,751	(523)
Total derivatives designated in cash flow hedges	**6,678**	**(1)**	**3,751**	**(523)**
Derivatives designated in fair value hedges				
Interest rate swaps	2,348	(8,785)	4,467	(6,050)
Cross currency interest rate swaps	3,434	(740)	4,002	(352)
Foreign exchange swaps	170	(1,609)	-	-
Total derivatives designated in fair value hedges	**5,952**	**(11,134)**	**8,469**	**(6,402)**
From this: Total derivatives cleared by NBH held for hedging	*-*	*(4,281)*	*21*	*(5,057)*
Total derivatives held for risk management (OTC derivatives)	**12,630**	**(11,135)**	**12,220**	**(6,925)**

NOTE 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Hedge accounting

Amount, timing and uncertainty of future cash flows - hedging instruments as at 30 June 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	-	-	313,514	68,568	48,000	**430,082**
		Average Interest Rate (%)	-	-	1.60%	1.36%	1.85%	
		EUR						
		Notional	-	-	20	177	27	**224**
		Average Interest Rate (%)	-	-	3.88%	0.14%	0.61%	
		USD						
		Notional	-	-	10	441	29	**480**
		Average Interest Rate (%)	-	-	2.61%	1.93%	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	-	1	2	15	14	**32**
		Average Interest Rate (%)	(1.58%)	(1.59%)	(1.61%)	(1.63%)	(1.66%)	
		Average FX Rate	310.80	310.86	310.45	309.79	308.69	
Fair Value Hedge	**FX risk**	**Cross currency interest rate swap**						
		EUR/HUF						
		Notional	319	-	-	-	-	**319**
		Average FX Rate	319.90	-	-	-	-	
		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	211	(565)	2,206	27,458	727	**30,037**
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 37: 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 37: 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 six month period ended 30 June 2019		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 six month period ended 30 June 2019
				Assets	Liabilities		
Fair value hedge							
	Interest rate swap	Interest rate risk	648,081	453	(8,784)	Derivative financial instruments designated as hedge accounting	806
	Cross-currency swap	FX & IR risk	9,987	-	(343)	Derivative financial instruments designated as hedge accounting	(123)
	Cross-currency swap	FX risk	134,261	3,434	(397)	Derivative financial instruments designated as hedge accounting	(378)
	Foreign exchange swaps	FX risk	103,209	170	(1,609)	Derivative financial instruments designated as hedge accounting	723
	Interest rate swap	Other	32,204	1,895	(1)	Derivative financial instruments designated as hedge accounting	-
Cash flow hedge							
	Interest rate swap	Interest rate risk	133,379	6,678	(1)	Derivative financial instruments designated as hedge accounting	(104)

	Type of risk	Carrying amount of the hedged item for the six month period ended 30 June 2019		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item for the six month period ended 30 June 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***	2,519	-	494	-	Loans
- Government bonds	***Interest rate risk***	350,919	-	817	-	Securities at amortised cost
- Government bonds	***Interest rate risk***	86,090	-	965	-	Securities at fair value through other comprehensive income
- Government bonds	***Interest rate risk***	1,006	-	18	-	Financial assets at fair value through profit or loss
- Other securities	***Interest rate risk***	40,286	-	193	-	Securities at fair value through other comprehensive income
- Loans	***FX & IR risk***	8	-	-	-	Loans
- Loans	***FX risk***	29,959	-	2,463	-	Loans
- Other securities	***Other risk***	-	(23,484)	-	(4,378)	Liabilities from issued securities
Fair value hedges total		**510,787**	**(23,484)**	**4,950**	**(4,378)**	
Cash flow hedges						
- Loans	***Interest rate risk***	40,221	-	33	-	Loans

NOTE 37: 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		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
				Assets	Liabilities		
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 37: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Hedge accounting [continued]

30 June 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	1,153	104	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 30 June 2019	**Total**	**Level 1**	**Level 2**	**Level 3**
Loans mandatorily measured at fair value through profit or loss	30,463	-	-	30,463
Financial assets at fair value through profit or loss	138,184	43,954	94,230	-
from this: securities held for trading	*29,718*	*22,614*	*7,104*	-
from this: positive fair value of derivative financial instruments classified as held for trading	*87,158*	*32*	*87,126*	-
from this: securities mandatorily measured at fair value through profit or loss	*21,308*	*21,308*	-	-
Securities at fair value through other comprehensive income	1,548,907	1,131,514	413,178	4,215
Positive fair value of derivative financial instruments designated as fair value hedge	12,630	-	12,630	-
Financial assets measured at fair value total	**1,730,184**	**1,175,468**	**520,038**	**34,678**
Financial liabilities at fair value through profit or loss	29,924	-	-	29,924
Negative fair value of derivative financial instruments classified as held for trading	71,134	24	71,110	-
Short position	21,281	21,281	-	-
Negative fair value of derivative financial instruments designated as hedge accounting	11,135	-	11,135	-
Financial liabilities measured at fair value total	**133,474**	**21,305**	**82,245**	**29,924**

NOTE 37: 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 37: 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.

30 June 2019	Fair values		Effect on profit and loss	
	Favourable	Unfavourable	Favourable	Unfavourable
VISA C shares	2,410	1,831	289	(289)
Loans mandatory measured at fair value through profit and loss	30,790	30,463	327	(327)
Total	**33,200**	**32,294**	**616**	**(616)**

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 30 June 2019 and 31 December 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 six month period ended 30 June 2019

	Opening balance	Settlement	FVA	Closing balance
Loans at fair value through other comprehensive income	32,745	(2,408)	126	30,463
Securities mandatorily measured at fair value through profit or loss	3,146	-	1,069	4,215
Financial liabilities at fair value through profit or loss	(32,231)	1,643	664	(29,924)
Total	**3,660**	**(765)**	**1,859**	**4,754**

NOTE 38: SIGNIFICANT EVENTS DURING THE SIX MONTH PERIOD ENDED 30 JUNE 2019

1) **Capital increase at DSK Bank**
2) **Capital increase at OTP banka Slovensko**
3) **Acquisition in Moldova**
4) **Acquisition in Montenegro**
5) **Financial closure of the Albanian acquisition**
6) **Acquisition in Slovenia**

See details about the events in Note 9.

NOTE 39: SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

1) Capital increase at CKB

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.

2) Agreement on the sale of Express Life Bulgaria

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. The financial closure of the transaction is expected in the coming months subject to obtaining all the necessary regulatory approvals.

3) The financial closure of OTP Bank's Montenegrin acquisition has been completed

Based on the acquisition agreement 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 it has been active in the retail and corporate segment as well.

4) 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.

5) The financial closure of OTP Bank's Moldovan acquisition has been completed

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%, MBSG is the 4th largest bank on the Moldovan banking market and as a universal bank it has been active in the retail and corporate segment as well.

6) Capital increase in OTP Bank Romania

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.

7) The financial closure of OTP Bank's Serbian acquisition has been completed

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 it has been active in the retail and corporate segment as well.