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 2023

OTP BANK PLC.

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OTP BANK PLC.
SEPARATE STATEMENT OF FINANCIAL POSITION (UNAUDITED) AS AT 30 JUNE 2023
(in HUF mn)

	Note	30 June 2023	31 December 2022	30 June 2022
Cash, amounts due from banks and balances with the National Bank of Hungary	5.	2,316,708	1,092,198	445,285
Placements with other banks	6.	2,478,055	2,899,829	3,148,794
Repo receivables	7.	234,291	246,529	27,646
Financial assets at fair value through profit or loss	8.	480,694	410,012	463,282
Financial assets at fair value through other comprehensive income	9.	564,606	797,175	740,995
Securities at amortised cost	10.	3,097,503	3,282,373	3,695,491
Loans at amortised cost	11.	4,684,575	4,825,040	4,441,803
Loans mandatorily measured at fair value through profit or loss	11.	849,682	793,242	752,196
Investments in subsidiaries	12.	2,007,901	1,596,717	1,473,089
Property and equipment	13.	94,806	94,564	83,065
Intangible assets	13.	72,369	69,480	60,815
Right of use assets	35.	40,112	39,882	36,976
Investment properties	14.	4,266	4,207	4,262
Deferred tax assets	34.	24,450	35,742	21,578
Current tax assets	34.	1,042	1,569	448
Derivative financial assets designated as hedge accounting relationships	15.	34,320	47,220	34,269
Other assets	16.	365,595	329,752	331,418
TOTAL ASSETS		**17,350,975**	**16,565,531**	**15,761,412**
Amounts due to banks and deposits from the National Bank of Hungary and other banks	17.	1,642,660	1,736,128	1,495,427
Repo liabilities	18.	1,431,820	408,366	460,281
Deposits from customers	19.	10,268,351	11,119,158	10,959,373
Leasing liabilities	35.	40,553	41,464	38,586
Liabilities from issued securities	20.	810,136	498,709	16,394
Financial liabilities designated at fair value through profit or loss	21.	20,037	16,576	17,810
Derivative financial liabilities designated as held for trading	22.	259,305	373,401	375,606
Derivative financial liabilities designated as hedge accounting relationships	23.	35,427	50,623	61,677
Current tax liabilities	34.	3,570	3,199	2,003
Provisions	24.	38,171	29,656	22,128
Other liabilities	24.	356,724	313,188	305,693
Subordinated bonds and loans	25.	513,079	294,186	294,683
TOTAL LIABILITIES		**15,419,833**	**14,884,654**	**14,049,661**
Share capital	26.	28,000	28,000	28,000
Retained earnings and reserves	27.	1,909,431	1,655,601	1,687,499
Treasury shares	28.	(6,289)	(2,724)	(3,748)
TOTAL SHAREHOLDERS' EQUITY		**1,931,142**	**1,680,877**	**1,711,751**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**17,350,975**	**16,565,531**	**15,761,412**

OTP BANK PLC.
SEPARATE STATEMENT OF PROFIT OR LOSS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2023 (UNAUDITED)
(in HUF mn)

	Note	Six month period ended 30 June 2023	Six month period ended 30 June 2022	Year ended 31 December 2022
Interest Income:				
Interest income calculated using the effective interest method	29.	607,079	265,113	721,679
Income similar to interest income	29.	401,949	127,901	377,231
Interest income and similar to interest income total		**1,009,028**	**393,014**	**1,098,910**
Interest Expense:				
Interest expenses total	29.	**(798,221)**	**(254,475)**	**(802,020)**
NET INTEREST INCOME		**210,807**	**138,539**	**296,890**
Loss allowance on loan, placement and repo receivables losses	6., 7., 11., 30.	(12,338)	(17,990)	(47,687)
(Release of loss allowance) / Loss allowance on securities at fair value through other comprehensive income and on securities at amortised cost	9., 10., 30.	6,275	(39,767)	(53,238)
Provision for loan commitments and financial guarantees given	24., 30.	(10,258)	1,803	(5,541)
Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit of loss	45.4.	(1,622)	14,377	11,872
Risk cost total		**(17,943)**	**(41,577)**	**(94,594)**
NET INTEREST INCOME AFTER RISK COST		**192,864**	**96,962**	**202,296**
LOSSES ARISING FROM DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTISED COST		**(7,654)**	**(7,680)**	**(56,195)**
MODIFICATION LOSS	4.	**(6,952)**	**(2,705)**	**(14,856)**
Income from fees and commissions	31.	190,237	166,243	362,444
Expenses from fees and commissions	31.	(35,181)	(27,648)	(66,087)
NET PROFIT FROM FEES AND COMMISSIONS		**155,056**	**138,595**	**296,357**
Foreign exchange (losses) and gains	32.	(9,434)	6,969	541
Gains and (losses) on securities, net	32.	18,823	(8,379)	(10,605)
Gains / (losses) on financial instruments at fair value through profit or loss	32.	44,980	3,530	(18,790)
Net results on derivative instruments and hedge relationships	32.	10,993	(5,620)	9,917
Dividend income	32.	202,745	182,276	194,526
Other operating income	33.	19,839	7,676	13,775
Other operating expenses	33.	(7,947)	(143,279)	(131,942)
NET OPERATING INCOME		**279,999**	**43,173**	**57,422**
Personnel expenses	33.	(91,725)	(64,803)	(154,303)
Depreciation and amortization	33.	(24,500)	(22,085)	(46,738)
Other administrative expenses	33.	(159,810)	(175,034)	(290,989)
OTHER ADMINISTRATIVE EXPENSES		**(276,035)**	**(261,922)**	**(492,030)**
PROFIT BEFORE INCOME TAX		**337,278**	**6,423**	**(7,006)**
Income tax	34.	(24,563)	11,252	13,638
PROFIT AFTER INCOME TAX		**312,715**	**17,675**	**6,632**
Earnings per share (in HUF)				
Basic	43.	1,119	232	24
Diluted	43.	1,119	232	24

OTP BANK PLC.
SEPARATE STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2023 (in HUF mn)

	Note	Six month period ended 30 June 2023	Six month period ended 30 June 2022	Year ended 31 December 2022
PROFIT AFTER INCOME TAX		312,715	17,675	6,632
Items that may be reclassified subsequently to profit or loss:				
Fair value adjustment of debt instruments at fair value through other comprehensive income		17,156	(69,588)	(55,804)
Deferred tax related to fair value adjustment of debt instruments at fair value through other comprehensive income	34.	(1,541)	6,422	5,186
Gains / (Losses) on separated currency spread of financial instruments designated as hedging instrument		3,337	31,878	(4,887)
Deferred tax related to (losses) / gains on separated currency spread of financial instruments designated as hedging instrument	34.	(300)	(2,869)	440
(Losses) / Gains on derivative financial instruments designated as cash flow hedge		3,411	(3,965)	(5,641)
Items that will not be reclassified to profit or loss:				
Gains on equity instruments at fair value through other comprehensive income		-	2,675	2,675
Fair value adjustment of equity instruments at fair value through other comprehensive income		1,248	(411)	61
Deferred tax related to equity instruments at fair value through other comprehensive income	34.	(141)	12	(41)
Total		23,170	(35,846)	(58,011)
TOTAL COMPREHENSIVE INCOME		335,885	(18,171)	(51,379)

OTP BANK PLC.
SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2023
(in HUF mn)

	Note	Share Capital	Capital reserve	Retained earnings and other reserves	Treasury Shares	Total
Balance as at 1 January 2022		**28,000**	**52**	**1,845,784**	**(58,872)**	**1,814,964**
Net profit for the period		-	-	17,675	-	17,675
Other movement		-	-	2	-	2
Other comprehensive income		-	-	(35,846)	-	(35,846)
Total comprehensive income		**-**	**-**	**(18,169)**	**-**	**(18,169)**
Share-based payment	39.	-	-	1,474	-	1,474
Sale of treasury shares	28.	-	-	-	70,048	70,048
Acquisition of treasury shares	28.	-	-	-	(14,924)	(14,924)
Loss on treasury shares	28.	-	-	(21,394)	-	(21,394)
Dividend for the year 2021		-	-	(120,248)	-	(120,248)
Other transaction with owners		**-**	**-**	**(140,168)**	**55,124**	**(85,044)**
Balance as at 30 June 2022		**28,000**	**52**	**1,687,447**	**(3,748)**	**1,711,751**
Balance as at 1 January 2023		**28,000**	**52**	**1,655,549**	**(2,724)**	**1,680,877**
Net profit for the period		-	-	312,715	-	312,715
Other comprehensive income		-	-	23,170	-	23,170
Total comprehensive income		**-**	**-**	**335,885**	**-**	**335,885**
Share-based payment	39.	-	-	1,394	-	1,394
Sale of treasury shares	28.	-	-	-	33,315	33,315
Acquisition of treasury shares	28.	-	-	-	(36,880)	(36,880)
Loss on sale of treasury shares		-	-	551	-	551
Dividend for the year 2022		-	-	(84,000)	-	(84,000)
Other transaction with owners		**-**	**-**	**(82,055)**	**(3,565)**	**(85,620)**
Balance as at 30 June 2023		**28,000**	**52**	**1,909,379**	**(6,289)**	**1,931,142**

OTP BANK PLC.
SEPARATE STATEMENT OF CASH FLOWS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2023 (in HUF mn)

	Note	Six month period ended 30 June 2023	Six month period ended 30 June 2022	Year ended 31 December 2022
OPERATING ACTIVITIES				
Profit before income tax		**337,278**	**6,423**	**(7,006)**
Net accrued interest		(23,132)	(6,038)	(11,196)
Depreciation and amortization	13.	24,568	22,152	46,873
Loss allowance on loans and placements	30.	18,990	17,990	63,939
(Release of loss allowance) / Loss allowance on securities at fair value through other comprehensive income	9.	(1,832)	22,887	25,615
(Reversal of impairment loss) / Impairment loss on investments in subsidiaries	12.	(5,875)	126,110	93,513
(Release of loss allowance) / Loss allowance on securities at amortised cost	10.	(4,443)	16,880	27,623
Loss allowance on other assets	16.	894	2,015	2,939
Provision on off-balance sheet commitments and contingent liabilities	24.	9,317	53	7,598
Share-based payment	39.	1,394	1,474	2,948
Unrealised gains on fair value adjustment of financial instruments at fair value through profit or loss	45.	(47,262)	(14,262)	11,870
Unrealised (gains)/losses on fair value adjustment of derivative financial instruments	45.	(69,861)	18,825	52,840
Gains on securities	32.	7,029	8,167	62,354
Interest expense from leasing liabilities	35.	794	(393)	(1,186)
Foreign exchange gain / (loss)	32.	(21,153)	29,673	9,359
Proceeds from sale of tangible and intangible assets	33.	(1,214)	(90)	(267)
Net changing in assets and liabilities in operating activities				
Net decrease / (increase) in placements with other banks and repo receivables before allowance for placement losses	6., 7.	451,251	(543,917)	(521,731)
Changes in held for trading securities	8.	(87,163)	(52,694)	(44,181)
Change in financial instruments mandatorily measured at fair value through profit or loss	8.	(1,141)	397	1,925
Changes in derivative financial instruments at fair value through profit or loss	8.	(90,386)	6,624	136
Net increase in loans	11.	(74,929)	(330,921)	(817,297)
Increase in other assets, excluding advances for investments and before provisions for losses	16.	(40,633)	(98,593)	(99,813)
Net increase in amounts due to banks and deposits from the National Bank of Hungary and other banks and repo liabilities	17., 18.	1,027,154	724,577	910,984
Financial liabilities designated as fair value through profit or loss	21.	(632)	(870)	(1,625)
Net (decrease) / increase in deposits from customers	19.	(605,953)	810,292	971,640
(Decrease) / Increase in other liabilities	24.	(6,575)	66,008	77,424
Net increase in the compulsory reserve established by the National Bank of Hungary	5.	(503,448)	(13,746)	(641,125)
Dividend income	12.	(202,745)	(182,276)	(194,526)
Income tax paid		(11,056)	(11,115)	(19,953)
Net cash provided by operating activities		**79,236**	**625,632**	**9,674**

OTP BANK PLC.
SEPARATE STATEMENT OF CASH FLOWS (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2023 (in HUF mn) [continued]

	Note	Six month period ended 30 June 2023	Six month period ended 30 June 2022	Year ended 31 December 2022
INVESTING ACTIVITIES				
Purchase securities at fair value through other comprehensive income	9.	(148,547)	(669,410)	(1,322,153)
Proceeds from sale of securities at fair value through other comprehensive income	9.	401,292	511,509	1,074,212
Change in derivative financial instruments designated as hedge accounting		6,142	18,093	13,805
Increase in investments in subsidiaries	12.	(414,252)	(26,191)	(117,222)
Dividend income		202,747	172,755	194,449
Increase in securities at amortised cost	10.	(69,486)	(570,188)	(624,476)
Redemption of securities at amortised cost	10.	181,258	6,038	415,975
Additions to property, equipment and intangible assets	13.	(24,304)	(19,308)	(60,575)
Disposal of property, equipment and intangible assets	13.	1,886	361	648
Net increase in investment properties	14.	(127)	(1)	(14)
Net provided by / (used in) cash used in investing activities		**136,609**	**(576,342)**	**(425,351)**
FINANCING ACTIVITIES				
Leasing payments		(4,939)	(2,833)	(6,189)
Cash received from issuance of securities	20.	440,729	2,729	575,994
Cash used for redemption of issued securities	20.	(96,439)	(8,488)	(91,635)
Cash received from issuance of subordinated bonds and loans	25.	286,541	3,717	6,781
Cash used for redemption of subordinated bonds and loans	25.	(33,693)	(1,359)	(7,523)
Increase of Treasury shares	28.	(17,771)	(14,924)	(16,268)
Decrease of Treasury shares	28.	14,757	48,654	50,858
Dividends paid	27.	(83,968)	(120,192)	(120,213)
Net cash provided by / (used in) financing activities		**505,217**	**(92,696)**	**391,805**
Net increase / (decrease) in cash and cash equivalents		**721,062**	**(43,406)**	**(23,872)**
Cash and cash equivalents at the beginning of the year		351,770	375,642	375,642
Cash and cash equivalents at the end of the year		**1,072,832**	**332,236**	**351,770**
Interest received		*891,794*	*323,788*	*941,406*
Interest paid		*604,848*	*130,913*	*511,635*

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 and Deputy Chief Executive Officer, László Wolf.

The Bank's owners have the power to amend the separate financial statements after issue if applicable.

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

Due to Hungarian legislation audit services are statutory for OTP Bank. Disclosure information about the auditor: Ernst & Young Audit Ltd. (001165), 1132 Budapest Váci Street 20. Registered under 01-09-267553 by Budapest-Capital Regional Court, as registry court. Statutory registered auditor: Zsolt Kónya, registration number: 007383.

Audit service fee agreed by the Annual General Meeting of the Bank for the year ended 2023 is an amount of EUR 458 thousand + 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 2023	31 December 2022
Domestic and foreign private and institutional investors	99%	99%
Employees	1%	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 352 branches in Hungary.

	30 June 2023	31 December 2022
Number of employees	11,011	10,516
Average number of employees	10,539	10,252

1.2. Basis of accounting

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

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

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

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

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

1.2.1. The effect of adopting new and revised IFRS standards effective from 1 January 2023

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:

- **Amendments to IAS 1 "Presentation of Financial Statements" and IFRS Practice Statement 2**- Disclosure of Accounting policies – adopted by the EU on 2 March 2022 (effective for annual periods beginning on or after 1 January 2023 with earlier application permitted)
  - The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures.
- **Amendments to IAS 8 "Accounting policies, Changes in Accounting Estimates and Errors"** – Definition of Accounting Estimates – adopted in the EU on 2 March 2022 (effective for annual periods beginning on or after 1 January 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period)
  - The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty, if they do not result from a correction of prior period error. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors.
- **Amendments to IFRS 17 "Insurance Contracts" –** adopted by the EU on 19 November 2021 (effective for annual periods beginning on or after 1 January 2023) – *IFRS 17 is not relevant in case of these Separate Financial Statements*
- **Amendments to IFRS 17 "Insurance Contracts" –** Initial application of IFRS 17 and IFRS 9 – Comparative Information – adopted by the EU on 8 September 2022 (effective date for annual periods beginning on or after 1 January 2023 with earlier application permitted, provided the entity also applies IFRS 9 Financial Instruments on or before the date it first applies IFRS 17) – *IFRS 17 is not relevant in case of these Separate Financial Statements.*
- **Amendments to IAS 12 "Income Taxes" –** Deferred Tax related to Assets and Liabilities arising from a Single Transaction – adopted by the EU on 11 August 2022 (effective for annual periods beginning on or after 1 January 2023; earlier applicaton permitted)
  - The amendments narrow the scope of and provide further clarity on the initial recognition exception under IAS 12 and specify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement, having considered the applicable tax law, whether such deductions are attributable for tax purposes to the liability or to the related asset component. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

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

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

There were no new and revised standards and interpretations issued by IASB and adopted by the EU but not yet effective.

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

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

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

- **Amendments to IAS 1 "Presentation of Financial Statements"** - Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2024; earlier applicaton permitted)
  - The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current. The amendments clarify the meaning of a right to defer settlement, the requirement for this right to exist at the end of the reporting period, that management intent does not affect current or non-current classification, that options by the counterparty that could result in settlement by the transfer of the entity's own equity instruments do not affect current or non-current classification. Also, the amendments specify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period.
- **Amendments to IFRS 16 "Leases"** – Lease Liability in a Sale and Leaseback – issued by IASB on 22 September 2022 (effective for annual periods beginning on or after 1 January 2024 with earlier application permitted)
  - The amendments are intended to improve the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction in IFRS 16, while it does not change the accounting for leases unrelated to sale and leaseback transactions. In particular, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease. A seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, being the beginning of the annual reporting period in which an entity first applied IFRS 16.
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded).
  - The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.

The Bank anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

NOTE 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 Bank does not offset assets and liabilities or income and expenses unless it is required or permitted by an IFRS standard.

During the preparation of separate financial statements assets and liabilities, income and expenses are presented separately, except in certain cases, when one of the IFRS standards prescribes net presenting related to certain items. (See below 2.8.)

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 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.

2.4. Investments in subsidiaries, associated companies and other investments

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

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

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.5. Securities at amortised cost

The Bank measures at amortized cost those securities which are held for contractual 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 Bank initially recognises these securities at fair value. Securities at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. The amortisation of any discount or premium on the acquisition of a security at amortized cost is part of the amortized cost and is recognised as interest income so that the revenue recognized in each period represents a constant yield on the investment. Securities at amortized cost are accounted for on a trade date basis. Such securities comprise mainly securities issued by the Hungarian Government bonds and corporate bonds.

2.6. Financial assets at fair value through profit or loss

2.6.1. Securities held for trading

Investments in securities are accounted for on a trade date basis and are initially measured at fair value. Securities held for trading are measured at subsequent reporting dates at fair value. Unrealised gains and losses on held for trading securities are recognized in profit or loss and are included in the separate statement of profit or loss for the period. The Bank holds held for trading securities within the business model to obtain short-term gains, consequently realised and unrealised gains and losses are recognized in the net operating income, while interest income is recognised in income similar to interest 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. (It is the so-called economic hedge, accounting hedge is described later.)

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

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

Foreign currency contracts

Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot date (settlement occurs two days after the trade date) or at a forward date (settlement occurs more than two days after the trade date). The notional amount of forward contracts does not represent the actual market or credit risk associated with these contracts.

Foreign currency contracts are used by the Bank for risk management and trading purposes. The Bank's risk management foreign currency contracts were used to hedge the exchange rate fluctuations of loans and deposits denominated in foreign currency.

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[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. Hedge accounting

In the case of a financial instrument measured at amortised cost the Bank recognises the hedging gain or loss on the hedged item as the modification of its carrying amount and it is recognised in profit or loss. These adjustmets of the carrying amount are amortised to the profit or loss using the effective interest rate method. The Bank starts the amortisation when the hedged item is no longer adjusted by the hedging gains or losses. If the hedged item is derecognised, the Bank recognises the unamortised fair value in profit or loss immediately.

Derivative financial instruments designated as fair value

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

2.7. Hedge accounting [continued]

Derivative financial instruments designated as fair value [continued]

For the fair value hedges inefficiencies and the net revaluation of hedged and hedging item are recognised in the Net result on derivative instruments and hedge relationships.

Derivative financial instruments designated as cash flow hedge

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

When the Bank discontinues hedge accounting to a cash-flow hedge the amount in the cash flow hedge reserve is reclassified to the profit or loss if the hedged future cash flows are no longer expected to occur. If the hedged future cash flows are still expected to occur, the amount remains in the cashflow hedge reserve and reclassified to the profit and loss only when the future cash flows occur.

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. In the case of the derivative financial instruments the Bank applies offsetting and net presentation in the Statement of Financial Position when the Bank has the right and the ability to settle the assets and liabilities on a net basis.

2.9. Embedded derivatives

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

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

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

Derivatives that are required to be separated are measured at fair value at initial recognition and subsequently. If the Bank is unable to measure the embedded derivative separately either at acquisition or at the end of a subsequent financial reporting period, the Group shall designate the entire hybrid contract as at fair value through profit or loss. The Bank shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the Bank first becomes a party to the contract.

The separation rules for embedded derivatives are only relevant for financial liabilities.

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.

Debt instruments

Investments in debt 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[2] inventory valuation method for FVOCI securities.

For debt securities at fair value through other comprehensive income the loss allowance is calculated based on expected credit loss model. The expected credit loss is accounted for against Other Comprehensive Income.

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.

Fair value through other comprehensive income option for equity instruments

In some cases the Bank made an irrevocable election at initial recognition for certain non-trading investments in an equity instrument to present subsequent changes in fair value of these securities in other comprehensive income instead of in profit or loss.
The use of the fair value option is based only on direct decision of management of the Bank.

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

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

Loans, placements with other banks and repo receivables are accounted at amortised cost, stated at the principal amounts outstanding including accrued interest, net of allowance for loan or placement losses, respectively.

In case of the above mentioned financial assets measured at amortised cost transaction fees and charges adjust the carrying amount at initial recognition and are included in effective interest calculation. In case of FVTPL loans fees and charges are recognised when incurred in the separate statement of profit or loss.

Loans, placements with other banks and repo receivables loans 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. In case of the above mentioned financial assets at amortised cost gains or losses from derecognition are presented in "Gains/losses arising from derecognition of financial assets at amortised cost" line. In case of FVTPL loans gains or losses from derecognition are presented in "Net operating income".

Change in the fair value of FVTPL loans is broken down into two components and presented in the separate statement of profit or loss as follows:

- Portion of the change in fair value arising from changes in credit risk are presented within "Risk cost" as "Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit of loss".
- The remaining component of the change is presented in fair value within "Net operating income" as "Gains/(Losses) on financial instruments at fair value through profit or loss".

[2] First In First Out

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

Initially, financial assets shall be recognised at fair value which is usually equal to the transaction value in case of loans and placements. However, when the amounts are not equal, the initial fair value difference should be recognized.

If the fair value of financial assets is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the initial fair value difference in the Separate Statement of Profit or Loss.

When the fair value of financial assets is based on models for which inputs are not observable, the difference between the transaction price and the fair value is deferred and only recognised in profit or loss when the instrument is derecognised or the inputs became observable.

Initial fair value of loans lent at interest below market conditions is lower than their transaction price, the subsequent measurement of these loans is under IFRS 9.

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

The Bank recognises a loss allowance for expected credit losses on a financial asset at each reporting date. The loss allowance for a financial asset equals to 12-month expected credit loss or equals to the lifetime expected credit losses. The maximum period over which expected credit losses shall be measured is the maximum contractual period over which the Bank is exposed to credit risk.

If the credit risk on a financial asset has not increased significantly since initial recognition then 12-month expected credit losses, otherwise (in case of significant credit risk increase) lifetime expected credit losses should be calculated. The expected credit loss is the present value of the difference between the contractual cash flows that are due to the Bank under the contract and the cash flows that the Bank expects to receive.

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 statement of profit or loss. Interest income and amortised cost are accounted for using the effective interest rate method.

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

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

Modification of contractual cash flows

If the net present value of the contracted cash flows changes due to the modification of the contractual terms and it is not qualified as derecognition, modification gain or loss should be calculated and accounted for in the separate statement of profit or loss. Modification gain or loss is accounted in cases like restructuring – as defined in internal policies of the Bank – prolongation, renewal with unchanged terms, renewal with shorter terms and prescribing capital repayment rate, if it doesn't exist or has not been earlier.

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

Among the possible contract amendments, the Bank considers as a derecognition and a new recognition when the discounted present value – discounted at the original effective interest rate – of the cash flows under the new terms is at least 10 per cent different from the discounted present value of the remaining cash flows. In case of derecognition and new recognition the unamortised fees of the derecognised asset should be presented as Income similar to interest income. The newly recognised financial asset is initially measured at fair value and is placed in stage 1 if the derecognised financial asset was in stage 1 or stage 2 portfolio. The newly recognised financial asset will be purchased or originated credit impaired financial asset ("POCI") if the derecognised financial asset was in stage 3 portfolio or it was POCI.

The modification gain or loss shall be calculated at each contract amendments unless they are handled as a derecognition and new recognition. In case of modification the Bank recalculates the gross carrying amount of the financial asset. To do this, the new contractual cash flows should be discounted using the financial asset's original effective interest rate (or credit-adjusted effective interest rate for POCI financial asset). Any costs or fees incurred adjust the carrying amount of the modified financial asset are amortized over the remaining term of the modified financial asset.

Purchased or originated credit impaired financial assets

Purchased or originated financial assets are credit-impaired on initial recognition. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.

A purchased credit-impaired asset is likely to be acquired at a deep discount. In unusual circumstances, it may be possible that an entity originates a credit-impaired asset, for example, following a substantial modification of a distressed financial asset that resulted in the derecognition of the original financial asset.

In the case of POCI financial assets, interest income is always recognized by applying the credit-adjusted effective interest rate.

For POCI financial assets, in subsequent reporting periods an entity is required to recognize:

- the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance,
- the impairment gain or loss which is the amount of any change in lifetime expected credit losses.
  An impairment gain is recognized (with the parallel increase of the net amortized cost of receivable) if due to the favourable changes after initial recognition the lifetime expected credit loss estimation is becoming lower than the original estimated credit losses at initial recognition.

The POCI qualification remains from initial recognition to derecognition in the Bank's books.

2.12. Loss allowance

Loss Allowance for loans and placements with other banks and repo receivables 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.

Loss allowance for loan and placements are determined at a level that provides coverage for individually identified credit losses. Collective impairment loss is recognised for loans with similar credit risk characteristics when it is not possible to determine the amount of the individually identified credit loss in the absence of objective evidence. The expected cash flows for loan portfolios are estimated based on historical loss experience.

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

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

Classification into risk classes

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

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

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

- for the past 3 years the average annual balance of receivables under simplified approach is calculated,
- the written-off receivables under simplified approach are determined in the past 3 years,
- the loss allowance ratio will be the sum of the written-off amounts divided by the sum of the average balances,
- historical losses are adjusted to reflect information about current conditions and reasonable forecasts of future economic conditions,
- the loss allowance is multiplied by the end-of-year balance and it will be the actual loss allowance on these receivables,
- loss allowance should be recalculated annually.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.12. Loss allowance [continued]

Classification into risk classes [continued]

The Bank assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the reporting date. This might occur if the financial asset has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Bank considers souvereign exposures having low credit risk.

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

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

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

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

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

Expected credit losses are measured in a way that reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes,
- the time value of money, and

reasonable and supportable information that is available without undue cost of effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

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

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

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

2.14. Sale and repurchase agreements, security lending

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

2.15. Property, equipment and intangible assets

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

Intangible assets	
Software	20-33.3%
Property rights	16.7-33.3%
Property	1-2%
Office equipment and vehicles	9-33.3%

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

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

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

2.16. Inventories

The inventories shall be measured at the lower of cost and net realisable value. The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The Bank uses generally FIFO formulas to the measurement of inventories. Inventories shall be removed from books when they are sold, unusable or destroyed. When inventories are sold, the carrying amount of those inventories shall be recognized as an expense in the period in which the related revenue is recognized. Repossessed assets are classified as inventories.

2.17. 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.

The fair value of the investment properties is established mainly by external experts. According to the opinion of the Management there is no significant difference between the fair value and the carrying value of these properties.

2.18. Financial liabilities

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

2.19. 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.

2.20. 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.

Right-of-use assets are presented separately in the financial statements.

2.20. Share capital

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

2.21. Treasury shares

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

2.22. Interest income, income similar to 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.

For exposures categorized into stage 1 and stage 2 the interest income is recognized on a gross basis. For exposures categorized into stage 3 (using effective interest rate) and for POCI (using credit-adjusted effective interest rate) the interest income is recognized on a net basis.

The time-proportional income similar to interest income of derivative financial instruments calculated without using the effective interest method and the positive fair value adjustment of interest rate swaps are also included in income similar to interest income. Interest income of FVTPL loans is calculated based on interest fixed in the contract and presented in "Income similar to interest income" line.

Interest from loans and deposits are accrued on a daily basis. Interest income and expense include certain transaction cost and the amortisation of any discount and premium between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

All interest income and expense recognised are arising from loans, placements with other banks, repo receivables, securities at fair value through other comprehensive income, securities at amortised cost, and amounts due to banks, repo liabilities, deposits from customers, liabilities from issued securities, subordinated bonds and loans are presented under these lines of financial statements

2.23. Fees and Commissions

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

The Bank recognise income if performance obligations related to the certain goods or service are satisfied, performed, and control over the asset is transferred to the customer, and it is probable that consideration payable will probably flow to the entity. In case of those service, where the Bank transfer control over the asset continuously, income is recognised on accrual basis. (For more details see note 31)

The Bank provides foreign exchange trading services to its customers, the profit margin achieved on these transactions is presented as Net profit from fees and commissions in the Separate Statement of Profit or Loss.

2.24. Dividend income

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

2.25. Income tax

The Bank considers corporate income tax and local business tax and the innovation contribution as income tax in Hungary. 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 and liabilities are presented in a net way in the statement of financial position. Current tax asset or current tax liability is presented related to income tax and innovation contribution separately in the statement of financial position.

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

The Bank recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint arrangements, to the extent that, and only to the extent that, it is probable that:

- the temporary difference will reverse in the foreseeable future; and
- taxable profit will be available against which the temporary difference can be utilised.

The Bank considers the availability of qualifying taxable temporary differences and the probability of other future taxable profits to determine whether future taxable profits will be available.

The Bank recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, except to the extent that both of the following conditions are satisfied:

- the Bank is able to control the timing of the reversal of the temporary difference, and
- it is probable that the temporary difference will not reverse in the foreseeable future.

The Bank only offsets its deferred tax liabilities against deferred tax assets when:

- there is a legally enforceable right to set-off current tax liabilities against current tax assets, and
- the taxes are levied by the same taxation authorities on either
    - the same taxable entity or
    - different taxable entities which intend to settle current tax liabilities and assets on a net basis.

2.26. Banking tax

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

Pursuant to Government Decree No. 197/2022 published on 4 June 2022, the Hungarian Government decided to impose a windfall tax on credit institutions and financial enterprises temporarily, that is for 2022 and 2023.

As for 2022, the base of the windfall tax is the net revenues based on the 2021 financial statements, calculated according to local tax law, whereas the tax rate is 10%.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.27. Off-balance sheet commitments and contingent liabilities, provisions

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

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

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

Expected credit loss model is applied for given financial guarantees and loan commitments which are under IFRS 9 the, when the provision is calculated (see more details in Note 2.12.). After initial recognition the Group subsequently measures those contracts at a higher of the amount of the loss allowance or of the amount initially recognised less the cumulative amount of income recognized in accordance with IFRS 15.

2.28. Share-based payment and employee benefits

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. The Bank's short-term employee benefits are wages, salaries and bonuses, premium, paid annual leave and paid sick leave and other free services (health care, reward holiday). Short-term employee benefits are expected to pay by the Bank within 12 month. These benefits are recognised as an expense and liability undiscounted in the separate financial statements.

Long-term employee benefits are mostly the jubilee reward. Long-term employee benefits are recognised as an expense and liability in the separate financial statements. Liabilities are regularly remeasured. Gains or losses due to the remeasurement are recognised in the separate statement of profit or loss.

2.29. Separate statement of cash flows

Cash flows arising from the operating, investing or financing activities are reported in the Statement of Cash-Flows of the Bank primarily on a gross basis. Net basis reporting are applied by the Bank in the following cases:

- when the cash flows reflect the activities of the customer rather than those of the Bank, and
- for items in which the turnover is quick, the amounts are large, and the maturities are short.

For the purposes of reporting cash flows "Cash, due from banks and balances with the NBH" line item excluding compulsory reserve are considered as cash and cash equivalents by the Bank. This line item shows balances of HUF and foreign currency cash amounts, and sight depos from NBH and from other banks, furthermore balances of current accounts.

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 separately net in the statement of cash flows for the monetary items which have been revaluated.

2.30. 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, Montenegro, Albania, Moldova, Slovenia, Merkantil Group, Asset Management subsidiaries, other subsidiaries, Corporate Centre.

2.31. Comparative figures

These separate financial statements are prepared in accordance with the same accounting policies in all respects as the Financial Statements prepared in accordance with IFRS as adopted by the EU for the year ended 31 December 2022

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 Bank 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 36.1.1.)

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 Bank evaluates the levelling at each reporting period on an instrument-by-instrument basis and reclassifies instruments when necessary, based on the facts at the beginning of the reporting period. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

3.3. Provisions

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

Other provision is recognised and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Bank is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Bank assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for. (See Note 24.)

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

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

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

3.4. Business models

A business model refers how the Bank manages its financial instruments in order to generate cash flows. It is determined at a level that reflects how groups of financial instruments are managed rather than at an instrument level.

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. Some sales can be consistent with hold to collect business model and the Bank assesses the nature, frequency and significance of any sales occurring. The Bank does not consider the sale frequent when at least six months have elapsed between sales. The significant sales are those when the sales exceed 2% of the total hold to collect portfolio. 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.

If cash flows are realised in a way that is different from the expectations at the date that the Bank assessed the business model, that does not give rise to a prior error in the Bank's financial statements nor does it change the classification of the remaining financial assets held in that business model.

When, and only when the Bank changes its business model for managing financial assets it reclassifies all affected assets. Such changes are determined by the Bank's senior management as a result of external or internal changes and must be significant to the Bank's operations and demonstrable to external parties. The Bank shall not reclassify any financial liability.

3.5. Contractual cash-flow characteristics of financial assets

Classification of a financial asset is based on the characteristics of its contractual cash flows if the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

The Bank should determine whether the asset's contractual cash flows are solely payments of principal and interest on the principal amount outstanding (SPPI test). Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending arrangement.

Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The Bank assesses whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding for the currency in which the financial asset is denominated.

Time value of money is the element of interest that provides consideration for only the passage of time. However, in some cases, the time value of money element may be modified. In such cases, the Bank assesses the modification to determine whether the contractual cash flows represent solely payments of principal and interest on the principal amount outstanding.

When assessing a modified time value of money element, the objective is to determine how different the undiscounted contractual cash flows could be from undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). The benchmark instrument can be an actual or a hypothetical financial asset. If the undiscounted contractual cash flows significantly – above 2% – differ from the undiscounted benchmark cash flows, the financial asset should be subsequently measured at fair value through profit or loss.

NOTE 4: MACRO-ENVIRONMENT, IMPACT OF ECONOMIC SITUATION ON THE BANK

Macro economy and financial situation in Hungary

In the second half of 2022, inflation turned around – first in the USA and then in the Eurozone, and the indicator began to decline. Nevertheless, central banks continued their interest rate hike cycles in the first half of 2023, so that the nascent disinflation could become broad-based, and thereby ensure that inflation returns to the target in the future. By the middle of the year, the Fed and the ECB raised their key interest rates to 5.25-5.5% and 3.75%, respectively, and the expected interest rate peak will most likely be 25, but maximum 50 basis points above these levels. However, an increasing number of top central bank decision-makers opine that it would make sense to wait for the effect of the previous interest rate hikes, that is, central banks may soon adopt a "wait and see" approach after the previous tightening cycle.
In terms of growth, both major economies surpassed expectations; the USA and the eurozone avoided recession in the first half of the year. Nonetheless, growth seems unlikely to shift into higher gear in the second half-year, due to the decline in credit demand, the ailing real estate market, and China's slowing growth.
The Hungarian economy sank into recession in the second half of 2022 as the effect of rising inflation reduced real income and the previous economic policy stimuli have run their course. The Hungarian economy could not get out of recession in the first half of 2023 either: its output shrank in both the first and second quarters on a quarter/quarter basis. This makes it increasingly likely that GDP may contract in 2023 as a whole: depending on the strength of the turnover that is expected in the second half, the economy's performance may contract by 0.5-1% in 2023 as a whole. Since real wage growth had already turned positive in month-on-month comparison by the mid-2023, the ailing household consumption is expected to recover in the second half of this year. However, the expected further decline in investment and the weakening European economy may cast a shadow on that.
After inflation peaked above 25% at the beginning of 2023, disinflation started early in the second quarter. The stabilizing exchange rate, the sharp fall in energy and agricultural product prices, and declining household consumption all played significant role in this. On account of the starting disinflation, inflation may reach single digits by the last quarter of 2023, and it may be around 17.5% for the full year.
In the first quarter, Hungary's current account deficit fell to 3.5% of GDP from last year's above-8% reading, and already showed a 1.5% surplus in the second one, thanks to normalizing energy prices, increasing exports, and easing import need as domestic demand subsided. Based on the first half-year's data, the current account deficit may fall to around 1% of GDP in 2023.
Hungary's significantly improved external balance position reduced the pressure on the forint's exchange rate, which, together with the nascent disinflation, made it possible for the central bank to start the interest rate cut cycle. We expect that the interest rate reduction that began in May will continue throughout the year with 100 bps steps, thus the benchmark interest rate level could drop to 10% by the end of 2023.
The falling real income and high interest rates significantly slowed credit market's growth. The strongest slowdown was seen in the housing loan market, where in the first half of 2023 – after the Green Home Programme ended – the contractual amount fell to about a third of the level seen in the first half of 2022. However, the plunge already occurred in the second half of 2022, and the new contractual amount showed stabilization in the first half of 2023, albeit at the said low level.
The flow of net new savings began to improve in 2023 from a very low level in the second half of 2022, as consumption began to adjust to falling real wages. Due to the high interest rate environment and the social contribution tax imposed on savings from 1 July, the portfolio reallocation continued: the sight deposit stock fell, while the inflow to mutual funds and government securities increased.

Summary of economic policy measures made and other relevant regulatory changes in the period under review

In the section below, the measures and developments which have been made since the beginning of 2023, and – in OTP Bank's view – are relevant and have materially influenced / can materially influence the operation of the Group members.

OTP Bank excludes any liability for the completeness and accuracy of the measures presented herein.

Windfall tax

- On 24 April 2023 Government Decree No. 144/2023 was published amending the previously laid down methodology of windfall tax calculation for the second half of 2023.
- According to the new rules, the gross amount of the windfall tax for the year 2023 changed to HUF 41 billion in the case of OTP Group.

NOTE 4: MACRO-ENVIRONMENT, IMPACT OF ECONOMIC SITUATION ON THE BANK [continued]

Summary of economic policy measures made and other relevant regulatory changes in the period under review [continued]

Windfall tax [continued]

- Government decree No. 206/2023 (V.31.) published on 31 May 2023 outlined the details of the extra profit tax payable by credit institutions in 2024. The basis of the tax is the 2022 profit before tax (adjusted for several items). The tax rate is 13% for the part of the tax base that does not exceed HUF 20 billion, and 30% for the amount above HUF 20 billion. According to the decree, if the average amount of Hungarian government bonds owned by the financial institution increases over a certain period, the windfall tax payable by the credit institution will be reduced. The reduction cannot be more than 10% of the increase in government bond holdings and cannot exceed 50% of the windfall tax payment obligation calculated without the reduction.
  The gross amount of the windfall tax for the year 2024 will be HUF 13 billion in the case of the Hungarian Group members, which can be reduced to HUF 6.5 billion subject to the increase in government bond holdings. As for timing, the HUF 13 billion gross annual tax obligation is expected to be recognized in one sum in 1Q 2024, whereas the reduction might be booked in 4Q 2024 subject to the fulfilment of the criteria.

Interest rate cap:

Government decree No. 175/2023. (V. 12.) published on 12 May 2023 further extended the interest rate cap scheme by 6 months, until the end of 2023, in the case of the affected floating and fixed rate residential mortgages, as well as floating rate micro and small enterprises loan and leasing contracts.

Savings, government bond market:

- Pursuant to Government decree No. 205/2023. (V. 31.), effective from 1 July 2023, on top of the existing 15% interest tax, an additional 13% social contribution tax was introduced temporarily for certain savings forms. The tax base is the interest income as defined by the PIT law, earned by natural persons after 1 July 2023 on bank deposits placed or certain securities (except for real estate investment fund investment certificates) purchased after 1 July.
- Pursuant to Government decree No. 208/2023. (V. 31.), effective from 1 July 2023 the weight of securities in the portfolio of bond funds, equity funds and mixed funds must be at least 60%. Furthermore, from 1 August no more than 5% of the assets of these securities funds can be invested in debt securities other than HUF denominated government securities.
- According to Government decree No. 209/2023. (V. 31.), between 1 October 2023 and 31 December 2023 credit institutions shall send a warning notice to their natural person clients with bank account contracts about how much more interest they could have earned in a specific period with an investment of HUF 100,000, HUF 500,000 and HUF 1,000,000 if they had invested in retail government securities instead of bank deposits.

Family support schemes

- Baby loan: in line with Government decree No. 303/2023. (VII. 11.), from 1 January 2024 the maximum amount of baby loan will increase from HUF 10 to 11 million, and those families will be eligible where the wife is below the age of 30 years. Also, the clause that baby loan contracts can be entered into by the end of this year lost effect, so the scheme will remain in place indefinitely. As for the interest rate fixation periods, in contrast to the current situation that the baby loans reprice in every 5 years, from 2024 the interest rate of newly contracted baby loans will be fixed for 1 year during the first 2 years, then the baby loans will have a 3-year rate fixation period.
- Housing Subsidy for Families (CSOK), village CSOK: from 1 January 2024 the village CSOK non-refundable amounts will increase, but in towns and settlements with more than 5,000 inhabitants the CSOK subsidy will no longer be available.

NOTE 4: MACRO-ENVIRONMENT, IMPACT OF ECONOMIC SITUATION ON THE BANK [continued]

Summary of economic policy measures made and other relevant regulatory changes in the period under review [continued]

Capital regulation

On 22 June 2023 the national bank announced that it postpones the activation of the Countercyclical Capital Buffer rate of 0.5% planned from 1 July 2023 by one year to 1 July 2024. In addition, it preventively reactivates the Systemic Risk Buffer aimed at risks related to commercial real estate loans (especially non-performing loans).

Mandatory minimum reserve requirements

Pursuant to NBH decree No. 6/2023. (III. 8.) and NBH decree No. 11/2023. (III. 31.), from April the minimum reserve requirement was increased to 10%, and the effective rate paid on the reserves was reduced to 9.75% from the previous 13%, since the national bank doesn't pay any interest for the first 2.5% reserve requirement, and for the remaining amount the national bank pays the base rate.
NBH decree No. 25/2023. (VI. 14.) amended the reserve requirement rules: among others, from 1 July 2023 up to 15% of the minimum reserve requirement can be met by central bank deposits with at least 14 days original maturity. Also, from July until further notice (by the end of the year according to plans) the reserve requirement will be based on the volumes in the statistical balance sheet as at 31 March 2023.

The principles used in the preparation of the Separate Statement of Financial Position as at 30 June 2023 in connection with the evaluation of Russian and Ukrainian exposures

Going concern principle [continued]

On 24 February 2022 Russia launched a military operation against Ukraine, which is still ongoing even as of the date of these Consolidated Financial Statements. Until now many countries, as well as the European Union imposed sanctions due to the armed conflict on Russia and Russian businesses and citizens. Russia responded to these sanctions with similar measures.
The armed conflict and the international sanctions influence the business and economic activities significantly all around the world.
Under an unexpected and extremely negative scenario of deconsolidating the Ukrainian entity and writing down the outstanding gross intragroup exposures as well, the effect for the consolidated CET1 ratio would be -14 bps, whereas in the case of Russia the impact would be -46 bps, based on the end of June 2023 numbers.

OTP Group's Ukrainian operation incorporates the Ukrainian bank, as well as the leasing and factoring companies. The country-consolidated Ukrainian total assets represented HUF 974 billion at the end of June 2023 (2.6% of total consolidated assets), while net loans comprised HUF 317 billion (1.5% of consolidated net loans) and shareholders' equity amounted to HUF 143 billion (4.0% of the consolidated total equity).
At the end of June 2023, the gross intragroup funding towards the Ukrainian operation represented HUF 79 billion, while taking into account the Ukrainian deposits placed with the Headquarters, i.e. the net group funding stood at HUF 64 billion equivalent deposit placed by the Ukrainian operation (i.e. Ukraine funded the Group).
In January-June 2023 the Ukrainian operation posted an adjusted profit after tax of HUF 30.4 billion, against the HUF 15.9 billion loss suffered in the whole last year.

The total assets of the Group's Russian operation represented HUF 1.128 billion at the end of June 2023 (3.1% of consolidated total assets), while net loans comprised HUF 493 billion (2.4% of consolidated net loans) and shareholders' equity HUF 278 billion (7.7% of consolidated total equity).
As the Russian subsidiary repaid its maturing intragroup loans in 4Q 2022, the gross intragroup funding towards the Russian operation declined to zero. At the end of June 2023, the intragroup subordinated loan exposure toward the Russian operation amounted to HUF 9 billion equivalent.
The Russian operation posted HUF 51.3 billion adjusted profit in 1H 2023, after the HUF 42.5 billion profit reached in full-year 2022.
In the case of Ukraine and Russia OTP management applies a „going concern" approach, however in Russia the management is still considering all strategic options, though a Russian Presidential decree in October 2022 prohibited the sale of foreign owned banks.

NOTE 4: MACRO-ENVIRONMENT, IMPACT OF ECONOMIC SITUATION ON THE BANK [continued]

The principles used in the preparation of the Separate Statement of Financial Position as at 30 June 2023 in connection with the evaluation of Russian and Ukrainian exposures [continued]

Significant estimates affected by the Russian-Ukrainian conflict during the preparation of these Separate Financial Statements

During the preparation of these Separate Financial Statements, the Bank identified the following estimates, which were significantly affected by the Russian-Ukrainian conflict:

1) Evaluation of Russian sovereign exposures (government securities) and related reserves for expected credit losses at OTP Bank (as parent company)
2) Evaluation of Ukrainian sovereign exposures (government securities) and related reserves for expected credit losses at OTP Bank (as parent company)
3) Evaluation of derivative transactions denominated in Russian rubles
4) Evaluation of derivative transactions denominated in the Ukrainian hryvnia
5) Provisions for expected credit losses related to Russian and Ukrainian interbank claims and customer loans (following direct exposure to the Russian and Ukrainian markets, non-Russian and Ukrainian bank exposures)
6) Evaluation of investments

	Reference	Gross value	Impairment
Securities at amortized cost	1	33,684	(11,508)
Securities at fair value through other comprehensive income	1	25,636	(22,523)
Other financial assets		4,497	(1,536)
Investments	6	459,960	(299,339)
TOTAL ASSETS		**523,777**	**(334,906)**

During the evaluation of these assets, the Bank applied the evaluation principles detailed below, which evaluation contains significant estimates on the part of the Management. The results of the estimates may vary significantly depending on the development of the situation in the Russian-Ukrainian conflict.

References

1. Evaluation of Russian sovereign exposures and related reserves for expected credit losses - other exposures of the group

Outside of Russia, the marketability of Russian government securities is significantly limited due to sanctions and capital market participants turning away from Russian securities. The credit rating of the Russian state was withdrawn in 2022, the Group classifies the Russian state as non-performing, and in accordance with this, it assigned the affected exposures to the Stage 3 category. The Russian state not only recognizes its obligation and has the necessary financial reserves, but would also be willing to pay, so the increased loss potential is caused by non-traditional credit risks. In the case of a portfolio valued at fair value against other comprehensive income, the book value is determined based on the level 3 prices of IFRS13. Cash-flow estimation, current market benchmarks (provided by Bloomberg), liquidity and non-credit risk considerations were taken into account in fair value calculation.

2. Valuation of Ukrainian sovereign exposures and related reserves for expected credit losses - other exposures of the group

Ukrainian government securities are exclusively in the books of the Ukrainian subsidiary.

3. Valuation of Russian derivative transactions

In the case of futures contracts concluded with local partners on the Russian market, the evaluation is carried out using yield curves available and observable on the local market. In cases where one of the partners is not Russian, the evaluation is done using yield curves available and observable on the international market.

NOTE 4: MACRO-ENVIRONMENT, IMPACT OF ECONOMIC SITUATION ON THE BANK [continued]

The principles used in the preparation of the Separate Statement of Financial Position as at 30 June 2023 in connection with the evaluation of Russian and Ukrainian exposures [continued]

References [continued]

4. Valuation of Ukrainian derivatives

The Treasury turnover of the Ukrainian bank is low, and a significant part of the derivative transactions are related to the bank's risk management and concluded with the parent company. During the actual evaluation, the expected cash-flow is discounted using yield curves observed based on current market benchmarks (published by the National Bank of Ukraine).

5. Provisions for expected credit losses related to Russian and Ukrainian interbank claims and customer loans (following direct exposure to the Russian and Ukrainian markets, non-Russian and Ukrainian bank exposures)

As part of the quarterly monitoring activity, the Bank has identified and analysed the secondary and tertiary negative effects of the war in the corporate segment. Changes related to the meanwhile imposed sanctions – which should have been taken into consideration at analysis - have been followed up. As part of the individual monitoring activity separate monitoring methodology and assessment were prepared for exposures above HUF 250 million as follows:

i) sectors vulnerable to the risk arising from changes of energy / interest / foreign exchange
ii) customers from sectors with high risks according to the loan policy, especially the hotel industry and real estate utilisation industry
iii) municipalities, customers owned by municipalities

Customers identified during monitoring activity were classified into Stage 2, expected credit losses were recognised at the corresponding level and amount. As at 31 December 2022 the concerning exposures (HUF 92.7 billion) had HUF 4 billion of expected credit loss, from which impairment loss was recognised in amount of HUF 3 billion.

5. Provisions for expected credit losses related to Russian and Ukrainian interbank claims and customer loans (following direct exposure to the Russian and Ukrainian markets, non-Russian and Ukrainian bank exposures) [continued]

When technical or objective default occured due to sanctions the affected exposures were classified into Stage 3. In these cases at least two scenarios were taken into consideration as the estimation of expected cash flows for impairment calculation. At least one scenario represents that case when significant differences occur between the expected and the contractual cash flows. Probabilities shall be allocated to represent the occurence of credit loss, even in that case when most likely there is no need to recognise impairment loss. As at 31 December 2022 gross value of the above mentioned exposures are HUF 11.3 billion and the allocated credit loss is HUF 6.9 billion.

6. Evaluation of investments

The Bank has evaluated its investments in 3 countries concerning the Russian-Ukrainian conflict based on discounted cash flows, and as a result reversal of impairment loss was recognised for the six month period ended 30 June 2023 as follows:

by Country	**Reversal of impairment loss for the six month period ended 30 June 2023**
Ukraine	-
Russia	-
Moldova	(3,163)
Total	**(3,163)**

NOTE 4: MACRO-ENVIRONMENT, IMPACT OF ECONOMIC SITUATION ON THE BANK [continued]

Financial assets modified during the six month period ended 30 June 2023

Modification due to prolongation of existing interest rate cap

Gross carrying amount before modification	179,970
Modification loss	(6,952)
Gross carrying amount after modification	**173,018**
Loss allowance before modification	(9,376)
Net amortised cost after modification	**163,642**

Financial assets modified during the year ended 31 December 2022

Modification due to prolongation of deadline of covid moratoria till 31 July 2022 (opt in)

Gross carrying amount before modification	79,253
Modification loss	(301)
Gross carrying amount after modification	**78,952**
Loss allowance before modification	(23,965)
Net amortised cost after modification	**54,987**

Modification due to prolongation of interest rate cap (30 June 2022)

Gross carrying amount before modification	66,133
Modification loss	(2,405)
Gross carrying amount after modification	**63,728**
Loss allowance before modification	(1,580)
Net amortised cost after modification	**62,148**

Modification due to moratoria related to agriculture and prolongation of the existing moratoria (30 September 2022)

Gross carrying amount before modification	95,560
Modification loss	(1,562)
Gross carrying amount after modification	**93,998**
Loss allowance before modification	(19,404)
Net amortised cost after modification	**74,594**

Modification due to prolongation of interest rate cap (30 November 2022)

Gross carrying amount before modification	151,318
Modification loss	(531)
Gross carrying amount after modification	**150,787**
Loss allowance before modification	(6,094)
Net amortised cost after modification	**144,693**

Modification due to scope extension (mortgage loans with 5 year fixing without subsidy) and prolongation of the existing interest rate cap (31 December 2022)

Gross carrying amount before modification	205,891
Modification loss	(10,058)
Gross carrying amount after modification	**195,833**
Loss allowance before modification	(6,915)
Net amortised cost after modification	**188,918**

NOTE 5: CASH, AMOUNTS DUE FROM BANKS AND BALANCES WITH THE NATIONAL BANK OF HUNGARY (in HUF mn)

	30 June 2023	31 December 2022
Cash on hand:		
In HUF	74,938	80,809
In foreign currency	22,928	20,506
	97,866	**101,315**
Amounts due from banks and balances with National Bank of Hungary:		
Within one year:		
In HUF	1,984,567	739,382
In foreign currency	234,833	252,854
	2,219,400	**992,236**
Subtotal	**2,317,266**	**1,093,551**
Loss allowance	(558)	(1,353)
Subtotal	**2,316,708**	**1,092,198**
Average amount of compulsory reserve	1,243,876	740,428
Total	**1,072,832**	**351,770**
Rate of the compulsory reserve	11%	6%

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.

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

	30 June 2023	31 December 2022
Balance as at 1 January	**1,353**	**185**
Loss allowance	2,505	5,023
Release of loss allowance	(3,141)	(3,813)
FX movement	(159)	(42)
Closing balance	**558**	**1,353**

NOTE 6: PLACEMENTS WITH OTHER BANKS (in HUF mn)

	30 June 2023	31 December 2022
Within one year:		
In HUF	540,168	825,820
In foreign currency	224,159	366,574
	764,327	**1,192,394**
Over one year		
In HUF	1,126,773	1,215,114
In foreign currency	601,937	511,103
	1,728,710	**1,726,217**
Total placements	**2,493,037**	**2,918,611**
Loss allowance on placement losses	(14,982)	(18,782)
Total	**2,478,055**	**2,899,829**

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

	30 June 2023	31 December 2022
Balance as at 1 January	**18,782**	**7,490**
Loss allowance	4,823	27,571
Release of loss allowance	(8,053)	(17,026)
FX movement	(570)	747
Closing balance	**14,982**	**18,782**

Interest conditions of placements with other banks (%):

	30 June 2023	31 December 2022
Placements with other banks in HUF	0%-25%	0%-25.7%
Placements with other banks in foreign currency	0%-11.9%	0%-13.29%
Average interest of placements with other banks	7.99%	7.51%

NOTE 7: REPO RECEIVABLES (in HUF mn)

	30 June 2023	31 December 2022
Within one year:		
In HUF	236,116	248,696
	236,116	**248,696**
Total gross amount	**236,116**	**248,696**
Loss allowance on repo receivables	(1,825)	(2,167)
Total repo receivables	**234,291**	**246,529**

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

	30 June 2023	31 December 2022
Balance as at 1 January	**2,167**	**72**
Loss allowance	8,688	4,480
Release of loss allowance	(9,030)	(2,385)
Closing balance	**1,825**	**2,167**

Interest conditions of repo receivables (%):

	30 June 2023	31 December 2022
Repo receivables in HUF	11.5%-16%	10.7%-18%
Average interest of repo receivables	15.56%	7.31%

NOTE 8: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn)

	30 June 2023	31 December 2022
Held for trading securities:		
Government bonds	29,210	67,521
Other non-interest bearing securities	329	274
Hungarian government discounted Treasury Bills	337	4,785
Corporate shares and investments	438	385
Mortgage bonds	100	82
Other securities	135,445	1,748
Subtotal	**165,859**	**74,795**
Securities mandatorily measured at fair value through profit or loss		
Shares in investment funds	30,067	29,029
Bonds	59	-
Shares	1,469	1,469
Subtotal	**31,595**	**30,498**
Held for trading derivative financial instruments:		
Foreign currency swaps	132,853	121,854
Interest rate swaps	81,840	121,506
CCIRS and mark-to-market CCIRS swaps	22,615	14,847
Other derivative transactions	45,932	46,512
Subtotal	**283,240**	**304,719**
Total	**480,694**	**410,012**

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

	30 June 2023	31 December 2022
Within one year:		
variable interest	141	3,041
fixed interest	143,079	10,467
	143,220	**13,508**
Over one year:		
variable interest	930	9,535
fixed interest	20,942	51,093
	21,872	**60,628**
Non-interest bearing securities	767	659
Total	**165,859**	**74,795**

	30 June 2023	31 December 2022
Securities held for trading denominated in HUF	91%	89%
Securities held for trading denominated in foreign currency	9%	11%
Securities held for trading total	**100%**	**100%**
Government bonds denominated in HUF	58%	90%
Government bonds denominated in foreign currency	42%	10%
Government securities total	**100%**	**100%**
Interest rates on securities held for trading in HUF	1%-16.25%	0%-16.69%
Interest rates on securities held for trading in foreign currency	0%-7.63%	0%-7.63%
Average interest on securities held for trading	2.96%	6.44%

NOTE 8: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn) [continued]

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

	30 June 2023	31 December 2022
Non-interest bearing securities	31,595	30,498
Total	**31,595**	**30,498**

Securities mandatorily measured at fair value through profit or loss denominated in HUF	72%	69%
Securities mandatorily measured at fair value through profit or loss denominated in foreign currency	28%	31%
Securities mandatorily measured at fair value through profit or loss total	**100%**	**100%**

NOTE 9: SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (in HUF mn)

	30 June 2023	31 December 2022
Securities at fair value through other comprehensive income		
Government bonds	187,441	177,393
Mortgage bonds	298,261	356,540
Interest bearing treasury bills	39,803	182,726
Other securities	19,931	62,594
Listed securities	*6,729*	*7,290*
in foreign currency	6,729	7,290
Non-listed securities	*13,202*	*55,304*
in HUF	13,202	14,304
in foreign currency	-	41,000
Subtotal	**545,436**	**779,253**
Non-trading equity instruments		
-non-listed securities	19,170	17,922
in HUF	528	528
in foreign currency	18,642	17,394
	19,170	**17,922**
Securities at fair value through other comprehensive income total	**564,606**	**797,175**

NOTE 9: SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (in HUF mn) [continued]

Detailed information of the non-trading equity instruments to be measured at fair value through other comprehensive income:

Name	Currency	30 June 2023	31 December 2022
Garantiqa	HUF	392	392
Hage / Közvil / Pénzügykut	HUF	136	136
OBS	EUR	12,934	11,915
VISA A Preferred	USD	5,708	5,479
		19,170	17,922

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

	30 June 2023	31 December 2022
Within one year:		
variable interest	20,697	-
fixed interest	89,883	261,529
	110,580	**261,529**
Over one year:		
variable interest	141,759	235,661
fixed interest	293,097	282,063
	434,856	**517,724**
Non-interest bearing securities	19,170	17,922
Total	**564,606**	**797,175**
FVOCI securities denominated in HUF	85%	83%
FVOCI securities denominated in foreign currency	15%	17%
FVOCI securities total	**100%**	**100%**
Interest rates on FVOCI securities denominated in HUF	1.25%-17.9%	1.25%-17.36%
Interest rates on FVOCI securities denominated in foreign currency	0.74%-16%	0.74%-16%
Average interest on FVOCI securities	9.42%	2.85%

Certain fixed-rate mortgage bonds and other securities are hedged against interest rate risk. (See Note 45.4.)

	30 June 2023	31 December 2022
Net gain / (loss) reclassified from other comprehensive income to statement of profit or loss	14,454	(22,816)
Fair value of the hedged securities:		
Government bonds	127,869	118,979
Other bonds	3,384	43,870
	131,253	**162,849**

During the year ended 31 December 2023 and the year ended 31 December 2022 the Bank didn't sell any of equity instruments designated to measure at fair value through other comprehensive income.

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

	30 June 2023	31 December 2022
Government bonds	2,801,354	2,979,400
Other bonds	301,460	314,237
Mortgage bonds	24,725	24,586
Subtotal	**3,127,539**	**3,318,223**
Loss allowance	(30,036)	(35,850)
Total	**3,097,503**	**3,282,373**

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

	30 June 2023	31 December 2022
Within one year:		
fixed interest	300,197	321,879
	300,197	**321,879**
Over one year:		
variable interest	4,712	24,601
fixed interest	2,822,630	2,971,743
	2,827,342	**2,996,344**
Total	**3,127,539**	**3,318,223**

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

	30 June 2023	31 December 2022
Securities at amortised cost denominated in HUF	76%	72%
Securities at amortised cost denominated in foreign currency	24%	28%
Securities at amortised cost total	**100%**	**100%**
Interest rates on securities at amortised cost	1%-9.99%	0.1%-17.74%
Average interest on securities at amortised cost denominated in HUF	2.86%	2.93%

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

	30 June 2023	31 December 2022
Balance as at 1 January	**35,850**	**6,685**
Loss allowance	1,353	31,696
Release of loss allowance	(5,796)	(4,073)
FX movement	(1,371)	1,542
Closing balance	**30,036**	**35,850**

NOTE 11: LOANS (in HUF mn)

Loans measured at fair value through profit or loss

	30 June 2023	31 December 2022
Within one year	40,670	39,694
Over one year	809,012	753,548
Loans measured at fair value through profit or loss total	**849,682**	**793,242**

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 2023	31 December 2022
Within one year	2,241,460	2,481,249
Over one year	2,615,531	2,518,671
Loans at amortised cost gross total	**4,856,991**	**4,999,920**
Loss allowance on loan losses	(172,416)	(174,880)
Loans at amortised cost total	**4,684,575**	**4,825,040**

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

	30 June 2023	31 December 2022
In HUF	59%	58%
In foreign currency	41%	42%
Total	**100%**	**100%**

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

	30 June 2023	31 December 2022
Loans denominated in HUF	3.1%-22.03%	2.89%-18.26%
Average interest on loans denominated in HUF	5.87%	4.56%

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

	30 June 2023	31 December 2022
Loans denominated in HUF	0%-45.38%	0%-43.7%
Loans denominated in foreign currency	0%-21.17%	(0.1%)-20.1%
Average interest on loans denominated in HUF	9.81%	9.77%
Average interest on loans denominated in foreign currency	4.81%	2.74%

NOTE 11: LOANS (in HUF mn) [continued]

For an analysis of the loan portfolio by stages, countries and rating categories please see Note 36.1.

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

	30 June 2023	31 December 2022
Balance as at 1 January	**174,880**	**155,557**
Loss allowance	137,332	252,002
Release of loss allowance	(115,270)	(210,342)
Use of loss allowance	(16,936)	(21,274)
Partial write-off	(3,087)	(7,348)
FX movement	(4,503)	6,285
Closing balance	**172,416**	**174,880**

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

NOTE 12: INVESTMENTS IN SUBSIDIARIES, ASSOCIATES, JOINT VENTURES AND OTHER INVESTMENTS (in HUF mn)

	30 June 2023	31 December 2022
Investments in subsidiaries:		
Controlling interest	2,515,321	2,116,059
Other	29,474	23,427
Subtotal	**2,544,795**	**2,139,486**
Impairment loss	(536,894)	(542,769)
Total	**2,007,901**	**1,596,717**

Other investments contain certain securities accounted at cost.

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 2023		31 December 2022	
	% Held (direct/indirect)	**Gross book value**	**% Held (direct/indirect)**	**Gross book value**
OTP Bank JSC (Ukraine)	100%	311,390	100%	311,390
OTP Luxembourg S.à r.l.	100%	295,645	100%	-
DSK Bank EAD (Bulgaria)	100%	280,722	100%	280,722
OTP banka Srbija akcionarsko drustvo Novi Sad (Serbia)	100%	262,759	100%	262,759
OTP banka Hrvatska d.d. (Croatia)	100%	198,418	100%	205,349
OTP Bank Romania S.A. (Romania)	100%	167,764	100%	167,764
OTP Mortgage Bank Ltd.	100%	199,294	100%	199,294
SKB Banka d.d. Ljubljana (Slovenia)	100%	107,689	98%	107,689
Ipoteka Bank (Uzbekistan)	74%	104,781	100%	-
JSC "OTP Bank" (Russia)	98%	74,337	100%	74,337
Crnogorska komercijalna banka a.d. (Montenegro)	100%	72,784	100%	72,784
OOO AlyansReserv (Russia)	100%	50,074	100%	50,074
Air-Invest Llc.	100%	39,248	100%	39,248
OTP Holding Malta Ltd.	100%	32,359	100%	32,359
Balansz Private Open-end Investment Fund	100%	60,629	100%	60,630
Bank Center No. 1. Ltd.	100%	26,063	100%	26,063
OTP Factoring Ltd.	100%	25,411	100%	25,411
Other		205,954		200,186
Total		**2,515,321**		**2,116,059**

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

	30 June 2023	31 December 2022
Balance as at 1 January	**542,769**	**449,256**
Impairment loss for the period	104	147,712
Reversal of impairment loss	(5,979)	(54,199)
Closing balance	**536,894**	**542,769**

NOTE 12: INVESTMENTS IN SUBSIDIARIES, ASSOCIATES, JOINT VENTURES AND OTHER INVESTMENTS (in HUF mn) [continued]

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

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

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

	30 June 2023	**31 December 2022**
OTP Bank JSC (Ukraine)	280,763	280,763
OTP Bank Romania S.A. (Romania)	77,962	77,962
OTP Mortgage Bank Ltd.	84,707	84,707
OTP banka Srbija akcionarsko drustvo Novi Sad (Serbia)	23,452	23,452
JSC "OTP Bank" (Russia)	2,775	2,775
LLC Alliance Reserve (Russia)	15,801	15,801
OTP Life Annuity Ltd.	10,969	10,969
Air-Invest Ltd.	10,965	10,965
Monicomp Ltd.	8,632	8,632
Crnogorska komercijalna banka a.d. (Montenegro)	4,495	4,495
Balansz Private Open-end Investment Fund	2,522	5,110
OTP Real Estate Ltd.	5,557	5,557
R.E. Four d.o.o. (Serbia)	3,763	3,763
Total	**532,363**	**534,951**

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 2023	**31 December 2022**
OTP Factoring Ltd.	70,000	45,000
DSK Bank EAD (Bulgaria)	48,658	74,314
OTP banka Srbija akcionarsko drustvo Novi Sad (Serbia)	30,873	-
OTP banka dioničko društvo (Croatia)	28,574	14,637
Merkantil Bank Ltd.	3,800	8,000
OTP Holding Ltd. (Cyprus)	3,000	7,800
OTP Mortgage Bank Ltd.	-	18,000
OTP Holding Malta Ltd. (Malta)	-	4,803
OTP Real Estate Investment Fund Management Ltd.	3,500	3,500
Portfolion Ltd.	500	-
Other	17,610	9,600
Subtotal	**202,515**	**182,154**
Dividend from shares held-for-trading	19	12,166
Dividend from shares fair value through other comprehensive income	211	207
Total	**202,745**	**194,527**

NOTE 12: 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 2023:

List of associated entities	Carrying amount	Ownership of OTP Bank	Profit after tax	Country / Headquarter	Activity
Edrone spółka z ograniczoną odpowiedzialnością	803	23.54%	352	Poland / Krakow	Computer programming activities
NovaKid Inc.	1,745	4.07%	(7)	USA / San Francisco	Online kids English learning platform operator
Banzai Cloud Closed Co. Plc	222	17.42%	267	Hungary /Budapest	Computer programming activities
CodeCool Ltd	1,231	7.26%	391	Hungary /Budapest	Other education
Pepita.hu Closed Co. Plc	1,323	40.00%	(97)	Hungary / Szeghalom	Retail sale via mail order houses or via Internet
Seon Holdings Ltd	8,496	19.26%	2,194	UK / London	Computer programming activities
VCC Live Group Closed Co. Plc	1,559	24.72%	(233)	Hungary /Budapest	Computer programming activities
Cursor Insight Ltd	72	6.75%	9	UK / London	Computer programming activities
OneSoil Ag.	338	3.72%	1,123	Switzerland / Zurich	Computer programming activities
Packhelp Spółka Akcyjna	932	3.14%	(4,427)	Poland / Warsaw	Manufacture of corrugated paper and paperboard and of containers of paper and paperboard
Phoenix Play Invest Closed Co. Plc	3,364	21.68%	209	Hungary /Budapest	Activities of holding companies
Algorithmiq Invest Closed Co. Plc	7,992	21.68%	2,583	Hungary /Budapest	Activities of holding companies
Deligo Vision Technologies Ltd	205	2.50%	(41)	Hungary /Budapest	Other information service activities
Shopper Park Plus Closed Co. Plc.[1]	4,454	3.81%	2,753	Hungary /Budapest	Sale and purchase of own real estate
SEH-Partner Ltd	5,836	30.56%	(418)	Hungary /Budapest	Activities of holding companies
New Frontier Technology Invest SARL	3,812	14.00%	411	Luxemburg / Luxembourg	Activities of holding companies
Mindgram sp. z.o.o	195	2.38%	(281)	Poland / Warsaw	Other human health activities
Tine Limited	-	0.00%	(267)	Great Britain / London	Child day-care services
Renewabl Ltd.	100	5.01%	-	Great Britain / London	Other information technology services
Giganci Programowania sp. z.o.o.	478	5.03%	-	Poland / Warsaw	Other education
FlowX.Ai., Inc	2,226	9.50%	1,505	USA / Camano Park	Computer programming activities
Deskbird AG	-	0.00%	(1,113)	St. Gallen / Switzerland	Computer programming activities
Subtotal (Investments through funds)	**45,383**		**4,913**		
OTP Risk Fund I.	955	44.12%	103	Hungary /Budapest	Trusts, funds and similar financial entities
OTP-DayOne Magvető Fund	313	22.00%	1,639	Hungary /Budapest	Trusts, funds and similar financial entities
D-ÉG Thermoset Ltd 'u.l.'	-	46.99%	n.a.	Hungary / Dunaújváros	Wholesale of hardware, plumbing and heating equipment and supplies
Company for Cash Services AD	392	25.00%	1,201	Bulgaria / Sofia	Other financial service activities, except insurance and pension funding
Fabetker Ltd	1	20.48%	119	Hungary / Nádudvar	Manufacture of concrete products for construction purposes
NGY Propertiers Investment SRL	11,735	14.54%	1,199	Romania / Bucharest	Renting and operating of own or leased real estate
Simonyi út 20. Ingatlanhasznosító Ltd	90	47.62%	(3)	Hungary /Debrecen	Renting and operating of own or leased real estate
Fintech CEE Software Invest Ltd	135	20.04%	3	Hungary /Budapest	Activities of holding companies
Bankart Procesiranje Placilnih Instrumentov d.o.o.	7,642	43.06%	(1,733)	Ljubjana / Slovenia	Data processing, web hosting services
Mortgage refinancing Company of Uzbekistan	955	20.00%	(733)	Tashkent / Uzbekistan	Refinancing mortgage loans
Subtotal	**22,218**		**1,795**		
Total	**67,601**		**6,708**		

[1] Based on unaudited financial statements.

NOTE 12: INVESTMENTS IN SUBSIDIARIES, ASSOCIATES, JOINT VENTURES AND OTHER INVESTMENTS (in HUF mn) [continued]

Significant associates and joint ventures [continued]

The main figures of the Bank's indirectly owned associates and joint ventures at cost[1] as at 31 December 2022:

List of associated entities	Carrying amount	Ownership of OTP Bank	Profit after tax	Country / Headquarter	Activity
Edrone spółka z ograniczoną odpowiedzialnością	822	23.54%	(516)	Poland / Krakow	Computer programming activities
NovaKid Inc.	1,723	4.07%	(5,409)	USA / San Francisco	Online kids English learning platform operator
Banzai Cloud Closed Co. Plc	216	17.42%	267	Hungary /Budapest	Computer programming activities
CodeCool Ltd	1,323	20.15%	1	Hungary /Budapest	Other education
Pepita.hu Closed Co. Plc	1,323	40.00%	(157)	Hungary / Szeghalom	Retail sale via mail order houses or via Internet
Seon Holdings Ltd	8,689	19.26%	(3)	UK / London	Computer programming activities
VCC Live Group Closed Co. Plc	1,308	24.75%	(226)	Hungary /Budapest	Computer programming activities
Cursor Insight Ltd	75	6.75%	n.a.	UK / London	Computer programming activities
OneSoil Ag.	362	3.72%	(514)	Switzerland / Zurich	Computer programming activities
Packhelp Spółka Akcyjna	1,168	3.15%	(3,385)	Poland / Warsaw	Manufacture of corrugated paper and paperboard and of containers of paper and paperboard
Phoenix Play Invest closed Co. Plc	2,350	21.69%	(1)	Hungary /Budapest	Activities of holding companies
Algorithmiq Invest Closed Co. Plc	8,195	21.69%	792	Hungary /Budapest	Activities of holding companies
Deligo Vision Technologies Ltd	205	2.50%	(15)	Hungary /Budapest	Other information service activities
GRADUW Invest Closed Co. Plc	4,803	3.81%	131	Hungary /Budapest	Sale and purchase of own real estate
SEH-Partner Ltd	6,403	30.56%	n.a.	Hungary /Budapest	Activities of holding companies
New Frontier Technology Invest SARL	3,393	14.01%	n.a.	Luxemburg / Luxembourg	Activities of holding companies
Mindgram sp. z.o.o	200	2.38%	(328)	Poland / Warsaw	Other human health activities
Subtotal (Investments through funds)	**42,558**		**(9,363)**		
OTP Risk Fund I.	520	44.12%	(52)	Hungary /Budapest	Trusts, funds and similar financial entities
OTP-DayOne Magvető Fund	683	22.00%	13	Hungary /Budapest	Trusts, funds and similar financial entities
D-ÉG Thermoset Ltd 'u.l.'	-	46.99%	-	Hungary / Dunaújváros	Wholesale of hardware, plumbing and heating equipment and supplies
Company for Cash Services AD	392	25.00%	183	Bulgaria / Sofia	Other financial service activities, except insurance and pension funding
Fabetker Ltd	1	20.48%	135	Hungary / Nádudvar	Manufacture of concrete products for construction purposes
NGY Propertiers Investment SRL	11,735	14.54%	(22,567)	Romania / Bucharest	Renting and operating of own or leased real estate
Simonyi út 20. Ingatlanhasznosító Ltd	90	47.62%	-	Hungary /Debrecen	Renting and operating of own or leased real estate
Fintech CEE Software Invest Ltd	127	20.04%	n.a.	Hungary /Budapest	Activities of holding companies
Subtotal	**13,548**		**(22,288)**		
Total	**56,106**		**(31,651)**		

[1] Based on unaudited financial statements.

NOTE 12: INVESTMENTS IN SUBSIDIARIES, ASSOCIATES, JOINT VENTURES AND OTHER INVESTMENTS (in HUF mn) [continued]

Significant events related to investments

The Metropolitan Court of Registration has registered a capital increase at OTP Mortgage Bank Ltd. The registered capital of OTP Mortgage Bank Ltd. was increased to HUF 57,000,000,000 from HUF 37,000,000,000.

The Bank signed a purchase and sale contract for the purchase of the majority stake of Ipoteka Bank and its subsidiaries with the Ministry of Finance of the Republic of Uzbekistan.
OTP Bank will purchase 100% of the shares held by the Ministry of Finance of the Republic of Uzbekistan (nearly 97% total shareholding) in two steps: 75% of the shares now and the remaining 25% three years after the financial closing of the first transaction.

Based on the share sale and purchase agreement concluded on 12 December 2022 between OTP Bank and the Ministry of Economy and Finance of the Republic of Uzbekistan the first step of the transaction was completed on 13 June 2023. Consequently, OTP Bank became the majority shareholder of Ipoteka Bank by acquiring a 73.71% shareholding, and became indirect shareholder of Ipoteka Bank's wholly-owned subsidiaries. As a result of the acquisition, OTP Group entered the Central Asian region, and is the first foreign bank to participate in the privatization of the Uzbek banking sector. Holding a market share of 7.6% in terms of total assets as of May 2023 and a retail clientele of about 1.5 million, Ipoteka Bank is the fifth largest bank of Uzbekistan. It is active both in the retail and corporate segments, whereas over the past three years the average annual growth rate of its customer loan and deposit portfolio reached 20% and 24%, respectively. As the second step of the transaction, the remaining shares held by the Ministry will be purchased in three years from now.

The financial completion of the transaction to purchase 100% shareholding of Nova KBM d.d. and its subsidiary – after obtaining all necessary regulatory approvals – has been completed on 6 February 2023, based on the share sale and purchase agreement concluded between OTP Bank, funds managed by affiliates of Apollo Global Management, Inc. and EBRD, on 31 May 2021. The acquisition of the bank is the most significant acquisition in the history of OTP Group.
With a market share of 20.7% in terms of total assets as of September 2022 and more than 1,500 employees as of the end of 2022, Nova KBM d.d. is the 2nd largest bank in the Slovenian banking market. As a universal bank, it has been active in the retail and corporate segments as well. With the transaction closing of Nova KBM, OTP Group has around 30% share in the Slovenian banking market on a pro-forma basis.

The Metropolitan Court of Registration hasregistered a capital increase at OTP Real Estate Ltd. Accordingly, the registered capital of OTP Real Estate Ltd. was increased to HUF 1,050,000,000 from HUF 1,000,000,000.

NOTE 13: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn)

For the six month period ended 30 June 2023

	Intangible assets	Property	Office equipment and vehicles	Vehicles	Construction in progress	Right of use assets	Total
Cost							
Balance as at 1 January	**213,085**	**78,595**	**112,924**	**197**	**15,650**	**59,349**	**479,800**
Additions	14,808	5,474	6,572	57	9,496	5,255	41,662
Disposals	(748)	(1,768)	(7,262)	(1)	(12,142)	(620)	(22,541)
Closing balance	**227,145**	**82,301**	**112,234**	**253**	**13,004**	**63,984**	**498,921**
Depreciation and Amortization							
Balance as at 1 January	**143,605**	**30,148**	**82,577**	**77**	**-**	**19,467**	**275,874**
Charge for the year	11,903	1,958	6,189	17	-	4,433	24,500
Disposals	(732)	(865)	(7,114)	(1)	-	(28)	(8,740)
Closing balance	**154,776**	**31,241**	**81,652**	**93**	**-**	**23,872**	**291,634**
Net book value							
Balance as at 1 January	**69,480**	**48,447**	**30,347**	**120**	**15,650**	**39,882**	**203,926**
Closing balance	**72,369**	**51,060**	**30,582**	**160**	**13,004**	**40,112**	**207,287**

For the year ended 31 December 2022

	Intangible assets	Property	Office equipment and vehicles	Vehicles	Construction in progress	Right of use assets	Total
Cost							
Balance as at 1 January	**188,853**	**74,506**	**103,469**	**199**	**9,425**	**31,118**	**407,570**
Additions	59,839	5,979	15,804	12	28,117	29,156	138,907
Disposals	(35,607)	(1,890)	(6,349)	(14)	(21,892)	(925)	(66,677)
Balance as at 31 December	**213,085**	**78,595**	**112,924**	**197**	**15,650**	**59,349**	**479,800**
Depreciation and Amortization							
Balance as at 1 January	**126,692**	**28,316**	**77,404**	**62**	**-**	**13,887**	**246,361**
Charge for the year	24,768	4,347	10,211	29	-	7,383	46,738
Disposals	(7,855)	(2,515)	(5,038)	(14)	-	(1,803)	(17,225)
Balance as at 31 December	**143,605**	**30,148**	**82,577**	**77**	**-**	**19,467**	**275,874**
Net book value							
Balance as at 1 January	**62,161**	**46,190**	**26,065**	**137**	**9,425**	**17,231**	**161,209**
Balance as at 31 December	**69,480**	**48,447**	**30,347**	**120**	**15,650**	**39,882**	**203,926**

The Bank has no intangible assets with indefinite useful life.

NOTE 14: INVESTMENT PROPERTIES (in HUF mn)

For the six month period ended 30 June 2023 and for the year ended 31 December 2022, respectively

	30 June 2023	31 December 2022
Property		
Cost		
Balance as at 1 January	**5,027**	**5,013**
Additions result from subsequent expenditure	131	14
Closing balance	**5,158**	**5,027**
Depreciation and Amortization		
Balance as at 1 January	**820**	**685**
Charge for the period	72	135
Closing balance	**892**	**820**
Net book value		
Balance as at 1 January	**4,207**	**4,328**
Closing balance	**4,266**	**4,207**

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

Income and Expenses	30 June 2023	31 December 2022
Rental income	4	8
Depreciation	68	135

NOTE 15: FAIR VALUE OF DERIVATIVE FINANCIAL ASSETS DESIGNATED AS HEDGE ACCOUNTING (in HUF mn)

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

	30 June 2023	31 December 2022
Interest rate swaps designated as fair value hedge	22,121	29,139
CCIRS designated as fair value hedge	14,000	20,732
Interest rate swaps designated as cash flow hedge	(1,801)	(2,651)
Total	**34,320**	**47,220**

NOTE 16: OTHER ASSETS[1] (in HUF mn)

	30 June 2023	31 December 2022
Other financial assets		
Receivables from OTP Employee Stock Ownership Program (OTP ESOP)	149,423	119,123
Prepayments and accrued income	15,394	15,674
Receivables from investment services	37,754	34,828
Stock exchange deposit	32,589	30,939
Trade receivables	7,002	11,053
Receivables from card operations	25,068	34,783
Receivables from suppliers	7,530	6,621
Other	8,455	9,130
	283,215	**262,151**
Loss allowance	(7,122)	(7,026)
Other financial assets total	**276,093**	**255,125**
Other non-financial assets		
Prepayments and accrued income	46,890	44,106
Receivable related to Hungarian Government subsidies	28,099	19,076
Other	15,203	12,144
	90,192	**75,326**
Provision for impairment on other assets	(690)	(699)
Other non-financial assets total	**89,502**	**74,627**
Total	**365,595**	**329,752**

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

	30 June 2023	31 December 2022
Balance as at 1 January	**7,026**	**5,148**
Charge for the period	3,140	10,572
Release of loss allowance	(2,304)	(7,715)
Use of loss allowance	(577)	(982)
FX movement	(163)	3
Closing balance	**7,122**	**7,026**

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

	30 June 2023	31 December 2022
Balance as at 1 January	**699**	**514**
Charge for the period	172	255
Release of provision	(157)	(106)
FX movement	(24)	36
Closing balance	**690**	**699**

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

NOTE 17: AMOUNTS DUE TO BANKS AND DEPOSITS FROM THE NATIONAL BANK OF HUNGARY AND OTHER BANKS (in HUF mn)

	30 June 2023	31 December 2022
Within one year:		
In HUF	383,081	554,794
In foreign currency	405,369	448,935
	788,450	**1,003,729**
Over one year:		
In HUF	402,191	392,947
In foreign currency	452,019	339,452
	854,210	**732,399**
Subtotal	**1,642,660**	**1,736,128**
Total	**1,642,660**	**1,736,128**

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

	30 June 2023	31 December 2022
Within one year:		
In HUF	(2.4%)-20%	(2.4%) - 18%
In foreign currency	(2.31%)-6.12%	(2.31%) - 5.9%
Over one year:		
In HUF	(1.7%)-9.23%	(2.4%) - 9.23%
In foreign currency	(2.31%)-7.18%	(2.4%) - 6.84%
Average interest on amounts due to banks in HUF	6.43%	3.24%
Average interest on amounts due to banks in foreign currency	3.14%	1.55%

NOTE 18: REPO LIABILITIES (in HUF mn)

	30 June 2023	31 December 2022
Within one year:		
In HUF	880,041	122,676
In foreign currency	4,859	15,561
	884,900	**138,237**
Over one year:		
In HUF	332,116	82,200
In foreign currency	214,804	187,929
	546,920	**270,129**
Subtotal	**1,431,820**	**408,366**
Total	**1,431,820**	**408,366**

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

	30 June 2023	31 December 2022
Within one year:		
In HUF	12.4%-16.94%	11.5% - 15.47%
In foreign currency	0%-5.18%	2.47%-5.2%
Over one year:		
In HUF	-	15%
In foreign currency	3.8%-5.92%	3.58%-3.69%
Average interest on repo liabilities in HUF	16.60%	9.31%
Average interest on repo liabilities in foreign currency	4.48%	0.30%

NOTE 19: DEPOSITS FROM CUSTOMERS (in HUF mn)

	30 June 2023	31 December 2022
Within one year:		
In HUF	7,289,064	7,982,882
In foreign currency	2,955,646	3,112,937
	10,244,710	**11,095,819**
Over one year:		
In HUF	23,641	23,339
	23,641	**23,339**
Total	**10,268,351**	**11,119,158**

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

	30 June 2023	31 December 2022
Within one year:		
In HUF	0%-28.35%	0%-17.95%
In foreign currency	(0.39%)-43%	(0.4%)-45.1%
Over one year:		
In HUF	0%-0.4%	0%-13%
Average interest on deposits from customers in HUF	4.10%	2.32%
Average interest on deposits from customers in foreign currency	1.16%	0.12%

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

	30 June 2023		31 December 2022	
Retail deposits	**4,455,795**	**43%**	**4,756,881**	**43%**
Household deposits	4,455,795	43%	4,756,881	43%
Corporate deposits	**5,812,556**	**57%**	**6,362,277**	**57%**
Deposits to medium and large corporates	4,880,707	48%	5,570,866	50%
Municipality deposits	931,849	9%	791,411	7%
Total	**10,268,351**	**100%**	**11,119,158**	**100%**

NOTE 20: LIABILITIES FROM ISSUED SECURITIES (in HUF mn)

	30 June 2023	31 December 2022
Within one year:		
In HUF	136,228	4,311
In foreign currency	15,705	6,351
	151,933	**10,662**
Over one year:		
In HUF	41,684	46,192
In foreign currency	616,519	441,855
	658,203	**488,047**
Total	**810,136**	**498,709**

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

	30 June 2023	31 December 2022
Issued securities denominated in HUF	0,6%-15%	0,6%-15%
Issued securities denominated in foreign currency	5,5%-7,5%	5,5%-7,35%
Average interest on issued securities denominated in HUF	11.47%	2.63%
Average interest on issued securities denominated in foreign currency	6.83%	2.95%

Term Note Program in the value of HUF 200 billion for the year of 2022/2023

On 10 May 2022 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 10 August 2022 the prospectus of Term Note Program. The prospectus is valid for 12 months following the disclosure.

Term Note Program in the value of HUF 800 billion for the year of 2023/2024

On 18 April 2023 the Bank initiated term note program in the value of HUF 800 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 7 August 2023 the prospectus of Term Note Program. The prospectus is valid for 12 months following the disclosure.

Notes issued in amount of USD 650 million

On 15 February 2023 as a value date the Bank issued Notes in the aggregate nominal amount of USD 650 million. The original maturity of the Tier 2 Notes is 10.25 years, redeemable at par any time during the 3-month period prior to the Reset Date at 5.25 years. The notes are rated 'Ba2' by Moody's Investor Services Cyprus Ltd., 'BB' by S&P Ratings Europe Limited and 'BB+' by Scope Ratings GmbH. The notes are listed on the Luxembourg Stock Exchange.

Notes issued in amount of USD 500 million

Notes (ISIN: XS2626773381) have been issued on 25 May 2023 as value date in the aggregate nominal amount of USD 500 million. The notes are rated 'Baa3' by Moody's Investor Services Cyprus Ltd., 'BBB-' by S&P Ratings Europe Limited and 'BBB+' by Scope Ratings GmbH. The notes are listed on the Luxembourg Stock Exchange.

Notes issued in amount of EUR 110 million

OTP Bank issued notes (ISIN: XS2642536671) on 27 June 2023 as value date in the aggregate nominal amount of EUR 110 million. The notes are listed on the Luxembourg Stock Exchange.

NOTE 20: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

Hedge accounting

Certain issued structured securities are hedged by the Bank with interest rate swaps ("IRS") which exchange the fixed and floating interest rate with the interest rate of the securities between the parties at a notional amount that equals the nominal amount of the hedged securities. These are considered as fair value hedge relationships as they cover the interest rate risk arising from the coupons of the hedged securities. OTP Bank does not intend to be exposed to the risk embedded in the structured bonds, consequently as part of interest rate swap transaction the structured interest payments are swapped to floating interest rate. This hedging relationship meets all of the following hedge effectiveness requirements:

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

The cash-flows of the fixed rate securities issued by the Bank are exposed to the changes in the HUF/EUR foreign exchange rate and the volatility of the quoted interest rates of EUR and HUF. The interest rate risk and foreign exchange risk related to these securities are hedged with EUR and HUF IRS transactions, where the fixed interests were swapped to payments linked to 3 month HUF BUBOR and EURIBOR, resulting in a decrease in the interest rate and foreign exchange exposure of issued securities.

Issued securities denominated in foreign currency as at 30 June 2023

	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	XS2560693181	01/12/2022	04/03/2026	EUR	649	240,749	660	244,898	fixed	7.35
2	XS2626773381	17/05/2023	25/05/2027	USD	500	171,200	500	171,229	fixed	7.50
3	XS2499691330	13/07/2022	13/07/2025	EUR	398	147,710	417	154,654	fixed	5.50
4	XS2642536671	27/06/2023	27/06/2026	EUR	110	40,824	109	40,630	fixed	7.50
5	XS2536446649	29/09/2022	29/09/2026	USD	60	20,544	61	20,814	fixed	7.25
	Subtotal issued securities in foreign currency					**621,027**		**632,224**		

Issued securities denominated in foreign currency as at 31 December 2022

	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	XS2560693181	01/12/2022	04/03/2026	EUR	650	260,136	653	261,341	fixed	7.35
2	XS2499691330	13/07/2022	13/07/2025	EUR	399	159,859	409	163,893	fixed	5.50
3	XS2536446649	29/09/2022	29/09/2026	USD	60	22,541	61	22,972	fixed	7.25
	Subtotal issued securities in foreign currency					**442,536**		**448,206**		

NOTE 20: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

Issued securities denominated in HUF as at 30 June 2023

	Name	Date of issuance	Maturity	Nominal value in HUF million	Amortised cost in HUF million	Interest conditions		Hedged
1	OTP_HUF_25/1	11/11/2022	11/18/2025	25,562	27,958	fixed	15.00	
2	OTP_HUF_24/1	2/17/2023	2/17/2024	26,698	27,802	fixed	11.00	
3	OTP_HUF_24/2	3/10/2023	3/10/2024	23,521	24,343	fixed	11.00	
4	OTP_HUF_24/3	3/31/2023	3/31/2024	17,435	17,934	fixed	11.00	
5	OTP_HUF_24/6	6/2/2023	6/2/2024	17,136	17,301	fixed	11.00	
6	OTP_HUF_24/4	4/21/2023	4/21/2024	15,125	15,462	fixed	11.00	
7	OTP_HUF_24/5	5/12/2023	5/12/2024	14,218	14,445	fixed	11.00	
8	OTP_HUF_24/7	6/23/2023	6/23/2024	11,484	11,520	fixed	10.50	
9	OTP_HUF_26/1	12/21/2022	1/5/2026	10,230	10,882	fixed	12.00	
10	OTP_HUF_25/2	6/30/2023	6/30/2025	5,116	5,123	fixed	12.00	
11	OTP_HUF_24/8	6/30/2023	6/30/2024	3,761	3,765	fixed	10.50	
12	OTPX2024B	10/10/2014	10/16/2024	295	441	indexed	0.70	hedged
13	OTPX2024A	6/18/2014	6/21/2024	241	363	indexed	1.30	hedged
14	OTPX2024C	12/15/2014	12/20/2024	242	362	indexed	0.60	hedged
	Other			211	211			
	Subtotal issued securities in HUF			**171,275**	**177,912**			
	Total			**792,302**	**810,136**			

NOTE 20: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

Issued securities denominated in HUF as at 31 December 2022

	Name	Date of issuance	Maturity	Nominal value in HUF million	Amortised cost in HUF million	Interest conditions		Hedged
1	OTP_HUF_25/1	11/18/2022	11/18/2025	25,562	26,046	fixed	15.00	
2	OTP_HUF_26/1	12/22/2022	1/5/2026	10,229	10,270	fixed	12.00	
3	OTPRF2023A	3/22/2013	3/24/2023	1,010	1,215	indexed	1.70	hedged
4	OTP_DK_25/3	5/31/2021	5/31/2025	1,215	1,160	discount		
5	OTP_DK_23/II	5/29/2020	5/31/2023	997	992	discount		
6	OTP_DK_24/3	5/31/2021	5/31/2024	883	862	discount		
7	OTP_DK_27/3	3/31/2022	5/31/2027	1,092	826	discount		
8	OTP_DK_27/II	5/31/2021	5/31/2027	795	719	discount		
9	OTP_DK_23/I	12/15/2018	5/31/2023	717	710	discount		
10	OTP_DK_26/II	5/31/2021	5/31/2026	707	658	discount		
11	OTP_DK_26/3	3/31/2022	5/31/2026	783	631	discount		
12	OTP_DK_28/I	5/31/2021	5/31/2028	669	586	discount		
13	OTP_DK_24/II	5/29/2020	5/31/2024	592	581	discount		
14	OTP_DK_25/II	5/29/2020	5/31/2025	592	572	discount		
15	OTP_DK_24/I	5/30/2019	5/31/2024	426	411	discount		
16	OTPX2023A	3/22/2013	3/24/2023	312	410	indexed		hedged
17	OTP_DK_28/II	3/31/2022	5/31/2028	554	394	discount		
18	OTP_DK_26/I	5/29/2020	5/31/2026	392	372	discount		
19	OTP_DK_29/II	3/31/2022	5/31/2029	554	372	discount		
20	OTP_DK_30/II	3/31/2022	5/31/2030	554	350	discount		
21	OTP_DK_29/I	5/31/2021	5/31/2029	403	341	discount		
22	OTPX2024B	10/10/2014	10/16/2024	295	378	indexed	0.70	hedged
23	OTPX2024A	6/18/2014	6/21/2024	241	310	indexed	1.30	hedged
24	OTPX2024C	12/15/2014	12/20/2024	242	309	indexed	0.60	hedged
25	OTPX2023B	6/28/2013	6/26/2023	198	260	indexed	0.60	hedged
26	OTP_DK_31/I	3/31/2022	5/31/2031	384	228	discount		
27	OTP_DK_25/I	5/30/2019	5/31/2025	104	97	discount		
28	OTP_DK_27/I	5/29/2020	5/31/2027	95	88	discount		
29	OTP_DK_30/I	5/31/2021	5/31/2030	104	85	discount		
30	OTP_DK_32/I	3/31/2022	5/31/2032	105	59	discount		
	Other			211	211			
	Subtotal issued securities in HUF			**51,017**	**50,503**			
	Total			**493,553**	**498,709**			

NOTE 21: FINANCIAL LIABILITIES DESIGNATED AS FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn)

	30 June 2023	31 December 2022
Within one year:		
In HUF	1,804	1,716
	1,804	**1,716**
Over one year:		
In HUF	18,233	14,860
	18,233	**14,860**
Total	**20,037**	**16,576**
Contractual amount outstanding	**18,586**	**19,853**

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

	30 June 2023	31 December 2022
Within one year:		
In HUF	4.02%-9.02%	2,19-3.96%
Over one year:		
In HUF	3.88%	0,01%-4.63%
Average interest on amounts due to banks in HUF	3.65%	3.06%

Certain MFB refinanced loan receivables are categorised as fair value through profit or loss based on SPPI test. Related refinancing loans at the liability side are categorised as fair value through profit or loss based on fair value option due to accounting mismatch as provided by the IFRS 9 standard.

NOTE 22: HELD FOR TRADING DERIVATIVE FINANCIAL LIABILITIES (in HUF mn)

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

	30 June 2023	31 December 2022
Interest rate swaps	133,724	221,647
Foreign currency swaps	73,691	87,988
CCIRS and mark-to-market CCIRS	9,161	15,711
Other derivative contracts	42,729	48,055
Total	**259,305**	**373,401**

NOTE 23: FAIR VALUE OF DERIVATIVE FINANCIAL LIABLITIES DESIGNATED AS HEDGE ACCOUNTING (in HUF mn)

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

	30 June 2023	31 December 2022
IRS designated as fair value hedge	14,720	22,551
CCIRS designated as fair value hedge	6,343	5,398
IRS designated as cash flow hedge	14,364	22,674
Total	**35,427**	**50,623**

NOTE 24: OTHER LIABILITIES[1] AND PROVISIONS (in HUF mn)

	30 June 2023	31 December 2022
Other financial liabilities		
Liabilities from investment services	116,987	108,284
Accrued expenses	28,082	21,183
Accounts payable	10,618	27,127
Liabilities due to short positions	33,516	24,596
Liabilities from customer's credit card payments	36,277	52,274
Other	53,876	25,007
Other financial liabilities total	**279,356**	**258,471**
Other non-financial liabilities		
Technical accounts	26,649	32,338
Current income tax payable	40,029	12,371
Social contribution	6,456	5,275
Accrued expenses	2,896	2,829
Other	1,338	1,904
Other non-financial liabilities total	**77,368**	**54,717**
Other liabilities total	**356,724**	**313,188**

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

	30 June 2023	31 December 2022
Provision for losses on other off-balance sheet commitments and contingent liabilities	33,289	23,632
Provisions in accordance with IFRS 9	**33,289**	**23,632**
Provision for litigation	1,884	1,917
Provision for retirement pension and severance pay	600	1,527
Provision on other liabilities	2,398	2,580
Provisions in accordance with IAS 37	**4,882**	**6,024**
Total	**38,171**	**29,656**

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

	30 June 2023	31 December 2022
Opening balance	**23,632**	**17,768**
Provision for the period	38,921	49,698
Release of provision for the period	(20,424)	(28,772)
Use of provision	(8,239)	(15,385)
FX revaluation	(601)	323
Closing balance	**33,289**	**23,632**

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

	30 June 2023	31 December 2022
Opening balance	**6,024**	**3,759**
Provision for the period	6,780	8,128
Release of provision	(6,194)	(933)
Use of provision	(1,527)	(5,138)
FX revaluation	(201)	208
Closing balance	**4,882**	**6,024**

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

NOTE 25: SUBORDINATED BONDS AND LOANS (in HUF mn)

	30 June 2023	31 December 2022
Within one year		
In HUF	1,870	-
In foreign currency	13,591	3,395
	15,461	**3,395**
Over one year:		
In HUF	10,866	-
In foreign currency	486,752	290,791
	497,618	**290,791**
Total	**513,079**	**294,186**

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

	30 June 2023	31 December 2022
Subordinated bonds and loans denominated in foreign currency	2.9%-8.8%	2.9%-4.7%
Average interest on subordinated bonds and loans denominated in foreign currency	5.81%	3.05%

Subordinated loans and bonds are detailed as follows as at 30 June 2023:

Type	Nominal value	Date of issuance	Date of maturity	Issue price	Interest conditions	Current interest rate
Subordinated bond	EUR 231 million	7 November 2006	Perpetual	99.375%	Three-month EURIBOR + 3%, variable (payable quarterly)	6.312%
Subordinated bond	EUR 499 million	15 July 2019	15 July 2029	99.738%	Fixed 2.875% annual in the first 5 years and callable after 5 years, variable after year 5 (payable annually) calculated as a sum of the initial margin (320 basis point) and the 5 year mid-swap rate prevailing at the and of the 5 year.	2.875%
Subordinated bond	USD 650 million	15 February 2023	15 May 2033	99.417%	Fixed 8.75%	8.750%

NOTE 26: SHARE CAPITAL (in HUF mn)

	30 June 2023	31 December 2022
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.

<u>NOTE 27:</u> 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 2021, the Bank did not pay dividend based on the earlier NBH warnings issued due to covid moratoria. In 2022 dividend of HUF 119 billion from the profit of the years 2019 and 2020 and HUF 1 billion from the profit of the year 2021 (totally HUF 120 billion) was paid, which means HUF 425,89 (for the year 2019 and 2020) and HUF 3,57 (for the year 2021) dividend per share payable to shareholders.

In 2023 dividend of HUF 84,000 million are expected to be proposed by the Management from the profit of the year 2022, which means HUF 300 dividend per share payable to the shareholders.

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

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 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

OTP Bank Plc. and MOL Plc. entered into a share swap agreement in 16 April 2009, whereby OTP has changed 24,000,000 OTP ordinary shares for 5,010,501 „A series" MOL shares. The amended final maturity of the share swap agreement is 11 July 2027, until which any party can initiate cash or physical settlement of the transaction. 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 27: 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 2023:

30 June 2023 Closing balance	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**	**50,504**	**1,914,343**	**(55,468)**	**(6,289)**	**-**	**-**	**-**	**1,931,142**
Other comprehensive income	-	-	-	32,439	-	-	(32,439)	-	-	-
Option reserve	-	(55,468)	-	-	55,468	-	-	-	-	-
Treasury shares	-	(6,289)	-	-	-	6,289	-	-	-	-
Share based payments	-	50,504	(50,504)	-	-	-	-	-	-	-
Net profit for the year	-	-	-	(312,715)	-	-	-	-	312,715	-
General reserve and tied-up reserve	-	-	-	(149,839)	-	-	-	149,839	-	-
Components of Shareholder's equity in accordance with paragraph 114/B of Act on Accounting	**28,000**	**(11,201)**	**-**	**1,484,228**	**-**	**-**	**(32,439)**	**149,839**	**312,715**	**1,931,142**

NOTE 27: 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 2023:

1 January 2023 Opening balance	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**	**49,110**	**1,661,907**	**(55,468)**	**(2,724)**	**-**	**-**	**-**	**1,680,877**
Other comprehensive income	-	-	-	52,933	-	-	(52,933)	-	-	-
Option reserve	-	(55,468)	-	-	55,468	-	-	-	-	-
Treasury shares	-	(2,724)	-	-	-	2,724	-	-	-	-
Share based payments	-	49,110	(49,110)	-	-	-	-	-	-	-
Net profit for the year	-	-	-	(6,632)	-	-	-	-	6,632	-
General reserve	-	-	-	(118,568)	-	-	-	118,568	-	-
Components of Shareholder's equity in accordance with paragraph 114/B of Act on Accounting	**28,000**	**(9,030)**	**-**	**1,589,640**	**-**	**-**	**(52,933)**	**118,568**	**6,632**	**1,680,877**

NOTE 27: RETAINED EARNINGS AND RESERVES (in HUF mn) [continued]

Calculated untied retained earnings in accordance with paragraph 114/B of Act on Accounting

	30 June 2023	31 December 2022
Retained earnings	1,484,228	1,580,770
Net profit for the year	312,715	6,632
Untied retained earnings	**1,796,943**	**1,587,402**

Items of retained earnings and other reserves

	30 June 2023	31 December 2022
Retained earnings	1,475,358	1,580,770
Capital reserve	52	52
Option reserve	(55,468)	(55,468)
Other reserves	158,709	127,438
Fair value of financial instruments measured at fair value through other comprehensive income	(26,641)	(43,723)
Share-based payment reserve	50,504	49,110
Fair value of derivative financial instruments designated as cash-flow hedge	(5,798)	(9,210)
Net profit for the period	312,715	6,632
Retained earnings and other reserves	**1,909,431**	**1,655,601**

Fair value adjustment of securities at fair value through other comprehensive income

	30 June 2023	31 December 2022
Balance as at 1 January	**(82,906)**	**145**
Change of fair value correction	24,331	(88,350)
Deferred tax related to change of fair value correction	(1,841)	5,299
Closing balance	**(60,416)**	**(82,906)**

Expected credit loss on securities at fair value through other comprehensive income

	30 June 2023	31 December 2022
Balance as at 1 January	**29,161**	**1,174**
Increase of loss allowance	1,959	33,946
Release of loss allowance	(3,791)	(8,331)
Fx movement	(2,008)	2,372
Closing balance	**25,321**	**29,161**

Fair value changes of equity instruments as at fair value through other comprehensive income

	30 June 2023	31 December 2022
Balance as at 1 January	**10,022**	**7,327**
Change of fair value correction	1,249	3,631
Deferred tax related to change of fair value correction	(141)	(936)
Transfer to retained earnings	(2,676)	-
Closing balance	**8,454**	**10,022**

NOTE 28: TREASURY SHARES (in HUF mn)

	30 June 2023	31 December 2022
Nominal value (ordinary shares)	58	35
Carrying value at acquisition cost	6,289	2,724

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 2023	31 December 2022
Number of shares as at 1 January	**352,344**	**3,249,984**
Additions	3,730,751	1,801,256
Disposals	(3,499,287)	(4,698,896)
Number of shares at the end of the period	**583,808**	**352,344**

Change in carrying value:	30 June 2023	31 December 2022
Balance as at 1 January	**2,724**	**58,872**
Additions	36,880	16,268
Disposals	(33,315)	(72,416)
Closing Balance	**6,289**	**2,724**

	30 June 2023	31 December 2022
Face value of treasury shares held by OTP Group members	1,258	1,097

NOTE 29: INTEREST INCOME AND EXPENSES (in HUF mn)

	Six month period ended 30 June 2023	Six month period ended 30 June 2022	Year ended 31 December 2022
Interest income accounted for using the effective interest rate method from / on			
Loans at amortised cost	219,615	118,302	297,727
FVOCI securities	32,004	12,335	39,988
Securities at amortised cost	44,824	44,459	92,948
Placements with other banks	106,409	80,559	204,479
Financial liabilities	204	5,516	20,098
Amounts due from banks and balances with National Bank of Hungary	182,061	3,189	56,204
Repo receivables	21,962	753	10,235
Subtotal	**607,079**	**265,113**	**721,679**
Income similar to interest income			
Loans mandatorily measured at fair value through profit or loss	23,956	15,853	35,927
Swap and forward deals related to Placements with other banks	302,595	94,677	273,322
Swap and forward deals related to Loans at amortised cost	65,610	15,520	60,744
Swap and forward deals related to FVOCI securities	9,784	1,847	7,230
Investment properties	4	4	8
Subtotal	**401,949**	**127,901**	**377,231**
Interest income total	**1,009,028**	**393,014**	**1,098,910**
Interest expense due to / from / on			
Amounts due to banks and deposits from the National Bank of Hungary and other banks	319,880	154,898	408,865
Deposits from customers	324,116	77,772	301,657
Leasing liabilities	841	393	1,186
Liabilities from issued securities	23,311	298	7,742
Subordinated bonds and loans	13,428	3,888	8,646
Investment properties (depreciation)	68	67	135
Financial assets	4,040	1,912	6,369
Repo liabilities	112,537	15,058	66,049
Swap transaction related to acquisitions	-	189	1,371
Interest expense total	**798,221**	**254,475**	**802,020**

NOTE 30: RISK COST (in HUF mn)

	30 June 2023	30 June 2022	31 December 2022
Loss allowance of loans at amortised cost			
Loss allowance	132,820	105,371	245,183
Release of loss allowance	(116,275)	(94,090)	(211,345)
	16,545	**11,281**	**33,838**
Loss allowance of sight deposits and placements with other banks			
Loss allowance	7,328	13,806	32,592
Release of loss allowance	(11,193)	(7,066)	(20,838)
	(3,865)	**6,740**	**11,754**
Loss allowance of placements with other banks			
Loss allowance	8,688	534	4,480
Release of loss allowance	(9,030)	(565)	(2,385)
	(342)	**(31)**	**2,095**
Loss allowance of FVOCI securities			
Loss allowance	1,959	28,450	33,946
Release of loss allowance	(3,791)	(5,563)	(8,331)
	(1,832)	**22,887**	**25,615**
Loss allowance of securities at amortised cost			
Loss allowance	1,353	17,966	31,695
Release of loss allowance	(5,796)	(1,086)	(4,072)
	(4,443)	**16,880**	**27,623**
Provision on loan commitments and financial guarantees			
Provision for the period	38,921	20,446	49,698
Release of provision	(28,663)	(22,249)	(44,157)
	10,258	**(1,803)**	**5,541**
Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit of loss	**1,622**	**(14,377)**	**(11,872)**
Risk cost total	**17,943**	**41,577**	**94,594**

NOTE 31: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn)

Income from fees and commissions:

	Six month period ended 30 June 2023	Six month period ended 30 June 2022
Fees and commissions related to lending	**6,104**	**6,071**
Deposit and account maintenance fees and commissions	78,182	68,800
Fees and commission related to the issued bank cards	63,292	54,642
Fees and commissions related to security trading	15,897	13,746
Fx margin	10,964	10,879
Fees and commissions paid by OTP Mortgage Bank Ltd.	4,003	4,130
Net insurance fee income	6,494	5,162
Other	5,301	2,813
Fees and commissions from contracts with customers	**184,133**	**160,172**
Total Income from fees and commissions:	**190,237**	**166,243**

Contract balances

	Six month period ended 30 June 2023	Six month period ended 30 June 2022
Receivables, which are included in 'other assets'	15,394	11,270
Loss allowance	(580)	(436)

Fee and commission expense

	Six month period ended 30 June 2023	Six month period ended 30 June 2022
Other fees and commissions related to issued bank cards	28,232	21,364
Insurance fees	354	350
Fees and commissions related to lending	2,906	2,639
Fees and commissions related to security trading	702	279
Fees and commissions relating to deposits	1,284	1,158
Trust activities related to securities	1,079	1,056
Postal fees	113	114
Money market transaction fees and commissions	115	65
Other	396	623
Total	**35,181**	**27,648**
Net profit from fees and commissions	**155,056**	**138,595**

NOTE 31: 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.

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 32: GAINS AND LOSSES BY TRANSACTIONS (in HUF mn)

	Six month period ended 30 June 2023	Six month period ended 30 June 2022
Losses arising from derecognition of financial assets measured at amortised cost		
Gain from loans	1,727	106
Loss from loans	(1,427)	(826)
Loss from securities	(7,760)	(6,745)
Other	(194)	(215)
Total	**(7,654)**	**(7,680)**

Additional information to Gains or losses from operating income:

	Six month period ended 30 June 2023	Six month period ended 30 June 2022
Foreign exchange (losses) and gains		
Gains from foreign exchange	-	9,151
Loss from foreign exchange	(6,448)	-
Margin gains	4,717	2,836
Margin losses	(7,703)	(5,018)
Total	**(9,434)**	**6,969**

	Six month period ended 30 June 2023	Six month period ended 30 June 2022
Net results on derivative instruments and hedge relationships		
Gains on FX spot, swap and option deals	34,542	31,956
Losses from FX spot, swap and option deals	(27,400)	(36,571)
Fees received related to option deals	2,681	2,143
Fees paid related to option deals	(3,108)	(2,148)
Gains on commodity deals	62,874	72,638
Losses from commodity deals	(59,764)	(72,711)
Gains on futures transactions	85	595
Losses from futures transactions	(113)	(306)
Losses from credit valuation adjustment related to FX spot, swap and option deals held for trading	1,177	(1,285)
Losses from credit valuation adjustment related to commodity deals held for trading	19	69
Total	**10,993**	**(5,620)**

	Six month period ended 30 June 2023	Six month period ended 30 June 2022
Gains / (losses) on financial instruments at fair value through profit or loss		
Gains on securities mandatorily measured at fair value through profit or loss	1,690	620
Gains on loans mandatorily measured at fair value through profit or loss	50,279	10,887
Losses on loans mandatorily measured at fair value through profit or loss	(2,897)	(9,430)
Gains on financial liabilities designated at fair value through profit or loss	286	1,690
Losses on financial liabilities designated at fair value through profit or loss	(4,378)	(237)
Total	**44,980**	**3,530**

NOTE 32: GAINS AND LOSSES BY TRANSACTIONS (in HUF mn) [continued]

Additional information to Gains or losses from operating income: [continued]

	Six month period ended 30 June 2023	Six month period ended 30 June 2022
Gains and (losses) on securities, net		
Interest income from held for trading securities	3,858	1,206
Gains on held for trading securities	8,826	3,842
Losses on held for trading securities	(3,013)	(2,636)
Gains on FVOCI securities	732	-
Losses on FVOCI securities	-	(1,423)
Gains on derecognition of investments in subsidiaries	1,322	-
Gains/losses from other securities	7,098	(9,368)
Total	**18,823**	**(8,379)**

	Six month period ended 30 June 2023	Six month period ended 30 June 2022
Dividend income		
Distribution from investments in subsidiaries	202,515	182,084
Distribution from held for trading securities	19	26
Distribution from FVOCI equity instruments	211	166
Total	**202,745**	**182,276**
Total gains and losses from operating income (without other operating income)	**268,107**	**178,776**

For the six month period ended 30 June 2023 gains and losses attributable to the hedged risk on the hedged item and on the hedging instruments and also ineffectiveness in case of fair value hedge on amortised cost line items as follows

	Hedged items	Hedging instrument	Hedge ineffectiveness
Fair value hedge	(3,029)	4,636	1,607

For the year ended 31 December 2022 gains and losses attributable to the hedged risk on the hedged item and on the hedging instruments and also ineffectiveness in case of fair value hedge on amortised cost line items as follows

	Hedged items	Hedging instrument	Hedge ineffectiveness
Fair value hedge	6,750	(9,352)	(2,602)

NOTE 33: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn)

Other operating income	Six month period ended 30 June 2023	Six month period ended 30 June 2022
Repayment of extraordinary payments made to NDIF in previous years	10,738	-
Other operating income from OTP Employee Stock Ownership Program (OTP ESOP)	3,380	4,240
Intermediary and other services	1,173	1,010
Income from lease of tangible assets	597	578
Gains on IT services provided to subsidiaries	496	346
Derecognition of financial liabilities at amortised cost	298	375
Non-repayable assets received	74	76
Gains on sale of tangible assets	1,214	90
Income from written off receivables	130	109
Gains on transactions related to property activities	54	120
Other	1,685	732
Total	**19,839**	**7,676**

Other operating expenses	Six month period ended 30 June 2023	Six month period ended 30 June 2022
Release of loss allowance/(Loss allowance) on investments in subsidiaries	5,875	(126,110)
Release of provision for off-balance sheet commitments and contingent liabilities	954	(1,855)
Non-repayable assets contributed	(196)	(5,212)
Release of loss allowance on other assets	(894)	(2,014)
Financial support for sport association and organization of public utility	(11,604)	(3,653)
Other	(2,082)	(4,435)
Total	**(7,947)**	**(143,279)**

Other administrative expenses:	Six month period ended 30 June 2023	Six month period ended 30 June 2022
Personnel expenses:		
Wages	67,526	50,227
Taxes related to personnel expenses	9,428	7,022
Other personnel expenses	14,771	7,554
Subtotal	**91,725**	**64,803**
Depreciation and amortization	**24,500**	**22,085**
Other administrative expenses:		
Taxes, other than income tax	90,836	118,646
Services	41,582	34,619
Fees payable to authorities and other fees	14,409	10,534
Administration expenses, including rental fees	3,841	3,661
Professional fees	4,974	3,425
Advertising	4,168	4,149
Subtotal	**159,810**	**175,034**
Total	**276,035**	**261,922**

NOTE 34: INCOME TAX (in HUF mn)

The Bank is presently liable for income tax at a rate of 9% of taxable income, local taxes at a rate of 2.3% of taxable revenue.

A breakdown of the income tax expense is:

	30 June 2023	31 December 2022
Current tax expense	15,253	18,026
Deferred tax (benefit)/expense	9,310	(31,664)
Total	**24,563**	**(13,638)**

A reconciliation of the deferred tax liability is as follows:

	30 June 2023	31 December 2022
Balance as at 1 January	**35,742**	**(1,507)**
Deferred tax (expense)/ benefit	(9,310)	31,664
Tax effect of fair value adjustment of FVOCI securities and ICES recognised in comprehensive income	(1,982)	5,585
Closing balance	**24,450**	**35,742**

A breakdown of the deferred tax liability is as follows:

	30 June 2023	31 December 2022
Provision for untaken leave	323	323
Provision for termination benefits and jubilee	1,093	900
Amounts relate to negative tax base	14,180	19,424
Unused tax allowance	7,777	12,103
Fair value adjustment of held for trading and securities at fair value through other comprehensive income	2,206	4,230
Deferred tax asset	**25,579**	**36,980**
Difference in depreciation and amortization	(1,129)	(1,193)
Provision for developments	-	(45)
Deferred tax liabilities	**(1,129)**	**(1,238)**
Net deferred tax assets/(liabilities)	**24,450**	**35,742**

NOTE 34: INCOME TAX (in HUF mn) [continued]

A reconciliation of the income tax (income) / expense is as follows:

	30 June 2023	31 December 2022
Profit before income tax	337,278	(7,006)
Income tax at statutory tax rate (9%)	30,355	-
Income tax adjustments due to permanent differences are as follows:		
Share-based payment	125	265
Deferred use of tax allowance	41	43
Dividend income	(17,893)	(17,298)
Use of tax allowance in the current year	(4,071)	-
Amounts unenforceable by tax law	(194)	(182)
Carryforward of unused tax losses	5,243	(1,234)
Other	(3,576)	77
Income tax	**14,359**	**(30,431)**
Effective tax rate	4.3%	434.4%

	30 June 2023	31 December 2022
Current tax assets	1,042	1,569
Current tax liabilities	(3,570)	(3,199)
Net tax liabilities	**(2,528)**	**(1,630)**

NOTE 35: LEASE (in HUF mn)

The Bank as a lessee:

Amounts recognised in profit and loss	**30 June 2023**	**31 December 2022**
Interest expense on lease liabilities	841	1,186
Expense relating to short-term leases	1,217	1,945
Expense relating to variable lease payments not included in the measurement of lease liabilities	694	1,386

Leasing liabilities by maturities:

	30 June 2023	**31 December 2022**
Within one year	5,934	5,944
Over one year	34,619	35,520
Total	**40,553**	**41,464**

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

Gross carrying amount	**Right-of-use of real estate**	**Right-of-use of machinery and equipment**	**Total**
Balance as at 1 January 2022	**31,081**	**37**	**31,118**
Additions due to new contracts	27,206	1,950	29,156
Derecognition due to matured contracts	(3,731)	-	(3,731)
Change due to revaluation and modification	2,806	-	2,806
Balance as at 31 December 2022	**57,362**	**1,987**	**59,349**
Additions due to new contracts	963	-	963
Derecognition due to matured contracts	(10)	(218)	(228)
Change due to revaluation and modification	2,359	1,541	3,900
Balance as at 31 December 2023	**60,674**	**3,310**	**63,984**
Depreciation			
Balance as at 1 January 2022	**13,869**	**18**	**13,887**
Depreciation charge	7,315	69	7,384
Derecognition due to matured contracts	(1,804)	-	(1,804)
Balance as at 31 December 2022	**19,380**	**87**	**19,467**
Depreciation charge	4,054	379	4,433
Derecognition due to matured contracts	(9)	(19)	(28)
Balance as at 31 December 2023	**23,425**	**447**	**23,872**
Net carrying amount			
Balance as at 31 December 2022	**37,982**	**1,900**	**39,882**
Balance as at 30 June 2023	**37,249**	**2,863**	**40,112**

NOTE 36: 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:

36.1. 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.

36.1.1. Financial instruments by stages

Defining the expected credit loss on individual and collective basis

On individual basis:

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

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

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

The expected credit loss of the exposure equals the difference of the receivable's AC (gross book value) on the valuation date and the present value of the receivable's expected cash flows discounted to the valuation date by the exposure's original effective interest rate (EIR) (calculated at the initial recognition, or in the case of variable rate, recalculated due to the last interest rate change). The estimation of the expected future cash flows should be forward looking, it must also contain the effects of the possible change of macroeconomic outlook.
At least two scenarios must be used for the estimation of the expected cash flow. At least one scenarios should anticipate that realised cash flows will be significantly different from the contractual cash flows. Probability weights must be allocated to the individual scenarios. The estimation must reflect the probability of the occurrence and non-occurrence of the credit loss, even if the most probable result is the non-occurrence of the loss.

On collective basis:

The following exposures are subject to collective assessment:

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

36.1. Credit risk [continued]

36.1.1. Financial instruments by stages [continued]

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

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

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

The impairment parameters should be backtested at least annually.

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

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.1. Credit risk [continued]

36.1.1. Financial instruments by stages [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 2023:

	Carrying amount/ Exposure	Gross carrying amount / Notional amount					Loss allowance					Write-off
		Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	Total	
Cash, amounts due from banks and balances with the National Bank of Hungary	2,316,708	2,315,380	1,886	-	-	2,317,266	549	9	-	-	558	-
Placements with other banks	2,478,055	2,482,324	9,311	1,402	-	2,493,037	12,334	1,246	1,402	-	14,982	-
Repo receivables	234,291	236,116	-	-	-	236,116	1,825	-	-	-	1,825	-
Retail consumer loans	*561,636*	*513,808*	*92,919*	*21,957*	*2*	*628,686*	*24,493*	*26,711*	*15,845*	*1*	*67,050*	-
Mortgage loans	*57,725*	*42,966*	*8,929*	*5,035*	*2,105*	*59,035*	*61*	*243*	*827*	*179*	*1,310*	-
Municipal loans	*83,554*	*84,206*	*518*	-	-	*84,724*	*1,028*	*142*	-	-	*1,170*	-
Corporate loans	*3,981,660*	*3,239,798*	*756,554*	*78,705*	*9,489*	*4,084,546*	*20,791*	*48,281*	*32,595*	*1,219*	*102,886*	*23,993*
Loans at amortised cost	4,684,575	3,880,778	858,920	105,697	11,596	4,856,991	46,373	75,377	49,267	1,399	172,416	23,993
FVOCI securities	564,606	538,970	-	25,636	-	564,606	2,798	-	22,523	-	25,321	-
Securities at amortised cost	3,097,503	3,086,796	5,960	34,783	-	3,127,539	17,168	278	12,590	-	30,036	-
Other financial assets	276,093	123,645	153,934	5,619	17	283,215	1,892	2,713	2,505	12	7,122	-
Total	**13,651,831**	**12,664,009**	**1,030,011**	**173,137**	**11,613**	**13,878,770**	**82,939**	**79,623**	**88,287**	**1,411**	**252,260**	**23,993**
Loan commitments	1,946,574	1,770,271	191,596	4,067	-	1,965,934	8,712	8,812	1,836	-	19,360	-
Financial guarantees	1,809,673	1,769,750	46,841	6,168	-	1,822,759	9,026	2,038	2,022	-	13,086	-
Factoring loan commitments	398,778	381,631	13,016	4,967	-	399,614	547	93	196	-	836	-
Bill of credit	765	772	-	-	-	772	7	-	-	-	7	-
Loan commitments and financial guarantees total	***4,155,790***	***3,922,424***	***251,453***	***15,202***	-	***4,189,079***	***18,292***	***10,943***	***4,054***	-	***33,289***	-

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.1. Credit risk [continued]

36.1.1. Financial instruments by stages [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 2022:

	Carrying amount/ Exposure	Gross carrying amount / Notional amount					Loss allowance					Write-off
		Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	Total	
Cash, amounts due from banks and balances with the National Bank of Hungary	1,092,198	1,062,246	31,305	-	-	1,093,551	481	872	-	-	1,353	-
Placements with other banks	2,899,829	2,906,852	10,247	1,512	-	2,918,611	16,037	1,233	1,512	-	18,782	-
Repo receivables	246,529	248,696	-	-	-	248,696	2,167	-	-	-	2,167	-
Retail consumer loans	*556,062*	*507,517*	*65,853*	*52,913*	*2*	*626,285*	*15,229*	*17,670*	*37,323*	*1*	*70,223*	-
Mortgage loans	*62,587*	*45,912*	*8,895*	*7,039*	*2,279*	*64,125*	*57*	*179*	*1,116*	*186*	*1,538*	-
Municipal loans	*81,083*	*81,856*	*286*	-	-	*82,142*	*1,010*	*49*	-	-	*1,059*	-
Corporate loans	*4,125,308*	*3,541,098*	*589,153*	*86,401*	*10,716*	*4,227,368*	*22,068*	*39,153*	*39,334*	*1,505*	*102,060*	*25,879*
Loans at amortised cost	4,825,040	4,176,383	664,187	146,353	12,997	4,999,920	38,364	57,051	77,773	1,692	174,880	25,879
FVOCI securities	797,175	769,760	-	27,415	-	797,175	4,762	-	24,399	-	29,161	-
Securities at amortised cost	3,282,373	3,273,240	6,713	38,270	-	3,318,223	21,746	300	13,804	-	35,850	-
Other financial assets	255,125	252,201	5,330	4,600	20	262,151	1,947	2,944	2,121	14	7,026	-
Total	**13,398,269**	**12,689,378**	**717,782**	**218,150**	**13,017**	**13,638,327**	**85,504**	**62,400**	**119,609**	**1,706**	**269,219**	**25,879**
Loan commitments	1,840,521	1,745,003	101,644	5,517	-	1,852,164	6,694	3,581	1,368	-	11,643	-
Financial guarantees	1,863,476	1,848,783	24,868	173	-	1,873,824	9,502	800	46	-	10,348	-
Factoring loan commitments	371,866	327,903	14,705	30,809	-	373,417	361	87	1,103	-	1,551	-
Bill of credit	12,285	12,128	247	-	-	12,375	85	5	-	-	90	-
Loan commitments and financial guarantees total	**4,088,148**	**3,933,817**	**141,464**	**36,499**	**-**	**4,111,780**	**16,642**	**4,473**	**2,517**	**-**	**23,632**	**-**

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.1. Credit risk [continued]

36.1.1. Financial instruments by stages [continued]

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

Loans at amortised cost

	Stage 1	Stage 2	Stage 3	POCI	Total
Loss allowance as at 1 January 2022	**29,361**	**67,272**	**57,087**	**1,837**	**155,557**
Transfer to Stage 1	13,705	(12,361)	(1,344)	-	-
Transfer to Stage 2	(2,058)	6,779	(4,721)	-	-
Transfer to Stage 3	(738)	(6,414)	7,152	-	-
Net remeasurement of loss allowance	(14,906)	5,886	23,898	(69)	14,809
New financial assets originated or purchased	22,665	7,284	6,955	14	36,918
Financial assets derecognised (other than write-offs)	(9,595)	(11,041)	(8,942)	(90)	(29,668)
Unwind of discount	-	-	4,899	40	4,939
Write-offs	(70)	(354)	(7,211)	(40)	(7,675)
Loss allowance as at 31 December 2022	**38,364**	**57,051**	**77,773**	**1,692**	**174,880**
Transfer to Stage 1	18,241	(5,416)	(12,825)	-	-
Transfer to Stage 2	(3,492)	10,284	(6,792)	-	-
Transfer to Stage 3	(319)	(3,580)	3,899	-	-
Net remeasurement of loss allowance	(13,444)	19,188	2,610	(274)	8,080
New financial assets originated or purchased	18,047	2,386	3,133	8	23,574
Financial assets derecognised (other than write-offs)	(11,012)	(4,243)	(18,466)	(27)	(33,748)
Unwind of discount	-	-	3,068	19	3,087
Write-offs	(12)	(293)	(3,133)	(19)	(3,457)
Loss allowance as at 31 December 2023	**46,373**	**75,377**	**49,267**	**1,399**	**172,416**

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.1. Credit risk [continued]

36.1.1. Financial instruments by stages [continued]

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

Loan commitments and financial guarantees

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2022	**10,669**	**4,749**	**2,350**	**17,768**
Transfer to Stage 1	2,095	(1,929)	(166)	-
Transfer to Stage 2	(442)	542	(100)	-
Transfer to Stage 3	(21)	(124)	145	-
Net remeasurement of loss allowance	2,148	1,020	1,052	4,220
New financial assets originated or purchased	3,933	602	78	4,613
Decrease	(1,740)	(387)	(842)	(2,969)
Loss allowance as at 31 December 2022	**16,642**	**4,473**	**2,517**	**23,632**
Transfer to Stage 1	1,863	(1,358)	(505)	-
Transfer to Stage 2	(514)	724	(210)	-
Transfer to Stage 3	(21)	(227)	248	-
Net remeasurement of loss allowance	(759)	7,502	2,866	9,609
New financial assets originated or purchased	3,194	241	194	3,629
Decrease	(2,113)	(412)	(1,056)	(3,581)
Loss allowance as at 31 December 2023	**18,292**	**10,943**	**4,054**	**33,289**

Cash, amounts due from banks and balances with the National Bank of Hungary

	Stage 1	Stage 2	Total
Loss allowance as at 1 January 2022	**185**	**-**	**185**
Net remeasurement of loss allowance	104	621	725
New financial assets originated or purchased	291	251	542
Financial assets derecognised (other than write-offs)	(99)	-	(99)
Loss allowance as at 31 December 2022	**481**	**872**	**1,353**
Transfer to Stage 2	(9)	9	-
Net remeasurement of loss allowance	280	(872)	(592)
New financial assets originated or purchased	87	-	87
Financial assets derecognised (other than write-offs)	(290)	-	(290)
Loss allowance as at 31 December 2023	**549**	**9**	**558**

Placements with other banks

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2022	**6,014**	**-**	**1,476**	**7,490**
Transfer to Stage 2	(71)	71	-	-
Net remeasurement of loss allowance	1,261	1,149	36	2,446
New financial assets originated or purchased	14,166	13	-	14,179
Financial assets derecognised (other than write-offs)	(5,333)	-	-	(5,333)
Loss allowance as at 31 December 2022	**16,037**	**1,233**	**1,512**	**18,782**
Net remeasurement of loss allowance	(2,349)	1	(110)	(2,458)
New financial assets originated or purchased	2,967	1,244	-	4,211
Financial assets derecognised (other than write-offs)	(4,321)	(1,232)	-	(5,553)
Loss allowance as at 31 December 2023	**12,334**	**1,246**	**1,402**	**14,982**

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.1. Credit risk [continued]

36.1.1. Financial instruments by stages [continued]

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

Repo Receivables

	Stage 1	Total
Loss allowance as at 1 January 2022	**72**	**72**
New financial assets originated or purchased	4,480	4,480
Financial assets derecognised (other than write-offs)	(2,385)	(2,385)
Loss allowance as at 31 December 2022	**2,167**	**2,167**
New financial assets originated or purchased	1,825	1,825
Financial assets derecognised (other than write-offs)	(2,167)	(2,167)
Loss allowance as at 31 December 2023	**1,825**	**1,825**

Securities at amortised cost

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2022	**5,882**	**803**	**-**	**6,685**
Transfer to Stage 3	(48)	-	48	-
Net remeasurement of loss allowance	13,564	(18)	13,756	27,302
New financial assets originated or purchased	2,972	7	-	2,979
Financial assets derecognised (other than write-offs)	(624)	(492)	-	(1,116)
Loss allowance as at 31 December 2022	**21,746**	**300**	**13,804**	**35,850**
Net remeasurement of loss allowance	(3,706)	(22)	(1,214)	(4,942)
New financial assets originated or purchased	169	-	-	169
Financial assets derecognised (other than write-offs)	(1,041)	-	-	(1,041)
Loss allowance as at 31 December 2023	**17,168**	**278**	**12,590**	**30,036**

FVOCI Securities

	Stage 1	Stage 2	Stage 3	Total
Loss allowance as at 1 January 2022	**1,174**	**-**	**-**	**1,714**
Transfer to Stage 3	(49)	-	49	-
Net remeasurement of loss allowance	1,741	-	24,350	26,091
New financial assets originated or purchased	2,144	-	-	2,144
Financial assets derecognised (other than write-offs)	(248)	-	-	(248)
Loss allowance as at 31 December 2022	**4,762**	**-**	**24,399**	**29,161**
Net remeasurement of loss allowance	(591)	-	(1,876)	(2,467)
New financial assets originated or purchased	29	-	-	29
Financial assets derecognised (other than write-offs)	(1,402)	-	-	(1,402)
Loss allowance as at 31 December 2023	**2,798**	**-**	**22,523**	**25,321**

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.1. Credit risk [continued]

36.1.2. Loan portfolio by internal ratings

30 June 2023	Gross carrying amount				
Internal rating grade	**Stage1**	**Stage2**	**Stage3**	**POCI**	**Total**
High grade (1-4)	1,639,906	198,353	-	280	**1,838,539**
Medium grade (5-7)	2,173,708	539,388	-	9,311	**2,722,407**
Low grade (8-9)	70,453	118,201	-	235	**188,889**
Non performing	-	-	105,386	1,770	**107,156**
Total	**3,884,067**	**855,942**	**105,386**	**11,596**	**4,856,991**

	Accumulated loss allowance				
Internal rating grade	**Stage1**	**Stage2**	**Stage3**	**POCI**	**Total**
High grade (1-4)	8,084	16,847	-	6	**24,937**
Medium grade (5-7)	32,464	39,553	-	838	**72,855**
Low grade (8-9)	6,049	18,801	-	9	**24,859**
Non performing	-	-	49,219	546	**49,765**
Total	**46,597**	**75,201**	**49,219**	**1,399**	**172,416**

31 December 2022	Gross carrying amount				
Internal rating grade	**Stage1**	**Stage2**	**Stage3**	**POCI**	**Total**
High grade (1-4)	1,891,381	180,426	-	214	**2,072,021**
Medium grade (5-7)	2,229,142	384,237	-	10,664	**2,624,043**
Low grade (8-9)	55,863	99,521	-	308	**155,692**
Non performing	-	-	146,353	1,811	**148,164**
Total	**4,176,386**	**664,184**	**146,353**	**12,997**	**4,999,920**

	Accumulated loss allowance				
Internal rating grade	**Stage1**	**Stage2**	**Stage3**	**POCI**	**Total**
High grade (1-4)	6,965	17,509	-	3	**24,477**
Medium grade (5-7)	28,937	25,419	-	1,115	**55,471**
Low grade (8-9)	2,462	14,123	-	18	**16,603**
Non performing	-	-	77,773	556	**78,329**
Total	**38,364**	**57,051**	**77,773**	**1,692**	**174,880**

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.1. Credit risk [continued]

36.1.3. Loan portfolio by countries

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

	30 June 2023		31 December 2022	
Country	**Gross loan and placements with other banks portfolio**	**Loss allowance**	**Gross loan and placements with other banks portfolio**	**Loss allowance**
Hungary	5,213,551	(151,518)	5,651,445	(147,446)
Malta	696,017	(3,437)	772,898	(3,857)
Bulgaria	285,321	(8,203)	272,449	(10,736)
Slovenia	248,294	(1,596)	101,842	(261)
Serbia	218,964	(5,499)	251,812	(6,204)
France	180,402	(602)	255,918	(969)
Romania	157,741	(3,760)	197,255	(3,741)
Croatia	155,152	(542)	149,993	(1,424)
Slovakia	109,967	(376)	120,897	(532)
Ukraine	81,102	(2,374)	86,329	(2,393)
Other	239,633	(11,316)	306,389	(18,266)
Loans, placements with other banks and repo receivables at amortised cost total	**7,586,144**	**(189,223)**	**8,167,227**	**(195,829)**
Hungary	849,659	-	793,228	-
Other	23	-	14	-
Loans at fair value total	**849,682**	**-**	**793,242**	**-**
Loans, placements with other banks and repo receivables total	**8,435,826**	**(189,223)**	**8,960,469**	**(195,829)**

36.1.4. Loan portfolio classification by economic activities

Loans at amortised cost by economic activities	**30 June 2023**		**31 December 2022**	
	Gross amount	**Loss allowance**	**Gross amount**	**Loss allowance**
Retail	651,669	67,721	645,496	71,024
Agriculture, forestry and fishing	222,776	7,100	211,875	6,025
Manufacturing, mining and quarrying and other industry	571,024	18,128	587,190	18,211
Construction	256,228	9,969	231,015	5,580
Wholesale and retail trade, transportation and storage accommodation and food service activities	789,508	26,038	833,618	18,674
Information and communication	25,847	1,278	25,404	1,027
Financial and insurance activities	1,268,315	9,053	1,183,848	14,903
Real estate activities	509,043	23,663	471,772	10,995
Professional, scientific, technical, administration	236,831	4,457	231,335	3,864
Public administration, defence, education, human health and social work activities	102,138	1,474	99,593	1,592
Other services	223,612	3,535	478,774	22,985
Total	**4,856,991**	**172,416**	**4,999,920**	**174,880**

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.1. Credit risk [continued]

36.1.5. 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 2023	31 December 2022
Mortgages	1,971,829	1,859,713
Guarantees and warranties	2,046,595	2,082,418
Deposit	192,192	174,247
from this: Cash	112,959	95,836
Securities	79,233	78,411
Other	192	254
Total	**4,210,808**	**4,116,632**

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 2023	31 December 2022
Mortgage	943,604	921,064
Guarantees and warranties	1,583,789	1,597,363
Deposit	44,310	44,644
from this: Cash	15,651	14,661
Securities	28,659	29,983
Other	129	216
Total	**2,571,832**	**2,563,287**

The coverage level of loan portfolio to the extent of the exposures increased from 32.37% to 34.99% as at 30 June 2023, while the coverage to the total collateral value decreased from 51.99% to 57.29%.

The collateral value (**total collateral value**) held by the Bank related to impaired loan portfolio (Stage 3 and POCI loans) is as follows:

For the six month period ended 30 June 2023	Gross carrying amount	Loss allowance	Carrying amount	Collateral value
Retail consumer loans	21,959	(15,846)	6,113	206
Mortgage loans	7,140	(1,006)	6,134	36,146
Corporate loans	88,194	(33,814)	54,380	90,060
Total	**117,293**	**(50,666)**	**66,627**	**126,412**

For the year ended 31 December 2022	Gross carrying amount	Loss allowance	Carrying amount	Collateral value
Retail consumer loans	52,915	(37,324)	15,591	30
Mortgage loans	9,318	(1,302)	8,016	40,796
Corporate loans	97,117	(40,839)	56,278	93,399
Total	**159,350**	**(79,465)**	**79,885**	**134,225**

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.1.6. Restructured loans

	30 June 2023		31 December 2022	
	Gross portfolio	**Loss allowance**	**Gross portfolio**	**Loss allowance**
Consumer loans	10,679	(5,892)	22,947	(6,279)
Mortgage loans	7,953	(612)	6,342	(114)
Corporate loans	164,838	(21,094)	181,496	(21,820)
SME loans	37,022	(3,127)	40,422	(2,951)
Municipal loans	226	(87)	-	-
Total	**220,719**	**(30,813)**	**251,208**	**(31,165)**

Restructured portfolio definition

The forborne definition used by the Bank is based on EU 2015/227 regulation.
Restructuring (forbearance) is a modification of the contract – initiated by either the client or the bank – that provides a concession or allowance towards the client in respect to the client's current or future financial difficulties. The table of restructured loans contains exposures classified as performing forborne. An exposure is considered performing forborne if the conditions of the non-performing status are not met at the time of the restructuring, or the exposure fulfilled the requirements of the minimum one-year cure period as non-performing forborne.

The loan volume of Hungarian entities classified as performing forborne exclusively due to moratoria participation decreased significantly due the expiration of the probation period for retail exposures.

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.1. Credit risk [continued]

Financial instruments by rating categories[1]

Held-for-trading securities as at 30 June 2023

	A2	A3	Aa2	Aa3	Aaa	Ba1	B1	Ba2	Ba3	Baa1	Baa2	Baa3	N/A	Total
Government bonds	147	363	449	-	7	447	-	2,392	-	-	28,190	1,510	-	33,505
Other bonds	-	-	-	-	-	-	-	-	-	-	778	119	130,253	131,150
Investment fund units	-	-	-	-	-	-	-	-	-	-	-	-	329	329
Hungarian government discounted Treasury Bills	-	-	-	-	-	-	-	-	-	-	337	-	-	337
Shares	54	31	-	65	-	-	22	-	4	15	25	10	212	438
Mortgage bonds	-	-	-	-	-	-	-	-	-	-	-	13	87	100
Total	**201**	**394**	**449**	**65**	**7**	**447**	**22**	**2,392**	**4**	**15**	**29,330**	**1,652**	**130,881**	**165,859**

Held-for-trading securities as at 31 December 2022

	A1	A2	A3	Aa2	Aa3	Aaa	Ba1	Ba2	Ba3	Baa1	Baa2	Baa3	N/A	Total
Government bonds	-	197	-	-	-	346	-	3,669	-	-	62,947	362	-	67,521
Other bonds	-	-	-	1	-	-	-	-	-	-	1,627	117	3	1,748
Investment fund units	-	-	-	-	-	-	-	-	-	-	-	-	274	274
Hungarian government discounted Treasury Bills	-	-	-	-	-	-	-	-	-	-	4,785	-	-	4,785
Shares	42	47	29	-	20	-	39	2	4	15	24	-	163	385
Mortgage bonds	-	-	-	-	-	-	-	-	-	-	11	-	71	82
Total	**42**	**244**	**29**	**1**	**20**	**346**	**39**	**3,671**	**4**	**15**	**69,394**	**479**	**511**	**74,795**

Securities mandatorily measured at fair value through profit or loss as at 30 June 2023

	N/A	Total
Government bonds	30,067	30,067
Mortgage bonds	1,528	1,528
Total	**31,595**	**31,595**

[1] Moody's ratings

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.1. Credit risk [continued]

Financial instruments by rating categories[1]

Securities mandatorily measured at fair value through profit or loss as at 31 December 2022

	N/A	Total
Government bonds	29,029	29,029
Mortgage bonds	1,469	1,469
Total	**30,498**	**30,498**

FVOCI securities as at 30 June 2023

	A1	Ba1	Ba2	Baa1	Baa2	Baa3	N/A	WR	Total
Government bonds	653	-	5,730	3,803	149,089	2,530	-	25,636	187,441
Mortgage bonds	47,416	-	-	-	-	236,999	13,846	-	298,261
Other bonds	-	3,545	-	-	-	-	16,386	-	19,931
Hungarian Treasury Bills	-	-	-	-	39,803	-	-	-	39,803
Non-treading equity instruments	-	-	-	-	-	-	19,170	-	19,170
Total	**48,069**	**3,545**	**5,730**	**3,803**	**188,892**	**239,529**	**49,402**	**25,636**	**564,606**

FVOCI securities as at 31 December 2022

	A1	A3	Ba1	Ba2	Baa1	Baa2	Baa3	N/A	WR	Total
Government bonds	734	-	-	5,971	3,941	136,671	2,661	-	27,415	177,393
Mortgage bonds	42,407	-	-	-	-	301,987	-	12,146	-	356,540
Other bonds	-	1,691	3,820	-	-	-	39,309	17,774	-	62,594
Hungarian Treasury Bills	-	-	-	-	-	182,726	-	-	-	182,726
Non-treading equity instruments	-	-	-	-	-	-	-	17,922	-	17,922
Total	**43,141**	**1,691**	**3,820**	**5,971**	**3,941**	**621,384**	**41,970**	**47,842**	**27,415**	**797,175**

[1] Moody's ratings

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.1. Credit risk [continued]

Financial instruments by rating categories[1]

Securities at amortised cost as at 30 June 2023

	A1	A2	A3	Aaa	Ba1	Ba2	Baa1	Baa2	Baa3	N/A	WR	Total
Government bonds	1,184	31,670	-	256,917	-	18,983	49,177	2,355,975	38,173	-	22,176	2,774,255
Corporate bonds	1,781	8,495	7,889	-	-	1,822	10,998	3,682	27,712	236,228	-	298,607
Mortgage bonds	13,224	-	-	-	-	-	-	-	-	11,417	-	24,641
Total	**16,189**	**40,165**	**7,889**	**256,917**	**-**	**20,805**	**60,175**	**2,359,657**	**65,885**	**247,645**	**22,176**	**3,097,503**

Securities at amortised cost as at 31 December 2022

	A1	A2	A3	Aaa	Ba1	Ba2	Baa1	Baa2	Baa3	N/A	WR	Total
Government bonds	1,301	26,341	-	281,824	-	160,048	44,691	2,374,565	33,248	-	24,427	2,946,445
Corporate bonds	1,911	9,357	403	-	-	1,968	11,874	3,971	29,022	252,938	-	311,444
Mortgage bonds	12,966	-	-	-	-	-	-	-	-	11,518	-	24,484
Total	**16,178**	**35,698**	**403**	**281,824**	**-**	**162,016**	**56,565**	**2,378,536**	**62,270**	**264,456**	**24,427**	**3,282,373**

[1] Moody's ratings

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.1. 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 2023		31 December 2022	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
Hungary	2,386,574	(16,028)	2,412,543	(19,158)
United States of America	367,101	(857)	418,900	(1,234)
Luxembourg	250,971	(4,248)	223,256	(4,804)
Serbia	52,245	(223)	56,375	(365)
Russia	24,804	(8,474)	27,064	(9,246)
Portugal	15,790	(74)	16,979	(101)
Serbia	-	-	140,116	(867)
Other	30,054	(132)	22,990	(75)
Securities at amortised cost total	**3,127,539**	**(30,036)**	**3,318,223**	**(35,850)**
Hungary	477,707	-	664,813	-
Luxembourg	23,711	-	62,549	-
Other	44,018	-	51,891	-
FVOCI securities total	**545,436**	**-**	**779,253**	**-**
United States of America	5,708	-	5,479	-
Austria	12,934	-	11,914	-
Other	528	-	529	-
Non-trading equity instruments designated to measure at fair value through other comprehensive income	**19,170**	**-**	**17,922**	**-**
Hungary	150,803	-	67,448	-
Serbia	2,369	-	3,668	-
Other	12,687	-	3,679	-
Held for trading securities total	**165,859**	**-**	**74,795**	**-**
Hungary	22,784	-	21,124	-
Luxembourg	-	-	6,885	-
United States of America	8,811	-	1,469	-
Portugal	-	-	1,020	-
Securities mandatorily measured at fair value through profit or loss	**31,595**	**-**	**30,498**	**-**
Securities total	**3,889,599**	**(30,036)**	**4,220,691**	**(35,850)**

36.2. Maturity analysis of assets and liabilities and liquidity risk

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

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

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

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

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

Due to the balance sheet adjustment process (deleveraging) experienced in the last few years, the liquidity reserves of the Bank increased significantly while the liquidity risk exposure has decreased considerably. Currently the (over)coverage of risk liquidity risk exposure by high quality liquid assets is at all-time record highs. There were no material changes in the liquidity risk management process for the six month period ended 30 June 2023.

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

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

As at 30 June 2023	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	2,317,265	-	-	-	-	2,317,265
Placements with other banks	564,253	200,083	1,109,688	619,144	-	2,493,168
Repo receivables	236,116	-	-	-	-	236,116
Financial assets at fair value through profit or loss	133,899	10,407	17,535	5,734	20,459	188,034
Securities at fair value through other comprehensive income	42,344	82,265	296,842	208,480	114,013	743,944
Securities at amortised cost	36,304	292,359	1,789,996	1,055,037	-	3,173,696
Loans at amortised cost	1,165,207	1,101,870	1,716,637	1,002,736	-	4,986,450
Loans mandatorily measured at fair value through profit or loss	19,264	21,406	139,584	678,078	-	858,332
Investment properties	-	-	-	-	4,266	4,266
Investments in subsidiaries, associates and other investments	-	-	-	-	2,007,901	2,007,901
Other financial assets	281,987	1,228	-	-	-	283,215
TOTAL ASSETS	**4,796,639**	**1,709,618**	**5,070,282**	**3,569,209**	**2,146,639**	**17,292,387**
Amounts due to banks and deposits from the National Bank of Hungary and other banks	656,743	131,680	713,309	104,147	-	1,605,879
Deposits from customers	10,082,919	161,791	13,531	10,110	-	10,268,351
Repo liabilities	870,444	-	561,376	-	-	1,431,820
Liabilities from issued securities	22,314	129,618	662,473	-	-	814,405
Subordinated bonds and loans	13,591	1,870	8,956	498,757	-	523,174
Financial liabilities at fair value through profit or loss	705	1,101	5,460	11,958	-	19,224
Leasing liabilities	1,561	4,372	22,131	12,489	-	40,553
Other financial liabilities	275,319	18,523	2,002	-	-	295,844
TOTAL LIABILITIES	**11,923,596**	**448,955**	**1,989,238**	**637,461**	**-**	**14,999,250**
NET POSITION	**(7,126,957)**	**1,260,663**	**3,081,044**	**2,931,748**	**2,146,639**	**2,293,137**
Receivables from derivative financial instruments classified as held for trading	9,087,693	1,437,498	555,817	173,622	-	11,254,630
Liabilities from derivative financial instruments classified as held for trading	(9,049,423)	(1,453,322)	(553,464)	(170,910)	-	(11,227,119)
Net position of derivative financial instruments classified as held for trading	**38,270**	**(15,824)**	**2,353**	**2,712**	**-**	**27,511**
Receivables from derivative financial instruments designated as hedge accounting	28,012	314,337	885,686	13,686	-	1,241,721
Liabilities from derivative financial instruments designated as hedge accounting	(21,251)	(341,756)	(857,218)	(10,500)	-	(1,230,725)
Net position of derivative financial instruments designated as hedging accounting	**6,761**	**(27,419)**	**28,468**	**3,186**	**-**	**10,996**
Net position of derivative financial instruments total	**45,031**	**(43,243)**	**30,821**	**5,898**	**-**	**38,507**
Commitments to extend credit	1,965,934	-	-	-	-	1,965,934
Confirmed letters of credit	772	-	-	-	-	772
Factoring loan commitment	399,614	-	-	-	-	399,614
Bank guarantees	75,926	212,281	261,198	1,273,354	-	1,822,759
Off-balance sheet commitments	**2,442,246**	**212,281**	**261,198**	**1,273,354**	**-**	**4,189,079**

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

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

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

As at 31 December 2022	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	1,093,551	-	-	-	-	1,093,551
Placements with other banks	993,586	198,808	1,090,007	636,267	-	2,918,668
Repo receivables	248,696	-	-	-	-	248,696
Financial assets at fair value through profit or loss	4,380	11,013	58,638	9,357	20,787	104,175
Securities at fair value through other comprehensive income	118,490	157,390	398,959	223,210	122,241	1,020,290
Securities at amortised cost	32,817	318,757	1,874,608	1,139,867	-	3,366,049
Loans at amortised cost	1,413,038	1,040,150	1,436,743	975,208	-	4,865,139
Loans mandatorily measured at fair value through profit or loss	18,927	20,768	140,776	667,279	-	847,750
Investment properties	-	-	-	-	4,207	4,207
Investments in subsidiaries, associates and other investments	-	-	-	-	1,596,717	1,596,717
Other financial assets	260,924	1,228	-	-	-	262,152
TOTAL ASSETS	**4,184,409**	**1,748,114**	**4,999,731**	**3,651,188**	**1,743,952**	**16,327,394**
Amounts due to banks and deposits from the National Bank of Hungary and other banks	839,590	164,140	654,843	111,406	-	1,769,979
Deposits from customers	10,903,401	192,419	12,091	11,272	-	11,119,183
Repo liabilities	134,894	3,343	270,129	-	-	408,366
Liabilities from issued securities	8,762	1,912	486,782	3,326	-	500,782
Subordinated bonds and loans	3,395	-	-	291,801	-	295,196
Financial liabilities at fair value through profit or loss	583	1,133	5,535	12,602	-	19,853
Leasing liabilities	1,049	4,895	25,857	9,663	-	41,464
Other financial liabilities	258,771	17,377	1,706	-	-	277,854
TOTAL LIABILITIES	**12,150,445**	**385,219**	**1,456,943**	**440,070**	**-**	**14,432,677**
NET POSITION	**(7,966,036)**	**1,362,895**	**3,542,788**	**3,211,118**	**1,743,952**	**1,894,717**
Receivables from derivative financial instruments classified as held for trading	8,478,109	1,788,941	511,637	179,092	-	10,957,779
Liabilities from derivative financial instruments classified as held for trading	(8,693,889)	(1,814,992)	(524,167)	(176,944)	-	(11,209,992)
Net position of derivative financial instruments classified as held for trading	**(215,780)**	**(26,051)**	**(12,530)**	**2,148**	**-**	**(252,213)**
Receivables from derivative financial instruments designated as hedge accounting	316,440	186,838	784,159	15,859	-	1,303,296
Liabilities from derivative financial instruments designated as hedge accounting	(297,714)	(217,102)	(2,031,727)	(13,425)	-	(2,559,968)
Net position of derivative financial instruments designated as hedging accounting	**18,726**	**(30,264)**	**(1,247,568)**	**2,434**	**-**	**(1,256,672)**
Net position of derivative financial instruments total	**(197,054)**	**(56,315)**	**(1,260,098)**	**4,582**	**-**	**(1,508,885)**
Commitments to extend credit	1,852,164	-	-	-	-	1,852,164
Confirmed letters of credit	12,376	-	-	-	-	12,376
Factoring loan commitment	373,417	-	-	-	-	373,417
Bank guarantees	84,327	216,572	405,546	1,167,378	-	1,873,823
Off-balance sheet commitments	**2,322,284**	**216,572**	**405,546**	**1,167,378**	**-**	**4,111,780**

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

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.3. Net foreign currency position and foreign currency risk

As at 30 June 2023

	USD	EUR	CHF	Others	Total
Assets	551,100	3,402,285	9,056	280,576	4,243,017
Liabilities	(1,129,137)	(3,984,616)	(59,902)	(83,083)	(5,256,738)
Derivative financial instruments	557,905	261,588	50,807	(193,472)	676,828
Net position	**(20,132)**	**(320,743)**	**(39)**	**4,021**	**(336,893)**

As at 31 December 2022

	USD	EUR	CHF	Others	Total
Assets	583,984	3,681,519	8,956	369,969	4,644,428
Liabilities	(741,173)	(3,992,404)	(65,565)	(82,488)	(4,881,630)
Derivative financial instruments	154,902	615,822	56,690	(285,615)	541,799
Net position	**(2,287)**	**304,937**	**81**	**1,866**	**304,597**

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.

In the table Derivative financial instruments are stated at fair value.

36.4. 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.

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.4. Interest rate risk management [continued]

As at 30 June 2023	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	**1,876,128**	**233,821**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**183,362**	**23,397**	**2,059,490**	**257,218**	**2,316,708**
fixed interest	775,514	233,821	-	-	-	-	-	-	-	-	-	-	775,514	233,821	1,009,335
variable interest	1,100,614	-	-	-	-	-	-	-	-	-	-	-	1,100,614	-	1,100,614
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	183,362	23,397	183,362	23,397	206,759
Placements with other banks	**358,981**	**112,637**	**106,613**	**488,921**	**111,941**	**139,542**	**130,817**	**3,681**	**908,034**	**67,583**	**41,661**	**7,644**	**1,658,047**	**820,008**	**2,478,055**
fixed interest	13,586	24,202	210	32,747	97,868	50,677	130,817	3,681	908,034	67,583	-	-	1,150,515	178,890	1,329,405
variable interest	345,395	88,435	106,403	456,174	14,073	88,865	-	-	-	-	-	-	465,871	633,474	1,099,345
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	41,661	7,644	41,661	7,644	49,305
Repo receivables	**204,821**	**-**	**29,470**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**234,291**	**-**	**234,291**
fixed interest	132,924	-	29,470	-	-	-	-	-	-	-	-	-	162,394	-	162,394
variable interest	71,897	-	-	-	-	-	-	-	-	-	-	-	71,897	-	71,897
Securities held for trading	**129,918**	**2,715**	**450**	**102**	**4,773**	**6,193**	**5,802**	**392**	**9,647**	**5,100**	**217**	**550**	**150,807**	**15,052**	**165,859**
fixed interest	129,871	2,715	108	102	4,091	6,193	5,802	392	9,647	5,100	-	-	149,519	14,502	164,021
variable interest	47	-	342	-	682	-	-	-	-	-	-	-	1,071	-	1,071
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	217	550	217	550	767
Securities mandatorily measured at fair value through profit or loss	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**22,784**	**8,811**	**22,784**	**8,811**	**31,595**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	22,784	8,811	22,784	8,811	31,595
Securities at fair value through other comprehensive income	**161,777**	**-**	**-**	**-**	**87,033**	**3,530**	**11,134**	**-**	**217,763**	**64,199**	**528**	**18,642**	**478,235**	**86,371**	**564,606**
fixed interest	-	-	-	-	86,353	3,530	11,134	-	217,763	64,199	-	-	315,250	67,729	382,979
variable interest	161,777	-	-	-	680	-	-	-	-	-	-	-	162,457	-	162,457
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	528	18,642	528	18,642	19,170

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.4. Interest rate risk management [continued]

As at 30 June 2023	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest -bearing		Total		Total
ASSETS [continued]	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	
Loans measured at amortised cost	**766,319**	**510,213**	**314,286**	**1,462,567**	**153,668**	**111,611**	**209,049**	**17,025**	**871,797**	**126,362**	**111,770**	**29,908**	**2,426,889**	**2,257,686**	**4,684,575**
fixed interest	19,821	3,260	21,079	350	142,352	9,914	208,101	17,025	865,733	126,362	-	-	1,257,086	156,911	1,413,997
variable interest	746,498	506,953	293,207	1,462,217	11,316	101,697	948	-	6,064	-	-	-	1,058,033	2,070,867	3,128,900
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	111,770	29,908	111,770	29,908	141,678
Loans mandatorily measured at fair value through profit or loss	**21,376**	**-**	**95**	**-**	**181,552**	**-**	**219,226**	**-**	**427,434**	**-**	**-**	**-**	**849,683**	**-**	**849,683**
variable interest	21,376	-	95	-	181,552	-	219,226	-	427,434	-	-	-	849,683	-	849,683
Securities at amortised cost	**-**	**-**	**-**	**4,491**	**296,147**	**2,162**	**353,583**	**1,822**	**1,713,333**	**725,964**	**-**	**-**	**2,363,063**	**734,439**	**3,097,502**
fixed interest	-	-	-	-	296,147	2,162	353,583	1,822	1,713,333	725,964	-	-	2,363,063	729,948	3,093,011
variable interest	-	-	-	4,491	-	-	-	-	-	-	-	-	-	4,491	4,491
Other financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**213,507**	**62,586**	**213,507**	**62,586**	**276,093**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	213,507	62,586	213,507	62,586	276,093
Derivative financial instruments	**1,936,819**	**1,263,012**	**944,659**	**1,479,198**	**533,578**	**844,250**	**73,690**	**13,763**	**195,316**	**153,946**	**200,310**	**584,989**	**3,884,372**	**4,339,158**	**8,223,530**
fixed interest	1,822,811	1,204,089	536,426	1,011,147	339,706	597,659	73,690	13,300	195,316	151,594	-	-	2,967,949	2,977,789	5,945,738
variable interest	114,008	58,923	408,233	468,051	193,872	246,591	-	463	-	2,352	-	-	716,113	776,380	1,492,493
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	200,310	584,989	200,310	584,989	785,299

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.4. Interest rate risk management [continued]

As at 30 June 2023	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest -bearing		Total		Total
LIABILITIES	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	
Amounts due to banks and deposits with the National Bank of Hungary and other banks	**206,945**	**386,332**	**18,481**	**102,711**	**96,041**	**8,238**	**192,841**	**298,700**	**243,766**	**58,901**	**27,198**	**2,506**	**785,272**	**857,388**	**1,642,660**
fixed interest	158,950	118,829	18,481	349	96,041	8,238	192,841	298,700	243,766	58,901	-	-	710,079	485,017	1,195,096
variable interest	47,995	267,503	-	102,362	-	-	-	-	-	-	-	-	47,995	369,865	417,860
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	27,198	2,506	27,198	2,506	29,704
Financial liabilities designated to measure at fair value through profit or loss	**20,011**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**27**	**-**	**-**	**-**	**20,037**	**-**	**20,037**
fixed interest	-	-	-	-	-	-	-	-	27	-	-	-	27	-	27
variable interest	20,011	-	-	-	-	-	-	-	-	-	-	-	20,011	-	20,011
Repo liabilities	**865,921**	**171,462**	**-**	**4,524**	**346,236**	**-**	**-**	**19,279**	**-**	**24,399**	**-**	**-**	**1,212,157**	**219,664**	**1,431,821**
fixed interest	794,969	-	-	4,524	346,236	-	-	19,279	-	24,399	-	-	1,141,205	48,202	1,189,407
variable interest	70,952	171,462	-	-	-	-	-	-	-	-	-	-	70,952	171,462	242,414
Deposits from customers	**7,016,518**	**2,869,159**	**213,128**	**45,655**	**68,783**	**29,654**	**-**	**-**	**11**	**-**	**14,265**	**11,178**	**7,312,705**	**2,955,646**	**10,268,351**
fixed interest	1,234,747	901,521	213,128	45,655	68,783	29,654	-	-	11	-	-	-	1,516,669	976,830	2,493,499
variable interest	5,781,771	1,967,638	-	-	-	-	-	-	-	-	-	-	5,781,771	1,967,638	7,749,409
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	14,265	11,178	14,265	11,178	25,443
Liabilities from issued securities	**1,377**	**-**	**-**	**-**	**-**	**-**	**137,694**	**-**	**38,841**	**632,224**	**-**	**-**	**177,912**	**632,224**	**810,136**
fixed interest	211	-	-	-	-	-	137,694	-	38,841	632,224	-	-	176,746	632,224	808,970
variable interest	1,166	-	-	-	-	-	-	-	-	-	-	-	1,166	-	1,166
Subordinated bonds and loans	**-**	**189,287**	**-**	**86,573**	**1,870**	**-**	**1,846**	**-**	**9,021**	**224,483**	**-**	**-**	**12,737**	**500,343**	**513,080**
fixed interest	-	-	-	-	1,870	-	1,846	-	9,021	224,483	-	-	12,737	224,483	237,220
variable interest	-	189,287	-	86,573	-	-	-	-	-	-	-	-	-	275,860	275,860
Leasing liabilities	**300**	**257**	**424**	**579**	**2,134**	**2,239**	**2,870**	**2,841**	**16,532**	**12,376**	**-**	**-**	**22,260**	**18,292**	**40,552**
fixed interest	248	68	336	138	1,794	633	2,468	871	15,751	1,148	-	-	20,597	2,858	23,455
variable interest	52	189	88	441	340	1,606	402	1,970	781	11,228	-	-	1,663	15,434	17,097
Other financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**72,039**	**207,317**	**72,039**	**207,317**	**279,356**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	72,039	207,317	72,039	207,317	279,356
Derivative financial instruments	**2,901,334**	**301,794**	**568,192**	**1,806,460**	**603,231**	**896,867**	**45,892**	**20,809**	**163,226**	**110,951**	**264,830**	**517,116**	**4,546,705**	**3,653,997**	**8,200,702**
fixed interest	2,835,215	173,356	444,020	1,077,893	325,114	584,697	45,875	20,346	163,226	110,951	-	-	3,813,450	1,967,243	5,780,693
variable interest	66,119	128,438	124,172	728,567	278,117	312,170	17	463	-	-	-	-	468,425	1,169,638	1,638,063
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	264,830	517,116	264,830	517,116	781,946
NET POSITION	**(5,556,267)**	**(1,795,893)**	**595,348**	**1,388,777**	**250,397**	**170,290**	**622,158**	**(304,946)**	**3,871,900**	**79,820**	**395,807**	**(1,590)**	**179,344**	**(463,542)**	**(284,198)**

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.4. Interest rate risk management [continued]

As at 31 December 2022	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	**637,040**	**251,192**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**183,139**	**20,827**	**820,179**	**272,019**	**1,092,198**
fixed interest	637,040	251,192	-	-	-	-	-	-	-	-	-	-	637,040	251,192	888,232
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	183,139	20,827	183,139	20,827	203,966
Placements with other banks	**665,056**	**153,142**	**130,299**	**461,042**	**74,287**	**208,087**	**98,606**	**-**	**1,012,903**	**36,780**	**48,754**	**10,873**	**2,029,905**	**869,924**	**2,899,829**
fixed interest	5,118	50,475	19,408	105,266	57,053	86,207	98,606	-	1,012,903	36,780	-	-	1,193,088	278,728	1,471,816
variable interest	659,938	102,667	110,891	355,776	17,234	121,880	-	-	-	-	-	-	788,063	580,323	1,368,386
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	48,754	10,873	48,754	10,873	59,627
Repo receivables	**246,529**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**246,529**	**-**	**246,529**
fixed interest	155,711	-	-	-	-	-	-	-	-	-	-	-	155,711	-	155,711
variable interest	90,818	-	-	-	-	-	-	-	-	-	-	-	90,818	-	90,818
Securities held for trading	**16**	**1,203**	**5,199**	**229**	**12,146**	**4,250**	**21,882**	**1,049**	**26,857**	**1,305**	**123**	**536**	**66,223**	**8,572**	**74,795**
fixed interest	1	1,203	1,009	229	3,775	4,250	21,882	1,049	26,857	1,305	-	-	53,524	8,036	61,560
variable interest	15	-	4,190	-	8,371	-	-	-	-	-	-	-	12,576	-	12,576
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	123	536	123	536	659
Securities mandatorily measured at fair value through profit or loss	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**21,124**	**9,374**	**21,124**	**9,374**	**30,498**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	21,124	9,374	21,124	9,374	30,498
Securities at fair value through other comprehensive income	**281,342**	**-**	**62,611**	**-**	**112,239**	**41,000**	**13,691**	**3,850**	**194,931**	**69,589**	**528**	**17,394**	**665,342**	**131,833**	**797,175**
fixed interest	45,688	-	62,610	-	112,232	41,000	13,691	3,850	194,931	69,589	-	-	429,152	114,439	543,591
variable interest	235,654	-	1	-	7	-	-	-	-	-	-	-	235,662	-	235,662
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	528	17,394	528	17,394	17,922

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.4. Interest rate risk management [continued]

As at 31 December 2022	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest -bearing		Total		Total
ASSETS [continued]	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	HUF	foreign currency	
Loans measured at amortised cost	**766,348**	**661,415**	**298,189**	**1,468,489**	**126,438**	**89,257**	**142,052**	**7,052**	**958,858**	**129,401**	**133,290**	**44,249**	**2,425,175**	**2,399,863**	**4,825,038**
fixed interest	12,400	2,313	10,673	2,338	114,941	8,718	141,272	7,052	951,725	129,401	-	-	1,231,011	149,822	1,380,833
variable interest	753,948	659,102	287,516	1,466,151	11,497	80,539	780	-	7,133	-	-	-	1,060,874	2,205,792	3,266,666
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	133,290	44,249	133,290	44,249	177,539
Loans mandatorily measured at fair value through profit or loss	**18,432**	**-**	**110**	**-**	**515**	**-**	**181,763**	**-**	**592,422**	**-**	**-**	**-**	**793,242**	**-**	**793,242**
variable interest	18,432	-	110	-	515	-	181,763	-	592,422	-	-	-	793,242	-	793,242
Securities at amortised cost	**19,142**	**-**	**-**	**5,072**	**179,968**	**139,632**	**271,024**	**2,422**	**1,914,570**	**750,543**	**-**	**-**	**2,384,704**	**897,669**	**3,282,373**
fixed interest	-	-	-	-	179,968	139,632	271,024	2,422	1,914,570	750,543	-	-	2,365,562	892,597	3,258,159
variable interest	19,142	-	-	5,072	-	-	-	-	-	-	-	-	19,142	5,072	24,214
Other financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**200,781**	**54,344**	**200,781**	**54,344**	**255,125**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	200,781	54,344	200,781	54,344	255,125
Derivative financial instruments	**2,112,146**	**2,789,859**	**906,446**	**1,424,063**	**469,337**	**545,207**	**36,682**	**35,935**	**183,664**	**98,147**	**194,741**	**604,648**	**3,903,016**	**5,497,859**	**9,400,875**
fixed interest	1,991,112	2,722,206	428,080	878,305	262,461	518,338	36,682	35,935	183,664	98,147	-	-	2,901,999	4,252,931	7,154,930
variable interest	121,034	67,653	478,366	545,758	206,876	26,869	-	-	-	-	-	-	806,276	640,280	1,446,556
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	194,741	604,648	194,741	604,648	799,389

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.4. Interest rate risk management [continued]

As at 31 December 2022	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest -bearing		Total		Total
LIABILITIES	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	
Amounts due to banks and deposits with the National Bank of Hungary and other banks	**229,856**	**385,369**	**37,293**	**40,697**	**129,475**	**8,214**	**71,538**	**315,766**	**397,820**	**32,570**	**81,759**	**5,771**	**947,741**	**788,387**	**1,736,128**
fixed interest	200,719	106,264	37,293	40,697	129,475	8,214	71,538	315,766	397,820	32,570	-	-	836,845	503,511	1,340,356
variable interest	29,137	279,105	-	-	-	-	-	-	-	-	-	-	29,137	279,105	308,242
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	81,759	5,771	81,759	5,771	87,530
Financial liabilities designated to measure at fair value through profit or loss	**16,576**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**16,576**	**-**	**16,576**
fixed interest	26	-	-	-	-	-	-	-	-	-	-	-	26	-	26
variable interest	16,550	-	-	-	-	-	-	-	-	-	-	-	16,550	-	16,550
Repo liabilities	**119,520**	**188,121**	**85,356**	**15,369**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**204,876**	**203,490**	**408,366**
fixed interest	29,144	4	85,356	15,369	-	-	-	-	-	-	-	-	114,500	15,373	129,873
variable interest	90,376	188,117	-	-	-	-	-	-	-	-	-	-	90,376	188,117	278,493
Deposits from customers	**7,563,627**	**2,887,850**	**302,491**	**190,393**	**127,940**	**23,147**	**-**	**-**	**16**	**-**	**12,147**	**11,547**	**8,006,221**	**3,112,937**	**11,119,158**
fixed interest	1,008,247	552,561	302,491	190,393	127,940	23,147	-	-	16	-	-	-	1,438,694	766,101	2,204,795
variable interest	6,555,380	2,335,289	-	-	-	-	-	-	-	-	-	-	6,555,380	2,335,289	8,890,669
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	12,147	11,547	12,147	11,547	23,694
Liabilities from issued securities	**1,878**	**-**	**1,215**	**-**	**1,702**	**-**	**1,854**	**-**	**43,854**	**448,206**	**-**	**-**	**50,503**	**448,206**	**498,709**
fixed interest	211	-	-	-	1,702	-	1,854	-	43,854	448,206	-	-	47,621	448,206	495,827
variable interest	1,667	-	1,215	-	-	-	-	-	-	-	-	-	2,882	-	2,882
Subordinated bonds and loans	**-**	**-**	**-**	**93,110**	**-**	**201,076**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**294,186**	**294,186**
variable interest	-	-	-	93,110	-	201,076	-	-	-	-	-	-	-	294,186	294,186
Leasing liabilities	**282**	**431**	**430**	**815**	**1,990**	**2,781**	**5,436**	**4,966**	**15,365**	**8,968**	**-**	**-**	**23,503**	**17,961**	**41,464**
fixed interest	229	41	326	83	1,567	379	4,688	1,004	14,798	267	-	-	21,608	1,774	23,382
variable interest	53	390	104	732	423	2,402	748	3,962	567	8,701	-	-	1,895	16,187	18,082
Other financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**220,129**	**38,344**	**220,129**	**38,344**	**258,473**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	220,129	38,344	220,129	38,344	258,473
Derivative financial instruments	**3,097,710**	**1,854,159**	**478,930**	**1,819,835**	**574,661**	**554,788**	**22,780**	**36,706**	**118,071**	**114,115**	**245,955**	**555,251**	**4,538,107**	**4,934,854**	**9,472,961**
fixed interest	3,012,679	1,709,457	331,253	972,597	216,895	532,485	22,758	36,706	118,071	114,115	-	-	3,701,656	3,365,360	7,067,016
variable interest	85,031	144,702	147,677	847,238	357,766	22,303	22	-	-	-	-	-	590,496	1,014,243	1,604,739
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	245,955	555,251	245,955	555,251	801,206
NET POSITION	**(6,283,398)**	**(1,459,119)**	**497,139**	**1,198,676**	**139,162**	**237,427**	**664,092**	**(307,130)**	**4,309,079**	**481,906**	**222,490**	**151,332**	**(451,436)**	**303,092**	**(148,343)**

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.5. 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 36.2, 36.3 and 36.4 respectively.)

36.5.1. Market risk sensitivity analysis

The VaR risk measure estimates the potential loss in pre-tax 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 recognizing 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 approach. The diversification effect has not been validated among the various market risk types when capital calculation happens. In addition to these two methodologies, Monte Carlo simulations are applied to the various portfolios on a monthly basis to determine potential future exposure.

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

Historical VaR (99%, one-day) by risk type	**Average**	
	2023H1	**2022**
Foreign exchange	7,041	6,820
Interest rate	641	327
Equity instruments	14	42
Total VaR exposure	**7,696**	**7,189**

The table above shows the VaR figures by asset classes. Since processes driving the value of the major asset classes are not independent (for example the depreciation of HUF against the EUR mostly coincide with the increase of the yields of Hungarian Government Bonds), a diversification impact emerges, so the overall VaR is less than the sum of the VaR of each individual asset class.

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 36.5.2., for interest rate risk in Note 36.5.3., and for equity price sensitivity analysis in Note 36.5.4.

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.5. Market risk [continued]

36.5.2. Foreign currency sensitivity analysis

The following table shows the result of the foreign currency sensitivity analysis. The Group uses VaR calculation with 1 day holding period and a 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 recognizing offsetting positions and correlations between products and markets. The daily loss will not exceed the reported VaR number with 99% of probability.

	Effects to the P&L in 3 months period	
Probability	**2023H1**	**2022**
	In HUF billion	**In HUF billion**
1%	(9,867)	(4,582)
5%	(5,421)	(2,470)
25%	(1,674)	(786)
50%	491	14
25%	1,886	999
5%	5,671	2,700
1%	7,961	4,233

Notes:
(1) Historical VaR simulation is based on the empirical distribution of the historical exchange rate movements between 30 June 2023 and 31 December 2022.

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.5. Market risk [continued]

36.5.3. 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 was outstanding for the whole year. The analysis was prepared by assuming only adverse interest rate changes. The main assumptions were as follows:

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

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

(1) (1) HUF base rate and BUBOR increases gradually by 700 bps over the next year (probable scenario)
(2) (2) HUF base rate and BUBOR increases gradually by 100 bps over the next year (alternative scenario)

The net interest income in a one year period after 1 July 2023 would be decreased by HUF 32,584 million (scenario 1) and increased by HUF 6,262 million (scenario 2) as a result of these simulation.The same simulation indicated HUF 6,304 million increase (scenario 1) and HUF 3,058 million decrease (scenario 2) in the Net interest income in a one year period after 1 January 2023. This effect is further increased by capital gains HUF +2,277 million (or scenario 1), HUF -295 million (for scenario 2) as at 30 June 2023 and (HUF -350 million for scenario 1, HUF +181 million for scenario 2 as at 31 December 2022) on the government bond portfolio held for hedging (economic).

Furthermore, the effects of an instant 10bps 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 (in HUF million):

Description	2023H1		2022	
	Effects to the net interest income (one-year period)	**Effects to shareholder's equity (Price change of FVOCI government bonds)**	**Effects to the net interest income (one-year period)**	**Effects to shareholder's equity (Price change of FVOCI government bonds)**
HUF (0.1%) parallel shift	1,045	46	216	46
HUF 0.1% parallel shift	(1,045)	(46)	(221)	(46)
EUR (0.1%) parallel shift	369	-	(474)	-
EUR 0.1% parallel shift	(1,303)	-	460	-
USD (0.1%) parallel shift	634	-	610	-
USD 0.1% parallel shift	(641)	-	(711)	-
Total	**(941)**	**-**	**(120)**	**-**

36.5.4. Equity price sensitivity analysis

The following table shows the effect of the equity price sensitivity. The Bank uses VaR calculation with 1 day holding period and a 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 recognizing 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 scenarios show the loss of the portfolio when all prices change with the maximum amount of the last year.

Description	2023H1	2022
VaR (99%, one day, million HUF)	12	15
Stress test (million HUF)	(14)	(26)

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.6 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[10]

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 2023 as well as in 2022.

The Bank’s capital adequacy calculation is in line with IFRS and based on Basel III as at 30 June 2023 and 31 December 2022. 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).

	30 June 2023 Basel III	**31 December 2022 Basel III**
Core capital (Tier 1)	1,834,527	1,632,037
Primary core capital (CET1)	1,834,527	1,632,037
Supplementary capital (Tier 2)	496,033	286,181
Regulatory capital	**2,330,560**	**1,918,218**
Credit risk capital requirement	693,639	742,536
Market risk capital requirement	25,377	26,530
Operational risk capital requirement	30,276	31,440
Total eligible regulatory capital	**749,292**	**800,506**
Surplus capital	**1,581,268**	**1,117,712**
CET 1 ratio	19.59%	16.31%
Capital adequacy ratio	**24.88%**	**19.17%**

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.

[10] The dividend amount planned to pay out / paid out is deducted from reserves.

NOTE 37: TRANSFER OF FINANCIAL INSTRUMENTS (in HUF mn)

Financial assets transferred but not derecognised

	30 June 2023		31 December 2022	
	Transferred assets Carrying amount	**Associated liabilities**	**Transferred assets**	**Associated liabilities**
Financial assets at fair value through other comprehensive income				
Debt securities	126,876	131,663	95,493	95,900
Total	**126,876**	**131,663**	**95,493**	**95,900**
Financial assets at amortised cost				
Debt securities	1,307,400	1,300,157	381,356	312,466
Total	**1,307,400**	**1,300,157**	**381,356**	**312,466**
Total	**1,434,276**	**1,431,820**	**476,849**	**408,366**

As at 30 June 2023 and 31 December 2022, the Bank had obligation from repurchase agreements about HUF 1.432 billion and HUF 408 billion respectively. Securities sold temporarily under repurchase agreements will continue to be recognized in the Statement of Financial Position of the Bank in the appropriate securities category. The related liability is measured at amortized cost in the Statement of Financial Position as 'Amounts due to banks and deposits from the National Bank of Hungary and other banks'. Under these repurchase agreements only Hungarian and foreign government bonds were transferred.

NOTE 38: 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 2023	**31 December 2022**
Loan commitments	1,965,934	1,852,164
Guarantees arising from banking activities	1,822,759	1,873,824
from this: Payment undertaking liabilities (related to issue of mortgage bonds) of OTP Mortgage Bank	1,046,929	955,480
Factoring loan commitments	399,614	373,417
Confirmed letters of credit	772	12,376
Contingent liabilities and commitments total in accordance with IFRS 9	**4,189,079**	**4,111,781**
Legal disputes (disputed value)	3,802	3,678
Contingent liabilities related to payments from shares in venture capital fund	19,076	28,614
Other	13	7
Contingent liabilities and commitments total in accordance with IAS 37	**22,891**	**32,299**
Total	**4,211,970**	**4,144,080**

NOTE 38: OFF-BALANCE SHEET ITEMS (in HUF mn) [continued]

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 1884 million and HUF 1917 million as at 30 June 2023 and 31 December 2022, respectively. (See Note 24.)

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.

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.

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. According to the arrangement the repurchase guarantee was cancelled and OTP Bank Plc. gives bail to the loans originated or purchased by the Bank.

NOTE 39: 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. In case of foreign subsidiaries virtual share based payment was made uniformly from 2021 (in case of payments related to 2021).

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.

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 6,000 discount at the assessment date, and earnings for the shares at the payment date is maximum HUF 12,000.

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.

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.

NOTE 39: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF mn) [continued]

The parameters for the share-based payment relating to ongoing years 2018-2022 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 2018			for the year 2019			for the year 2020		
2019	10,413	4,000	12,413	-	-	-	-	-	-
2020	10,413	4,000	12,413	9,553	4,000	11,553	-	-	-
2021	10,413	4,000	12,413	9,553	4,000	11,553	12,644	9,000	16,644
2022	10,913	4,000	12,413	9,553	4,000	11,553	12,644	8,000	16,644
2023	10,913	4,000	12,413	9,553	4,000	11,553	13,644	8,000	16,644
2024	10,913	4,000	12,413	9,553	4,000	11,553	13,644	8,000	16,644
2025	10,913	4,000	12,413	9,553	4,000	11,553	13,644	8,000	16,644
2026	-	-	-	9,553	4,000	11,553	13,644	8,000	16,644
2027	-	-	-	-	-	-	13,644	8,000	16,644

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
	Exercise price	Maximum earnings per share		Exercise price	Maximum earnings per share	
	HUF per share					
	for the year 2021			for the year 2022		
2022	5,912	6,000	8,912	-	-	-
2023	6,912	7,000	8,912	7,773	6,000	10,773
2024	6,912	8,000	8,912	8,773	7,000	10,773
2025	6,912	9,000	8,912	8,773	8,000	10,773
2026	6,912	10,000	8,912	8,773	9,000	10,773
2027	6,912	10,000	8,912	8,773	10,000	10,773
2028	6,912	10,000	8,912	8,773	10,000	10,773
2029	-	-	-	8,773	10,000	10,773

Relevant factors considered during measurement of fair value related to share-based payment as follows:

Year	Reference price	Assumed volatility	Risk-free interest rate (HUF)						
			1Y	2Y	3Y	4Y	5Y	6Y	7Y
2017	9,200	21.3%	0.1%	0.5%	0.7%	1.0%	1.3%	1.3%	1.3%
2018	10,064	26.0%	0.2%	0.6%	1.0%	1.3%	1.6%	1.9%	2.1%
2019	12,413	19.2%	0.2%	0.7%	0.9%	1.1%	1.3%	1.4%	1.6%
2020	11,553	33.6%	0.6%	0.4%	0.5%	0.6%	0.8%	0.9%	1.0%
2021	16,644	28.6%	1.0%	1.6%	1.8%	1.9%	2.0%	2.1%	2.1%
2022	8,912	42.6%	7.1%	7.9%	7.6%	7.3%	7.1%	7.0%	6.9%

NOTE 39: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF mn) [continued]

Relevant factors considered during measurement of fair value related to share-based payment as follows: [continued]

Év	Expected dividends (HUF/Share)							Pricing model
	1Y	2Y	3Y	4Y	5Y	6Y	7Y	
2017	219	219	252	290	334	384	442	Binomial
2018	219	219	219	219	219	219	219	Binomial
2019	252	290	333	383	440	507	583	Binomial
2020	219	252	290	333	383	440	507	Binomial
2021	371	321	357	393	432	475	523	Binomial
2022	452	497	547	601	661	728	800	Binomial

Based on parameters accepted by Supervisory Board, relating to the year 2018 effective pieces are follows As at 30 June 2023:

	Approved pieces of shares	Exercised until 30 June 2023	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable at 30 June 2023
Share-purchasing period started in 2019	82,854	82,854	13,843	-	-
Remuneration exchanged to share provided in 2019	17,017	17,017	11,829	-	-
Share-purchasing period starting in 2020	150,230	150,230	14,294	-	-
Remuneration exchanged to share applying in 2020	33,024	33,024	11,897	-	-
Share-purchasing period starting in 2021	73,799	73,799	16,314	-	-
Remuneration exchanged to share applying in 2021	14,618	14,618	16,468	-	-
Share-purchasing period starting in 2022	86,456	-	-	-	86,456
Remuneration exchanged to share applying in 2022	13,858	13,858	8,529	-	-
Share-purchasing period starting in 2023	45,155	-	-	-	45,155
Remuneration exchanged to share applying in 2023	3,217	3,217	11,820	-	-
Remuneration exchanged to share applying in 2024	-	-	-	-	864
Remuneration exchanged to share applying in 2025	-	-	-	-	432

Based on parameters accepted by Supervisory Board, relating to the year 2019 effective pieces are follows As at 30 June 2023:

	Approved pieces of shares	Exercised until 30 June 2023	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable at 30 June 2023
Share-purchasing period started in 2020	91,403	91,403	12,218	-	-
Remuneration exchanged to share provided in 2020	22,806	22,806	11,897	-	-
Share-purchasing period starting in 2021	201,273	201,273	16,298	-	-
Remuneration exchanged to share applying in 2021	30,834	30,834	17,618	-	-
Share-purchasing period starting in 2022	107,760	3,481	11,366	1,344	102,935
Remuneration exchanged to share applying in 2022	10,564	10,564	8,529	-	-
Share-purchasing period starting in 2023	108,978	511	12,070	-	108,467
Remuneration exchanged to share applying in 2023	13,427	13,170	11,674	-	257
Share-purchasing period starting in 2024	-	-	-	-	44,421
Remuneration exchanged to share applying in 2024	-	-	-	-	6,279
Remuneration exchanged to share applying in 2025	-	-	-	-	1,000
Remuneration exchanged to share applying in 2026	-	-	-	-	500

NOTE 39: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF mn) [continued]

Based on parameters accepted by Supervisory Board, relating to the year 2020 effective pieces are follows As at 30 June 2023:

	Approved pieces of shares	Exercised until 30 June 2023	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable at 30 June 2023
Share-purchasing period started in 2021	41,098	14,142	17,997	26,956	-
Remuneration exchanged to share provided in 2021	17,881	17,881	17,498	-	-
Share-purchasing period starting in 2022	83,688	-	-	1,288	82,400
Remuneration exchanged to share applying in 2022	15,232	14,743	8,529	-	489
Share-purchasing period starting in 2023	47,275	-	-	-	47,275
Remuneration exchanged to share applying in 2023	8,562	8,378	11,659	-	184
Share-purchasing period starting in 2024	-	-	-	-	51,002
Remuneration exchanged to share applying in 2024	-	-	-	-	9,518
Share-purchasing period starting in 2025	-	-	-	-	13,080
Remuneration exchanged to share applying in 2025	-	-	-	-	3,443
Remuneration exchanged to share applying in 2026	-	-	-	-	680
Remuneration exchanged to share applying in 2027	-	-	-	-	680

Based on parameters accepted by Supervisory Board, relating to the year 2021 effective pieces are follows As at 30 June 2023:

	Approved pieces of shares	Exercised until 30 June 2023	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable at 30 June 2023
Share-purchasing period started in 2022	60,018	59,776	10,122	242	-
Remuneration exchanged to share provided in 2022	11,028	10,708	8,537	-	320
Share-purchasing period starting in 2023	117,276	10,012	12,020	-	107,264
Remuneration exchanged to share applying in 2023	10,824	10,264	11,534	-	560
Share-purchasing period starting in 2024	-	-	-	-	50,771
Remuneration exchanged to share applying in 2024	-	-	-	-	4,942
Share-purchasing period starting in 2025	-	-	-	-	54,262
Remuneration exchanged to share applying in 2025	-	-	-	-	4,942
Share-purchasing period starting in 2026	-	-	-	-	58,155
Remuneration exchanged to share applying in 2026	-	-	-	-	4,942
Share-purchasing period starting in 2027	-	-	-	-	25,305
Remuneration exchanged to share applying in 2027	-	-	-	-	631

NOTE 39: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF mn) [continued]

Based on parameters accepted by Supervisory Board, relating to the year 2022 effective pieces are follows As at 30 June 2023:

	Approved pieces of shares	Exercised until 30 June 2023	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable at 30 June 2023
Share-purchasing period started in 2023	57,412	8,421	11,991	-	48,991
Remuneration exchanged to share provided in 2023	8,726	8,211	11,532	-	515
Share-purchasing period starting in 2024	-	-	-	-	103,450
Remuneration exchanged to share applying in 2024	-	-	-	-	8,494
Share-purchasing period starting in 2025	-	-	-	-	42,814
Remuneration exchanged to share applying in 2025	-	-	-	-	3,993
Share-purchasing period starting in 2026	-	-	-	-	43,714
Remuneration exchanged to share applying in 2026	-	-	-	-	3,993
Share-purchasing period starting in 2027	-	-	-	-	44,701
Remuneration exchanged to share applying in 2027	-	-	-	-	3,993
Share-purchasing period starting in 2028	-	-	-	-	19,756
Remuneration exchanged to share applying in 2028	-	-	-	-	-

Effective pieces relating to the periods starting in 2024-2028 settled during valuation of performance of year 2019-2022, can be modified based on risk assessment and personal changes.

In connection with the share-based compensation for Board of Directors and connecting compensation, shares given as a part of payments detailed above and for the year 2023 based on performance assessment accounted as equity-settled share based transactions HUF 1,394 million was recognized as expense for the six month period ended 30 June 2023.

NOTE 40: RELATED PARTY TRANSACTIONS (in HUF mn)

Outstanding balances and transactions with related parties are summarized below in aggregate:

Statement of financial position

	30 June 2023		31 December 2022	
	Associated companies and other companies	**Other related parties**	**Associated companies and other companies**	**Other related parties**
Cash, amounts due from banks and balances with the National Bank of Hungary	29,931	-	83,713	-
Placements with other banks	1,955,335	-	2,019,597	-
Repo receivables	198,642	-	205,520	-
Held for trading securities	14	-	11	-
Held for trading derivative financial instruments:	75,378	-	55,989	-
Financial assets at fair value through other comprehensive income	240,318	-	302,121	-
Securities at amortised cost	-	610	-	601
Loans at amortised cost	959,281	75,686	997,027	65,767
Loans mandatorily measured at fair value through profit or loss	-	44	-	44
Right of use assets	20,521	-	21,615	-
Derivative financial assets designated as hedge accounting relationships	1,496	-	1,625	-
Other assets	160,622	2,498	136,361	375
Total Assets	**3,641,538**	**78,838**	**3,823,579**	**66,787**
Amounts due to banks and deposits from the National Bank of Hungary and other banks	(801,587)	-	(863,748)	-
Repo liabilities	(866,865)	-	(191,102)	-
Deposits from customers	(291,189)	(78,357)	(271,214)	(58,217)
Leasing liabilities	(21,234)	-	(22,129)	-
Liabilities from issued securities	-	-	(12,232)	-
Derivative financial liabilities designated as held for trading	(31,787)	-	(40,225)	-
Derivative financial liabilities designated as hedge accounting relationships	-	-	-	-
Other liabilities	(19,459)	(2,396)	(14,836)	(491)
Total Liabilities	**(2,032,121)**	**(80,753)**	**(1,415,486)**	**(58,708)**

Off balance sheet items

Guarantees	(1,193,094)	(11,491)	(1,208,669)	(7,824)
Loan commitments	(69,415)	(40,178)	(72,161)	(43,324)
Factoring loan commitments	(1,006)	(9,986)	(1,085)	(8,763)
Total	**(1,263,515)**	**(61,655)**	**(1,281,915)**	**(59,911)**

NOTE 40: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

Outstanding balances and transactions with related parties are summarized below in aggregate: [continued]

Statement of Profit or Loss

	Six month period ended 30 June 2023	Year ended 31 December 2022
Interest Income	(214,794)	181,369
Interest Expense	156,161	(93,185)
Risk cost	(3,288)	70,147
(Losses)/Gains arising from derecognition of financial assets measured at amortised cost	(1,624)	(49,745)
Income from fees and commissions	(14,490)	18,742
Expenses from fees and commissions	1,823	(3,038)
Other administrative expenses	5,842	(9,761)

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:

	30 June 2023	31 December 2022
Short-term employee benefits	1,673	2,986
Share-based payment	1,066	2,225
Long-term employee benefits (on the basis of IAS 19)	125	239
Total	**2,864**	**5,450**

	30 June 2023	31 December 2022
Loans provided to companies owned by the Management (in the normal course of business)	75,686	65,767
Commitments to extend credit and bank guarantees	61,655	59,911

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 2023	31 December 2022
Members of Board of Directors	1,236	1,180
Members of Supervisory Board	106	198
Total	**1,342**	**1,378**

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 41: 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 2023	31 December 2022
Loans managed by the Bank as a trustee	26,859	27,914

NOTE 42: CONCENTRATION OF ASSETS AND LIABILITIES

	30 June 2023	31 December 2022
In the percentage of the total assets		
Receivables from, or securities issued by the Hungarian Government or the NBH	28.52%	23.58%
Securities issued by the OTP Mortgage Bank Ltd.	1.86%	2.30%
Loans at amortised cost	4.69%	5.26%

There were no other significant concentrations of the assets or liabilities of the Bank as at 30 June 2023 or 31 December 2022.

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

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

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

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

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

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

The maximum credit exposure to any client or counterparty among Loans at amortised cost was HUF 813 billion and HUF 871 billion as at 30 June 2023 and 31 December 2022 respectively, before taking into account collateral or other credit enhancements.

NOTE 43: 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 2023	31 December 2022
Net profit for the year attributable to ordinary shareholders (in HUF mn)	312,715	6,632
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	279,471,114	278,795,018
Basic Earnings per share (in HUF)	**1,119**	**24**
Separate net profit for the year attributable to ordinary shareholders (in HUF mn)	312,715	125,339
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	279,473,638	278,797,915
Diluted Earnings per share (in HUF)	**1,119**	**450**

	30 June 2023	31 December 2022
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	(528,896)	(1,204,992)
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	**279,471,114**	**278,795,018**
Dilutive effect of options issued in accordance with the Remuneration Policy / Management Option Program and convertible into ordinary shares	2,524	2,896
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	**279,473,638**	**278,797,914**

NOTE 44: NET GAIN OR LOSS REALISED ON FINANCIAL INSTRUMENTS (in HUF mn)

Six month period ended 30 June 2023	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	178,012	-	-	-
Placements with other banks	106,409	-	(3,865)	-
Repo receivables	21,962	-	(342)	-
Loans	219,624	6,337	16,545	-
Securities at amortised cost	44,824	(7,760)	(4,443)	-
Financial assets measured at amortised cost total	**570,831**	**(1,423)**	**7,895**	**-**
Financial assets measured at fair value				
Securities held for trading	3,858	7,504	-	-
Securities at fair value through other comprehensive income	32,004	732	(1,832)	18,404
Loans mandatorily measured at fair value through profit or loss	23,956	48,546	1,622	-
Financial assets measured at fair value total	**59,818**	**56,782**	**(210)**	**18,404**
Financial liabilities measured at amortised cost				
Amounts due to banks and deposits from the National Bank of Hungary and other banks	(44,614)	-	-	-
Repo liabilities	(112,537)	-	-	-
Deposits from customers	(177,770)	111,958	-	-
Leasing liabilities	(841)	-	-	-
Liabilities from issued securities	(21,342)	-	-	-
Subordinated bonds and loans	(13,428)	-	-	-
Financial liabilities measured at amortised cost total	**(370,532)**	**111,958**	**-**	**-**
Financial liabilities designated to measure at fair value through profit or loss	**(669)**	**(4,093)**	**-**	**-**
Derivative financial instruments	**(44,719)**	**10,993**	**-**	**-**
Total	**214,729**	**174,217**	**7,685**	**18,404**

NOTE 44: NET GAIN OR LOSS REALISED ON FINANCIAL INSTRUMENTS (in HUF mn) [continued]

Year ended 31 December 2022	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	50,964	-	-	-
Placements with other banks	203,618	-	11,754	-
Repo receivables	10,234	-	2,095	-
Loans	297,460	11,643	33,838	-
Securities at amortised cost	92,948	(54,402)	27,623	-
Financial assets measured at amortised cost total	**655,224**	**(42,759)**	**75,310**	**-**
Financial assets measured at fair value				
Securities held for trading	3,556	6,480	-	-
Securities at fair value through other comprehensive income	39,988	(7,952)	25,615	(53,068)
Loans mandatorily measured at fair value through profit or loss	35,927	(20,188)	(11,872)	-
Financial assets measured at fair value total	**79,471**	**(21,660)**	**13,743**	**(53,068)**
Financial liabilities measured at amortised cost				
Amounts due to banks and deposits from the National Bank of Hungary and other banks	(19,806)	-	-	-
Repo liabilities	(65,575)	-	-	-
Deposits from customers	(184,713)	213,359	-	-
Leasing liabilities	(1,186)	-	-	-
Liabilities from issued securities	(7,442)	-	-	-
Subordinated bonds and loans	(8,646)	-	-	-
Financial liabilities measured at amortised cost total	**(287,368)**	**213,359**	**-**	**-**
Financial liabilities designated to measure at fair value through profit or loss	**(562)**	**1,932**	**-**	**-**
Derivative financial instruments	**(146,192)**	**9,917**	**-**	**-**
Total	**300,573**	**160,789**	**89,053**	**(53,068)**

NOTE 45: 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 45. 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 3 of the fair value hierarchy.

Use of modified yield curve

During the year ended 31 December 2022 yield curves derived from hungarian government bonds ("ÁKK curve") have become distorted due to certain market events, which means that real liquidity has concentrated on certain part of the yield curve. Therefore a modified yield curve - which is not observable on the market - has been used at the concerning fair value calculations. This yield curve is based on the relevant yield curve points of the original ÁKK curve. Based on Management's discretion fair value calculated with modified yield curves can represent the perspective of market participants reliable at current market conditions.

For the year ended 31 December 2022 modified yield curve was used for calculating fair value in case of subsidised personal loans represented in "Loans mandatorily measured at fair value through profit or loss" line.

For the six month period ended 30 June 2023 fair value calculation of subsidised personal loans is based on ÁKK curve.

NOTE 45: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

a) *Fair value of financial assets and liabilities*

	30 June 2023		31 December 2022	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash, amounts due from banks and balances with the National Bank of Hungary	2,316,708	2,316,708	1,092,198	1,092,198
Placements with other banks	2,478,055	2,574,710	2,899,829	2,871,307
Repo receivables	234,291	235,887	246,529	248,513
Securities at amortised cost	3,097,503	2,677,085	3,282,373	2,654,685
Loans at amortised cost	4,684,575	4,702,881	4,825,040	4,856,352
Other financial assets	276,093	276,093	255,125	255,125
Total assets measured not at fair value	**13,087,225**	**12,783,364**	**12,601,094**	**11,978,180**
Financial assets at fair value through profit or loss	480,694	480,694	410,012	410,012
Held for trading securities	*165,859*	*165,859*	*74,795*	*74,795*
Derivative financial instruments classified as held for trading	*283,240*	*283,240*	*304,719*	*304,719*
Securities mandatorily measured at fair value through profit or loss	*31,595*	*31,595*	*30,498*	*30,498*
Equity instruments at fair value through other comprehensive income	19,170	19,170	17,922	17,922
Securities at fair value through other comprehensive income	545,436	545,436	779,253	779,253
Loans mandatorily measured at fair value through profit or loss	849,682	849,682	793,242	793,242
Derivative financial assets designated as hedge accounting relationships	34,320	34,320	47,220	47,220
Total assets measured at fair value	**1,929,302**	**1,929,302**	**2,047,649**	**2,047,649**
FINANCIAL ASSETS TOTAL	**15,016,527**	**14,712,666**	**14,648,743**	**14,025,829**
Amounts due to banks, deposits from the National Bank of Hungary and other banks	1,642,660	1,530,146	1,736,128	1,559,492
Repo liabilities	1,431,820	1,482,747	408,366	415,703
Deposits from customers	10,268,351	10,273,777	11,119,158	11,122,775
Leasing liabilities	40,553	40,574	41,464	41,477
Liabilities from issued securities	810,136	827,365	498,709	493,440
Subordinated bonds and loans	513,079	484,915	294,186	261,113
Other financial liabilities	279,356	279,356	282,103	282,103
Total liabilities measured not at fair value	**14,985,955**	**14,918,880**	**14,380,114**	**14,176,104**
Financial liabilities at fair value through profit or loss	20,037	20,037	16,576	16,576
Derivative financial liabilities designated as held for trading	259,305	259,305	373,401	373,401
Derivative financial liabilities designated as hedge accounting relationships	35,427	35,427	50,623	50,623
Total liabilities measured at fair value	**314,769**	**314,769**	**440,600**	**440,600**
FINANCIAL LIABILITIES TOTAL	**15,300,724**	**15,233,649**	**14,820,714**	**14,616,704**

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).

NOTE 45: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

b) Derivative financial instruments [continued]

Fair value of derivative financial instruments[1]

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

	30 June 2023					31 December 2022				
	Before netting		Netting	After netting		Before netting		Netting	After netting	
	Assets	Liabilities		Assets	Liabilities	Assets	Liabilities		Assets	Liabilities
Held for trading derivative financial instruments										
Interest rate derivatives										
Interest rate swaps	148,029	(133,136)	129,086	18,943	(4,050)	162,519	(170,144)	155,468	7,051	(14,676)
Cross currency interest rate swaps	7,876	(6,668)	-	7,876	(6,668)	11,332	(12,139)	-	11,332	(12,139)
OTC options	1,204	(1,204)	-	1,204	(1,204)	1,000	(1,000)	-	1,000	(1,000)
Forward rate agreement	96	(27)	96	-	69	505	(3)	505	-	502
Total interest rate derivatives (OTC derivatives)	**157,205**	**(141,035)**	**129,182**	**28,023**	**(11,853)**	**175,356**	**(183,286)**	**155,973**	**19,383**	**(27,313)**
From this: Interest rate derivatives cleared by NBH	1,706	-	-	1,706	-	2,702	-	-	2,702	-
Foreign exchange derivatives										
Foreign exchange swaps	86,488	(56,854)	-	86,488	(56,854)	109,167	(76,037)	-	109,167	(76,037)
Foreign exchange forward	11,816	(19,008)	-	11,816	(19,008)	9,909	(11,936)	-	9,909	(11,936)
OTC options	1,566	(1,022)	-	1,566	(1,022)	1,048	(822)	-	1,048	(822)
Foreign exchange spot conversion	314	(267)	-	314	(267)	162	(162)	-	162	(162)
Total foreign exchange derivatives (OTC derivatives)	**100,184**	**(77,151)**	**-**	**100,184**	**(77,151)**	**120,286**	**(88,957)**	**-**	**120,286**	**(88,957)**
From this: Foreign exchange derivatives cleared by NBH	-	-	-	-	-	22,214	-	-	22,214	-

[1] Certain derivative financial assets and liabilities are offset and the net amount is presented in accordance with IAS 32 in the Statement of Financial Position. The Bank has the ability and the intention to settle those instruments on a net basis, which are settled through the same clearing house.

NOTE 45: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

b) *Derivative financial instruments [continued]*[1]

Fair value of derivative financial instruments [continued]

	30 June 2023					31 December 2022				
	Before netting		Netting	After netting		Before netting		Netting	After netting	
	Assets	Liabilities		Assets	Liabilities	Assets	Liabilities		Assets	Liabilities
Equity stock and index derivatives										
Commodity Swaps	23,217	(19,194)	-	23,217	(19,194)	34,058	(32,048)	-	34,058	(32,048)
Equity swaps	6,740	(291)	-	6,740	(291)	54	(702)	-	54	(702)
OTC derivatives	**29,957**	**(19,485)**	**-**	**29,957**	**(19,485)**	**34,112**	**(32,750)**	**-**	**34,112**	**(32,750)**
Exchange traded futures and options	317	(1,812)	-	317	(1,812)	214	(1,887)	-	214	(1,887)
Total equity stock and index derivatives	**30,274**	**(21,297)**	**-**	**30,274**	**(21,297)**	**34,326**	**(34,637)**	**-**	**34,326**	**(34,637)**
Derivatives held for risk management not designated in hedges										
Interest rate swaps	78,422	(145,199)	15,525	62,897	(129,674)	133,399	(225,915)	18,944	114,455	(206,971)
Foreign exchange swaps	46,365	(16,837)	-	46,365	(16,837)	12,687	(11,908)	-	12,687	(11,908)
Foreign exchange spot conversion	-	-	-	-	-	-	(43)	-	-	(43)
Forward	758	-	-	758	-	67	-	-	67	-
Cross currency interest rate swaps	14,739	(2,493)	-	14,739	(2,493)	3,515	(3,572)	-	3,515	(3,572)
Total derivatives held for risk management not designated in hedges	**140,284**	**(164,529)**	**15,525**	**124,759**	**(149,004)**	**149,668**	**(241,438)**	**18,944**	**130,724**	**(222,494)**
From this: Total derivatives cleared by NBH held for risk management	52,431	-	-	52,431	-	78,916	(1,879)	-	78,916	(1,879)
Total Held for trading derivative financial instruments	**427,947**	**(404,012)**	**144,707**	**283,240**	**(259,305)**	**479,636**	**(548,318)**	**174,917**	**304,719**	**(373,401)**
Derivative financial instruments designated as hedge accounting relationships										
Derivatives designated in cash flow hedges										
Interest rate swaps	1	(16,166)	1,802	(1,801)	(14,364)	-	(25,325)	2,651	(2,651)	(22,674)
Total derivatives designated in cash flow hedges	**1**	**(16,166)**	**1,802**	**(1,801)**	**(14,364)**	**-**	**(25,325)**	**2,651**	**(2,651)**	**(22,674)**
Derivatives designated in fair value hedges										
Interest rate swaps	44,384	(40,392)	25,672	18,712	(14,720)	58,381	(37,290)	30,938	27,443	(6,352)
Cross currency interest rate swaps	14,000	(6,343)	-	14,000	(6,343)	20,732	(5,398)	-	20,732	(5,398)
Foreign exchange swaps	3,409	-	-	3,409	-	1,696	(16,199)	-	1,696	(16,199)
Total derivatives designated in fair value hedges	**61,793**	**(46,735)**	**25,672**	**36,121**	**(21,063)**	**80,809**	**(58,887)**	**30,938**	**49,871**	**(27,949)**
From this: Total derivatives cleared by NBH held for hedging	-	(1,477)	-	-	(1,477)	-	(5,485)	-	-	(5,485)
Total derivatives held for risk management (OTC derivatives)	**61,794**	**(62,901)**	**27,474**	**34,320**	**(35,427)**	**80,809**	**(84,212)**	**33,589**	**47,220**	**(50,623)**

[1] Certain derivative financial assets and liabilities are offset and the net amount is presented in accordance with IAS 32 in the Statement of Financial Position. The Bank has the ability and the intention to settle those instruments on a net basis, which are settled through the same clearing house.

NOTE 45: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) *Hedge accounting*

Interest rate risk management is centralized at OTP Bank. Interest rate risk exposures in major currencies are managed at HQ on consolidated level. Although risk exposures in local currencies are managed at subsidiary level, the respective decisions are subject to HQ approval. Interest rate risk is measured by simulating NII and EVE under different stress and plan scenarios, the established risk limits are described in „OTP Bank's Group-Level Regulations on the Management of Liquidity Risk and Interest Rate Risk of Banking Book". The interest rate risk management activity aims to stabilize NII within the approved risk limits.

The risk management objective of these hedge relationships is to mitigate the risk of clean fair value (i.e. excluding accrued interest) change of MIRS loans due to the change of interest rate reference indexes (BUBOR, EURIBOR, LIBOR, etc.) of the respective currency.

Amount, timing and uncertainty of future cash flows - hedging instruments as at 30 June 2023 (amounts in million currency)

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	-	-	51	75,049	30,300	**105,400**
		Average Interest Rate (%)	-	-	1.57%	15.48%	1.40%	
		EUR						
		Notional	-	-	-	10	50	**60**
		Average Interest Rate (%)	-	-	-	0.22%	0.05%	
		USD						
		Notional	-	-	-	(1,106)	47	**(1,059)**
		Average Interest Rate (%)	-	-	-	3.65%	4.18%	
		RUB						
		Notional	-	-	-	-	-	**-**
		Average Interest Rate (%)	-	-	-	-	-	
		JPY						
		Notional	-	-	-	4,500	-	**4,500**
		Average Interest Rate (%)	-	-	-	0.22%	-	
Fair Value Hedge	FX & IR risk	Cross currency interest rate swap						
		EUR/HUF						
		Notional	-	1	2	9	10	**22**
		Average Interest Rate (%)	-	(1.68%)	(1.68%)	(1.72%)	(1.82%)	
		Average FX Rate	-	310.17	310.14	309.55	307.71	

NOTE 45: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) *Hedge accounting [continued]*

Amount, timing and uncertainty of future cash flows - hedging instruments as at 30 June 2023 (amounts in million currency) [continued]

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	**FX risk**	**Cross currency interest rate swap**						
		EUR/HUF						
		Notional	-	15	464	1,101	-	**1,580**
		Average FX Rate	-	375.46	359.65	383.26	-	
		RON/HUF						
		Notional	-	-	-	3,121	-	**3,121**
		Average FX Rate	-	-	-	75.08	-	
		RUB/HUF						
		Notional	-	-	-	-	-	**-**
		Average FX Rate	-	-	-	-	-	
		JPY/HUF						
		Notional	-	-	-	4,500	-	**4,500**
		Average FX Rate	-	-	-	2.79	-	
		USD/HUF						
		Notional	-	(13)	151	151	-	**289**
		Average FX Rate	-	323.77	323.77	323.77	-	
Fair Value Hedge	**Other**	**Interest rate swap**						
		HUF						
		Notional	-	-	241	537	-	**778**
Cash flow Hedge	**Interest rate risk**	**Interest rate swap**						
		HUF						
		Notional	-	1,508	756	18,002	10,025	**30,291**
		Average Interest Rate	-	2.13	1.73	2.19	2.95	

NOTE 45: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) *Hedge accounting [continued]*

Amount, timing and uncertainty of future cash flows - hedging instruments as at 31 December 2022 (amounts in million currency)

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	-	-	-	(64,875)	30,300	**(34,575)**
		Average Interest Rate (%)	-	-	-	7.15%	1.40%	
		EUR						
		Notional	-	-	101	10	50	**161**
		Average Interest Rate (%)	-	-	0.24%	0.22%	0.05%	
		USD						
		Notional	-	90	-	29	47	**166**
		Average Interest Rate (%)	-	2.60%	-	2.35%	4.18%	
		JPY						
		Notional	-	-	-	4,500	-	**4,500**
		Average Interest Rate (%)	-	-	-	0.22%	-	
Fair Value Hedge	**FX & IR risk**	**Cross currency interest rate swap**						
		EUR/HUF						
		Notional	-	1	2	10	11	**24**
		Average Interest Rate (%)	(1.64%)	(1.68%)	(1.68%)	(1.71%)	(1.82%)	
		Average FX Rate	310.41	310.17	310.20	309.74	307.71	
Fair Value Hedge	**FX risk**	**Cross currency interest rate swap**						
		EUR/HUF						
		Notional	-	(10)	125	878	-	**993**
		Average FX Rate	363.88	407.57	362.11	373.88	-	
		RON/HUF						
		Notional	-	-	400	3,121	-	**3,521**
		Average FX Rate	-	-	72.92	75.08	-	
		RUB/HUF						
		Notional	-	-	-	-	-	**-**
		Average FX Rate	-	-	-	-	-	
		JPY/HUF						
		Notional	-	-	-	4,500	-	**4,500**
		Average FX Rate	-	-	-	2.79	-	
		USD/HUF						
		Notional	-	-7	144	146	-	**283**
		Average FX Rate	-	323.77	323.77	323.77	-	
Fair Value Hedge	**Other**	**Interest rate swap**						
		HUF						
		Notional	-	1,323	198	778	-	**2,299**
Cash flow Hedge	**Interest rate risk**	**Interest rate swap**						
		HUF						
		Notional	-	794	3,203	-	28,027	**32,024**
		Average Interest Rate	-	1.13	1.93	-	2.46	

NOTE 45: 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 30 June 2023					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 31 December 2022
			Before netting		Netting	After netting			
			Assets	Liabilities		Assets	Liabilities		
Fair value hedge									
Interest rate swap	Interest rate risk	912,489	44,349	(40,392)	25,672	18,677	(14,720)	Derivative assets (liabilities) held for risk management	8,295
Cross-currency swap	FX & IR risk	6,860	-	(1,477)	-	-	(1,477)	Derivative assets (liabilities) held for risk management	3
Cross-currency swap	FX risk	932,158	14,000	(4,866)	-	14,000	(4,866)	Derivative assets (liabilities) held for risk management	(1,273)
FX swap	FX risk	17,814	3,409	-	-	3,409	-	Derivative assets (liabilities) held for risk management	-
Interest rate swap	Other	778	35	-	-	35	-	Derivative assets (liabilities) held for risk management	1
Cash flow hedge									
Interest rate swap	Interest rate risk	81,493	-	(16,165)	1,801	(1,801)	(14,364)	Derivative assets (liabilities) held for risk management	(73)

30 June 2023	Type of risk	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item		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***	27,905	-	(4,372)	-	Loans
- Loans	***Interest rate risk***	-	143,491	-	(22,238)	Amounts due to banks and deposits from the National Bank of Hungary and other banks
- Government bonds	***Interest rate risk***	164,148	-	(176)	-	Securities at amortised cost
- Government bonds	***Interest rate risk***	148,392	-	(31,176)	-	Securities at fair value through other comprehensive income
- Government bonds	***Interest rate risk***	-	-	-	-	Financial assets at fair value through profit or loss
- Other securities	***Interest rate risk***	3,711	-	(327)	-	Securities at fair value through other comprehensive income
- Other securities	***Interest rate risk***	-	211,132	-	3,516	Liabilities from issued securities
- Other securities	***Interest rate risk***	-	-	-	3,798	Subordinated debts
- Loans	***FX & IR risk***	13,404	-	102	-	Loans
- Loans	***FX risk***	819,473	-	-	-	Loans
- Government bonds	***FX risk***	10,653	-	-	-	Securities at amortised cost
- Government bonds	***FX risk***	103,724	-	-	-	Securities at fair value through other comprehensive income
- Other securities	***Other risk***	-	(2,688)	-	(99)	Liabilities from issued securities
Fair value hedges total		**1,291,410**	**351,935**	**(35,949)**	**(15,023)**	

NOTE 45: 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 31 December 2022					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 31 December 2022
			Before netting		Netting	After netting			
			Assets	Liabilities		Assets	Liabilities		
Fair value hedge									
Interest rate swap	Interest rate risk	444,627	58,260	(37,258)	30,938	27,322	(6,320)	Derivative assets (liabilities) held for risk management	12,873
Cross-currency swap	FX & IR risk	7,292	-	(2,679)	-	-	(2,679)	Derivative assets (liabilities) held for risk management	3
Cross-currency swap	FX risk	813,430	21,685	(2,719)	-	21,685	(2,719)	Derivative assets (liabilities) held for risk management	(6,087)
FX swap	FX risk	290,982	743	(16,199)	-	743	(16,199)	Derivative assets (liabilities) held for risk management	-
Interest rate swap	Other	2,299	121	(32)	-	121	(32)	Derivative assets (liabilities) held for risk management	1
Cash flow hedge									
Interest rate swap	Interest rate risk	92,203	-	(25,325)	2,651	(2,651)	(22,674)	Derivative assets (liabilities) held for risk management	(101)

31 December 2022	Type of risk	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item		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***	64,596	-	(5,033)	-	Loans
- Loans	***Interest rate risk***	-	143,208	-	(34,149)	Amounts due to banks and deposits from the National Bank of Hungary and other banks
- Government bonds	***Interest rate risk***	14,814	-	(4,601)	-	Securities at amortised cost
- Government bonds	***Interest rate risk***	151,501	-	(45,319)	-	Securities at fair value through other comprehensive income
- Government bonds	***Interest rate risk***	-	-	-	-	Financial assets at fair value through profit or loss
- Other securities	***Interest rate risk***	44,508	-	(638)	-	Securities at fair value through other comprehensive income
- Other securities		-	25,563	-	448	Liabilities from issued securities
- Loans	***FX & IR risk***	9,099	-	503	-	Loans
- Loans	***FX risk***	716,841	-	-	-	Loans
- Government bonds	***FX risk***	12,797	-	-	-	Securities at amortised cost
- Government bonds	***FX risk***	113,806	-	-	-	Securities at fair value through other comprehensive income
- Other securities	***Other risk***	-	2,299	-	(218)	Liabilities from issued securities
Fair value hedges total		**1,127,962**	**171,070**	**(55,088)**	**(33,919)**	

NOTE 45: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Hedge accounting [continued]

For the year ended 30 June 2023 OCI related to cash flow hedges as follows:

Type of risk	Carrying amount of the hedged item		Cash flow hedge reserve	Line item in the statement of financial position in which the hedged item is included
	Assets	Liabilities		
Interest rate risk	30,291	-	5,798	Loans at amortised cost

For the year ended 31 December 2022 OCI related to cash flow hedges as follows:

Type of risk	Carrying amount of the hedged item		Cash flow hedge reserve	Line item in the statement of financial position in which the hedged item is included
	Assets	Liabilities		
Interest rate risk	32,024	-	9,210	Loans at amortised cost

For the six month period ended 30 June 2023 change in basis swap spread recognised in OCI related to fair value hedges as follows:

Type of risk	Carrying amount of the hedged item		Items recognised in other comprehensive income	Change in the items recognized in other comprehensive income	Line item in the statement of financial position in which the hedged item is included
	Assets	Liabilities			
FX risk	819,473	-	582	945	Loans at amortised cost
FX risk	10,653	-	(32)	-	FVOCI securities
	830,126	**-**	**550**	**945**	

For the year ended 31 December 2022 change in basis swap spread recognised in OCI related to fair value hedges as follows:

Type of risk	Carrying amount of the hedged item		Items recognised in other comprehensive income	Change in the items recognized in other comprehensive income	Line item in the statement of financial position in which the hedged item is included
	Assets	Liabilities			
FX risk	716,841	-	(363)	605	Loans at amortised cost
FX risk	12,797	-	(52)	-	FVOCI securities
	729,638	**-**	**(415)**	**605**	

Change in the fair value of the hedging instrument related to cash flow hedge

30 June 2023

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	(3,412)	(73)	Interest Income from Placements with other banks, net of allowance for placement losses

For the six month period ended 30 June 2022 there were no reclassification from cash flow hedge reserve to profit or loss due to termination of hedging relationship.

31 December 2022

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	5,642	(101)	Interest Income from Placements with other banks, net of allowance for placement losses

For the year ended 31 December 2022 an amount HUF 227 million reclassified from cash flow hedge reserve to profit or loss due to termination of hedging relationship.

NOTE 45: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

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:

30 June 2023	Total	Level 1	Level 2	Level 3
Loans mandatorily at fair value through profit or loss	849,682	-	-	849,682
Financial assets at fair value through profit or loss	480,694	42,459	422,976	15,259
from this: securities held for trading	*165,859*	*19,358*	*146,501*	-
from this: positive FVA of derivative financial instruments designated as held for trading	*283,240*	*317*	*276,475*	*6,448*
from this: securities mandatorily measured at fair value through profit or loss	*31,595*	*22,784*	-	*8,811*
Equity instruments at fair value through other comprehensive income	19,170	17,813	-	1,357
Securities at fair value through other comprehensive income	545,436	164,638	355,162	25,636
Positive fair value of derivative financial instruments designated as hedge accounting	34,320	-	34,320	-
Financial assets measured at fair value total	**1,929,302**	**224,910**	**812,458**	**891,934**
Financial liabilities at fair value through profit or loss	20,037	-	-	20,037
Negative fair value of derivative financial instruments classified as held for trading	259,305	1,812	257,493	-
Short position	33,516	33,516	-	-
Negative fair value of derivative financial instruments designated as hedge accounting	35,427	-	35,427	-
Financial liabilities measured at fair value total	**348,285**	**35,328**	**292,920**	**20,037**

NOTE 45: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) Fair value classes [continued]

As at 31 December 2022	Total	Level 1	Level 2	Level 3
Loans mandatorily at fair value through profit or loss	793,242	-	-	793,242
Financial assets at fair value through profit or loss	410,012	41,534	359,104	9,374
from this: securities held for trading	*74,795*	*20,197*	*54,598*	-
from this: positive FVA of derivative financial instruments designated as held for trading	*304,719*	*213*	*304,506*	-
from this: securities mandatorily measured at fair value through profit or loss	*30,498*	*21,124*	-	*9,374*
Equity instruments at fair value through other comprehensive income	17,922	17,922	-	-
Securities at fair value through other comprehensive income	779,253	194,756	557,082	27,415
Positive fair value of derivative financial instruments designated as hedge accounting	47,220	-	47,220	-
Financial assets measured at fair value total	**2,047,649**	**254,212**	**963,406**	**830,031**
Financial liabilities at fair value through profit or loss	16,576	-	-	16,576
Negative fair value of derivative financial instruments classified as held for trading	373,401	1,886	370,865	650
Short position	24,596	24,596	-	-
Negative fair value of derivative financial instruments designated as hedge accounting	50,623	-	50,623	-
Financial liabilities measured at fair value total	**465,196**	**26,482**	**421,488**	**17,226**

The fair value of investment properties is presented in Note 14 and they are categorized in level 3.
The fair value of investment in subsidiaries is presented in Note 12 and they are categorized in level 3.

Valuation techniques and sensitivity analysis on Level 2 instruments

The fair value of Level 2 instruments is calculated by discounting their expected interest and capital cash flows. Discounting is done with the respective swap curve of each currency.

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.

NOTE 45: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) Fair value classes [continued]

Unobservable inputs used in measuring fair value

Class of financial instrument	Type of financial instrument	Valuation technique	Significant unobservable input	Range of estimates for unobservable input
Financial assets at fair value through profit or loss	VISA C shares	Market approach combined with expert judgement	Discount applied due to illiquidity and litigation	+/-12%
Loans mandatorily at fair value through profit or loss	MFB refinancing loans	Discounted cash flow model	Probability of default	+/- 20%
Loans mandatorily at fair value through profit or loss	Subsidised personal loans	Discounted cash flow model	Probability of default	+/- 20%
Loans mandatorily at fair value through profit or loss	Subsidised personal loans	Discounted cash flow model	Operational costs	+/- 20%
Loans mandatorily at fair value through profit or loss	Subsidised personal loans	Discounted cash flow model	Demography	Change in the cash flow estimation +/- 5%
Securities at fair value through other comprehensive income	FVOCI debt securities	Market approach combined with expert judgement	Credit risk	+/-15%

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 2023	Unobservable inputs	Carrying amount	Fair values		Effect on profit and loss	
			Favourable	Unfavourable	Favourable	Unfavourable
VISA C shares	Illiquidity	1,528	1,776	1,280	248	(248)
MFB refinancing loans	Probability of default	18,589	19,008	18,170	419	(419)
Subsidised personal loans	Probability of default	826,199	827,695	824,709	1,496	(1,490)
Subsidised personal loans	Operational costs	826,199	834,086	823,965	7,887	(2,234)
Subsidised personal loans	Demography	826,199	827,602	824,880	1,403	(1,319)
Russian government bonds	Credit risk	25,636	32,016	19,256	6,380	(6,380)

31 December 2022	Unobservable inputs	Carrying amount	Fair values		Effect on profit and loss	
			Favourable	Unfavourable	Favourable	Unfavourable
VISA C shares	Illiquidity	1,469	1,707	1,231	238	(238)
MFB refinancing loans	Probability of default	15,483	15,602	15,364	119	(119)
Subsidised personal loans	Probability of default	772,094	773,281	770,911	1,187	(1,183)
Subsidised personal loans	Operational costs	772,094	777,898	769,012	5,804	(3,082)
Subsidised personal loans	Demography	772,094	774,528	769,544	2,434	(2,550)
Russian government bonds	Credit risk	27,415	34,586	20,244	7,171	(7,171)

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 2023 and 31 December 2022 respectively.

In the case of MFB refinancing loans and subsidised personal loans 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 one of the most significant unobservable input.

In case of subsidised personal loans operational cost and factors related to demography are considered as unobservable inputs to the applied fair value calculation model in addition to credit risk.

d) Fair value classes [continued]

The effect of unobservable inputs on fair value measurement [continued]

The Bank calculated the favourable and unfavourable effects of using reasonably possible alternative assumptions by modifying the rates of operational costs by +/- 20% as one of the most significant unobservable input.

In case of subsidised personal loans cash flow estimation are based on assumption related to the future number of childbirths performed by the debtors both in the current and the comparative period. According to the assumptions used in comparative period 15% of the debtors will not fulfill the conditions of the subsidy determined by the government after 5 years ("breach of conditions"), thereby debtors will be obliged to pay back advanced interest subsidy given in advance. Furthermore, in this case subsidised loans are converted to loans provided based on market conditions. Loans are prepaid by the government as part of the subsidy after the second and the third childbirth following the signatory of the loan contract. The Bank calculated the favourable and unfavourable effects of using reasonably possible alternative assumptions by modifying the demographical assumption of breach of conditions by +/- 5% as one of the most significant unobservable input in the cash flow estimation.

For the year ended 31 December 2022 the Bank used a new and more complex model for cash flow calculations of the subsidised personal loans. The new model uses more scenarios compared to the previous one. These scenarios based on the above mentioned events (first second and third child births after signatory and breach of conditions) and also the event of divorce. The model uses public statistical information to estimate the outcome of these possible future events. The Bank calculated the favourable and unfavourable effects of using reasonably possible alternative assumptions by modiying the demographical assumption of future child births by +/-5% as one of the most significant unobservable input in the cash flow estimation.

The favourable and unfavourable effects of using reasonably possible alternative assumptions for the valuation of FVOCI debt securities have been calculated by modifying the credit risk rate used for the valuation by +/-15% as being the best estimates of the management as at 31 December 2022 and 31 December 2021 respectively.

NOTE 45: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) Fair value classes [continued]

The effect of unobservable inputs on fair value measurement [continued]

Reconciliation of the opening and closing balances of Level 3 instruments for the six month period ended 30 June 2023

	Opening balance	Transfer to Level 3	Change in FVA due to credit risk	Change in FVA due to market factors	Purchases/ Disbursement	Settlement/Sales	Closing balance
Loans mandatorily measured at fair value through profit or loss	793,242	-	(1,622)	47,481	38,445	(27,864)	849,682
Securities mandatorily measured at fair value through profit or loss	9,374	-	-	(563)	-	-	8,811
Derivative financial instruments designated as held for trading	(650)	-	-	7,098	-	-	6,448
Securities at fair value through other comprehensive income	27,415	-	(810)	(969)	-	-	25,636
Financial liabilities at fair value through profit or loss	(16,576)		-	(4,093)	-	632	(20,037)
Total	**812,805**	**-**	**(2,432)**	**48,954**	**38,445**	**(27,232)**	**870,540**

Reconciliation of the opening and closing balances of Level 3 instruments for the year ended 31 December 2022

	Opening balance	Transfer to Level 3	Change in FVA due to credit risk	Change in FVA due to market factors	Purchases/ Disbursement	Settlement/Sales	Closing balance
Loans mandatorily measured at fair value through profit or loss	662,012	-	11,872	(23,330)	182,259	(39,571)	793,242
Securities mandatorily measured at fair value through profit or loss	9,254	-	-	(1,052)	1,172	-	9,374
Derivative financial instruments designated as held for trading	10,170	-	-	(10,820)	-	-	(650)
Securities at fair value through other comprehensive income	-	12,105	-	15,310	-	-	27,415
Financial liabilities at fair value through profit or loss	(20,133)	-	-	1,934	-	1,623	(16,576)
Total	**661,303**	**-**	**11,872**	**(17,958)**	**183,431**	**(37,948)**	**812,805**

NOTE 46: SIGNIFICANT EVENTS DURING THE SIX MONTH PERIOD ENDED 30 JUNE 2023

1) Term Note Program

See details about the event in Note 20.

2) Purchase of the majority stake in the Uzbek Ipoteka Bank

See details about the event in Note 12.

3) Termination of financial closing of Nova KBM

See details about the event in Note 12.

4) Capital increase at OTP Mortgage Bank Ltd.

See details about the event in Note 12.

5) Capital increase at OTP Real Estate Ltd.

See details about the event in Note 12.

6) Significant regulatory changes in Hungary

About the prolongation of deadline of interest rate cap, amending the previously laid down methodology of windfall tax calculation, the changes in savings and government bond markets, family support schemes, capital regulation and mandatory minimum reserve requirements please see details in Note 4.

7) Interest benchmark reform

During the IBOR reform the Bank identified several risks at the beginning of 2021, which the project had to manage and monitor closely. These risks include but are not limited to the following:

- The abolution of LIBOR affected several transactions that may require automated IT solutions,
- The new reference rates are different in nature from LIBOR that cause difficulties to settle the value differences with the customers,
- It was necessary to implement new processes not to develop LIBOR based products, and to develop a strategy for removing or modifying the affected products handled by the Bank,
- After termination of LIBOR, the Bank has to act under the "Fallback clauses", the clauses that regulate the replacement of the reference interest rates in the contract and the use of an alternative interest as a reference. The content of these clauses needs to be clearly defined and checked from a business point of view, ie which reference interest rate will be applied instead of LIBOR for the given contract and whether it is commercially appropriate. In defining the fallback clauses, efforts had to be made to provide a viable alternative to the termination of LIBOR that would not result in a business loss for the Bank.
- Legal risks related to the termination of LIBOR. Such risks can arise when Fallback clauses are not included in the contracts, or the law governing the contract doesn't contain a statutory reference rate. In these cases the contracts can be cancelled due to impossibility or the termination by either party.
- Missing of contractual interest rates can result in settlement disputes, compensation cases or litigation.
- Business risks of the termination of LIBOR. The most significant of these are
  - the law governing the contract can set the applicable interest rate that can be result in a business loss for the Bank,
  - business loss due to negative customer experience,
  - operational risk, when several unique contracts must be handled in a short time

NOTE 46: SIGNIFICANT EVENTS DURING THE SIX MONTH PERIOD ENDED 30 JUNE 2023 [continued]

6) Interest benchmark reform [continued]

Terminating interest rates ()	Alternative Reference Rates
LIBOR USD* (1 week and 2 months settings), FedFund Rate	**SOFR**
LIBOR GBP	**SONIA**
LIBOR JPY	**TONA**
LIBOR EUR	**EURIBOR**
LIBOR CHF**	**SARON**
EONIA	**€STR**

* The following USD LIBOR settings will be terminated after June 30, 2023: overnight and 1, 3, 6 and 12 Months. The affected USD LIBOR contracts will be handled on an ongoing basis until the remaining USD LIBOR settings' cessation date.

**In the case of CHF LIBOR, OTP Bank acts in accordance with the implementing regulation of the European Commission (https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=PI_COM:C(2021)7488&from=EN).

Amounts effected by IBOR reform as at 30 June 2023

Reference rate	Type of the contract	Nominal value of the contract	Pieces of contracts
USD LIBOR	Loan	17,017	17
USD LIBOR	Deposit	473	5
USD LIBOR	Derivatives	362,821	105
Other LIBOR	Derivatives	21,306	4
Other LIBOR	Bonds (assets)	4,719	1
Total		**406,336**	**132**

The above LIBOR-based amounts outstanding as at 30 June 2023 will be managed at the first interest period therefore they do not cause a risk to the Bank or to the customers.

NOTE 46: SIGNIFICANT EVENTS DURING THE SIX MONTH PERIOD 30 JUNE 2023 [continued]

8) Risk relating to the Russian-Ukrainian armed conflict

On 24 February 2022 Russia launched a military operation against Ukraine which is still ongoing at the date of this Report. Until now many countries, as well as the European Union imposed sanctions due to the armed conflict on Russia and Russian businesses and citizens. Russia responded to these sanctions with similar measures.

The armed conflict and the international sanctions influence the business and economic activities significantly all around the world. There are a number of factors associated with the Russian-Ukrainian armed conflict and the international sanctions as well as their impact on global economies that could have a material adverse effect on (among other things) the profitability, capital and liquidity of financial institutions such as the OTP Group.

The armed conflict and the international sanctions cause significant economic damage to the affected parties and in addition they cause disruptions in the global economic processes, of which the precise consequences (inter alia the effects on energy and grain markets, the global transport routes and international trade as well as tourism) are difficult to be estimated at the moment.

It remains unclear how this will evolve through 2022 and the OTP Group continues to monitor the situation closely. However, the OTP Group's ability to conduct business may be adversely affected by disruptions to its infrastructure, business processes and technology services. This may cause significant customer detriment, costs to reimburse losses incurred by the OTP Group’s customers, and reputational damage.

Furthermore, the OTP Group relies on models to support a broad range of business and risk management activities, including informing business decisions and strategies, measuring and limiting risk, valuing exposures, conducting stress testing and assessing capital adequacy. Models are, by their nature, imperfect and incomplete representations of reality because they rely on assumptions and inputs, and as such assumptions may later potentially prove to be incorrect, this can affect the accuracy of their outputs. This may be exacerbated when dealing with unprecedented scenarios, such as the Russian-Ukrainian armed conflict and the international sanctions, due to the lack of reliable historical reference points and data.

Any and all such events mentioned above could have a material adverse effect on the OTP Group’s business, financial condition, results of operations, prospects, liquidity, capital position and credit ratings, as well as on the OTP Group’s customers, employees and suppliers.

NOTE 47: SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

1) Summary of economic policy measures made and other relevant regulatory changes as post-balance sheet events

In the section below, the measures and developments which have been made since the balance sheet date, and – in OTP Bank's view – are relevant and have materially influenced / can materially influence the operation of the Bank.

OTP Bank excludes any liability for the completeness and accuracy of the measures presented herein. Post-balance sheet events cover the period until 29 August 2023.

Hungary

- On 7 July 2023 S&P confirmed the Hungarian sovereign rating at 'BBB', the outlook remained stable.
- On 7 July OTP Bank's ESG risk rating by Sustainalytics improved by 2.8 points, as a result the actual risk rating is 14.6 (consistent with Low-Risk category).
- On 25 July the National Bank of Hungary announced the reduction of the overnight collateralized lending rate by 100 bps to 17.5%, as well as the one-day deposit rate to 15%.
- After 2021, in 2023 the European Banking Authority and the European Central Bank conducted again an EU-wide stress test using consistent methodology. This time the test assessed 70 banks instead of 50 being stress tested in 2021. Out of Hungary, it was only OTP Group participating in the stress test. The aim of the of the EU-wide stress test was to assess the resilience of EU banks to a common set of adverse economic developments. According to the results published on 28 July 2023 OTP Group finished in the top 25% by all major indicators.
- On 16 August 2023 the Central Statistical Office revealed its preliminary estimate on the second-quarter GDP numbers. Accordingly, the economy contracted by 2.3% y-o-y, whereas it declined by 0.3% compared to the previous quarter.
- On 18 August 2023 the Ministry for Economic Development said a statement that the phasing out of interest rate cap schemes for households and companies becomes possible once the central bank key policy rate drops to the single digit territory.
- On 29 August the National Bank of Hungary announced the reduction of the overnight collateralized lending rate by 100 bps to 16.5%, as well as the one-day deposit rate to 14%.