OTP Bank Annual Report

Financial Statements

2019

Deloitte.

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

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

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of OTP Bank Plc.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of OTP Bank Plc. (the "Bank") and its subsidiaries (the "Group") for the year 2019 which comprise the consolidated statement of financial position as at December 31, 2019 – which shows total assets of HUF 20,121,767 million –, the related consolidated statement of profit or loss and the consolidated statement of comprehensive income – which shows a net profit for the period of HUF 412,582 million –, consolidated statement of changes in equity, and the consolidated statement of cash-flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

Key Audit Matters

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

Key audit matter	How our audit addressed the matter
Calculation of expected credit losses on corporate and retail loans	
(See notes 8., 28., and 33.1. to the consolidated financial statements for the details) As described in the notes to the consolidated financial statements, the impairment losses have been determined in accordance with IFRS 9 *Financial Instruments*, which requires significant judgment to determine the expected credit losses ("ECLs"). At the year-end, the Group reported total gross loans of HUF 11,570,314 million and loss allowance on loans of HUF 693,317 million. The determination of the ECL of loans is considered a key audit matter, as it requires application of professional judgement and use of subjective assumptions by management in case of both the application of portfolio based collective impairment models, and determination of individual specific loan loss provision. The most significant assumptions applied in determining the provision are the following: - the interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Group's expected credit loss model; - IFRS 9 credit risk staging methodology and application, including the identification of exposures with a significant deterioration in credit quality; - model used for impairment calculations reflecting the characteristics of the portfolio, such as valuation of collateral, probability of default and recovery rates, macroeconomic factors; - the application of assumptions, where there was limited or incomplete data; and - estimation of future cash-flows expected to be realized, including application of scenarios and scenario weights.	Our response as auditors included: - testing and assessment of the modelling techniques and methodology applied by the Group in order to estimate ECLs, and evaluation of its compliance with the requirements of IFRS 9; - evaluating the design and testing of the operating effectiveness of internal controls over timely identification of exposures with significant increase in credit risk and monitoring of credit impaired exposures and calculating, and recording of allowance for expected credit losses; - assessing the collective model methodology and testing the calculations in terms of risk parameters (probability of default – PD, loss given default – LGD, expected credit loss – ECL, and macroeconomic factors) applied by the collective models including involving our specialists; - involving our credit risk specialists to assist us in re-performing the calculation of the allowance and independently assessing the appropriateness of the assumptions used, the methodologies and policies applied; - assessing on a sample basis, whether the staging and impairment triggers are captured appropriately and whether the estimation of the ECL is reasonable; - sample based testing of individual allowance, including the assessment of valuation of collateral and estimation of expected future cash-flows, application of different scenarios and scenario weights and forming an independent view of the adequacy of the ECL; and - assessing the adequacy of the disclosures in the consolidated financial statements.

2/6

Key audit matter	How our audit addressed the matter
Accounting treatment of acquisitions	
(See note 38. to the consolidated financial statements for the details) As described in the notes to the consolidated financial statements, the Group completed a number of acquisitions during the year ended 31 December 2019. The valuation of the acquired assets and liabilities, and the identification of intangible assets have a material impact on the consolidated financial statements and is an area that involves judgment. As at 31 December 2019, as outlined in Note 38, the acquisition accounting balances remain provisional as permitted under IFRS. The accounting for the acquisition was considered a key audit matter due to the magnitude of the assets acquired, consideration paid and the judgement required by the Group to measure the fair values of the acquired assets and liabilities including: - customer base; - loans; - property, plant and equipment; - brand value; - vendor value; - and other assets and liabilities.	Our response as auditors included: - consideration of the acquisition date applied with reference to achievement of control over the acquired entity; - evaluating the Group's determination of the purchase consideration paid with reference to the underlying share purchase agreements; - evaluating and testing the design and implementation of the Group's internal controls over the approval of the purchase price allocation; - inspecting management's preliminary purchase price allocations. Our testing of the Purchase Price Allocations included evaluating the process applied to identify and value tangible and intangible assets (including goodwill and negative goodwill) and liabilities on acquisition; - involving our specialists to agree key items to underlying data and independent valuation reports used by management to determine the fair value of assets and liabilities; - reading the Sale & Purchase Agreements, ensuring the acquisition accounting reflects the facts and circumstances within the agreements; - agreeing the consideration paid and acquisition costs to supporting evidence; and - assessing the adequacy of the disclosures in the consolidated financial statements.

Other Information

Other information comprises the information included in the section called "Management's Analysis" of the annual report and the consolidated business report of the Group which we obtained prior to the date of this auditor's report, and the sections called "Message to the shareholders", "Corporate Governance" and "Macroeconomic and financial environment in 2019" of the annual report, which is expected to be made available to us after that date, but does not include the consolidated financial statements and our independent auditor's report thereon. Management is responsible for the other information and for the preparation of the

3/6

consolidated business report in accordance with the relevant provisions of the Accounting Act and other regulations. Our opinion on the consolidated financial statements provided in the section of our independent auditor's report entitled "Opinion" does not apply to the other information.

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

Furthermore, in accordance with the Accounting Act, our responsibilities regarding the consolidated business report also include reviewing the consolidated business report to assess whether the consolidated business report was prepared in accordance with the relevant provisions of the Accounting Act and other regulations, if any, including the assessment whether the consolidated business report complies with the requirements of Section 95/B (2) e) and f) of the Accounting Act, and to express an opinion on the above and on whether the consolidated business report is consistent with the consolidated financial statements. Furthermore, in accordance with the Accounting Act we shall make a statement whether the information referred to in Section 95/B. (2) a)-d), g) and h) has been provided in the consolidated business report, and whether the consolidated business report contains the non-financial statement provided for in Section 134 (5).

In our opinion, the consolidated business report of the Group for 2019 corresponds to the consolidated financial statements of the Group for 2019 and the relevant provisions of the Accounting Act in all material respects. The information referred to in Section 95/B. (2) a)-d), g) and h) of the Accounting Act has been provided and the consolidated business report contains the non-financial statement provided for in Section 134 (5).

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

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

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

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

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

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

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

We also:

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

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

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

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

Budapest, March 16, 2020

Andrew Weekes
Deloitte Auditing and Consulting Ltd.
1068 Budapest, Dózsa György út 84/C.
Registration number: 000083

dr. Hruby Attila
Statutory registered auditor
Registration number: 007118

6/6

Statement of Financial Position

(consolidated, in accordance with IFRS, as at 31 December 2019, in HUF mn)

	Note	2019	2018
Cash, amounts due from banks and balances with the National Banks	4	1,784,378	1,547,272
Placements with other banks, net of loss allowance for placements	5	410,079	420,606
Financial assets at fair value through profit or loss	6	251,990	181,356
Securities at fair value through other comprehensive income	7	2,426,779	1,883,849
Loans at amortized cost	8	11,846,260	8,032,068
Loans mandatorily at fair value through profit or loss	8	32,802	34,525
Associates and other investments	9	20,822	17,591
Securities at amortized cost	10	1,968,072	1,740,520
Property and equipment	11	320,430	253,773
Intangible assets and goodwill	11	242,219	166,711
Right-of-use assets	32	52,950	–
Investment properties	12	41,560	38,115
Derivative financial assets designated as hedge accounting	13	7,463	15,201
Deferred tax assets	14	26,543	20,769
Other assets	14	227,349	237,932
Assets classified as held-for-sale	46	462,071	–
TOTAL ASSETS		**20,121,767**	**14,590,288**
Amounts due to banks, the National Governments, deposits from the National Banks and other banks	15	813,399	360,475
Financial liabilities at fair value through profit or loss	16	30,862	32,231
Deposits from customers	17	15,171,308	11,285,085
Liabilities from issued securities	18	393,167	417,966
Derivative financial liabilities held for trading	19	86,743	73,316
Derivative financial liabilities designated as hedge accounting	20	10,709	7,407
Deferred tax liabilities	21	29,195	6,865
Leasing liabilities	32	54,194	50
Other liabilities	21	628,468	498,807
Subordinated bonds and loans	22	249,938	81,429
Liabilities directly associated with assets classified as held-for-sale	46	362,496	–
TOTAL LIABILITIES		**17,830,479**	**12,763,631**
Share capital	23	28,000	28,000
Retained earnings and reserves	24	2,319,263	1,864,204
Treasury shares	25	(60,931)	(67,999)
Non-controlling interest	26	4,956	2,452
TOTAL SHAREHOLDERS' EQUITY		**2,291,288**	**1,826,657**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**20,121,767**	**14,590,288**

Budapest, 16 March 2020

The accompanying notes to consolidated financial statements on pages 104 to 212 form an integral part of these Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards as adopted by EU.

Statement of Profit or Loss

(consolidated, in accordance with IFRS, for the year ended 31 December 2019, in HUF mn)

	Note	2019	2018
CONTINUING OPERATIONS			
Interest income calculated using the effective interest method	27	777,502	647,650
Income similar to interest income	27	116,642	98,379
Interest incomes		**894,144**	**746,029**
Interest expenses		**(197,095)**	**(132,644)**
NET INTEREST INCOME		**697,049**	**613,385**
Loss allowance on loans, placements	28	(49,120)	(22,616)
Release of loss allowance on securities at fair value through other comprehensive income and on securities at amortized cost	28	9	607
Provision for commitments and guarantees given	28	(7,995)	(6,481)
Impairment/(Release of impairment) of assets subject to operating lease and of investment properties	28	280	(326)
NET INTEREST INCOME AFTER LOSS ALLOWANCE, IMPAIRMENT AND PROVISIONS		**640,223**	**584,569**
Income from fees and commissions	29	413,348	333,082
Expense from fees and commissions	29	(72,903)	(58,946)
Net profit from fees and commissions		**340,445**	**274,136**
Foreign exchange gains, net		40,518	40,352
Gains on securities, net		11,611	1,345
Gains on financial assets/liabilities measured at fair value through profit or loss		1,282	597
Dividend income	24	7,955	5,733
Other operating income	30	111,093	25,872
Other operating expense	30	(44,758)	(19,173)
Net operating income		**127,701**	**54,726**
Personnel expenses	30	(276,754)	(244,600)
Depreciation and amortization	11	(77,048)	(50,138)
Goodwill impairment	11	(4,887)	(5,962)
Other administrative expenses	30	(282,528)	(259,823)
Other administrative expenses		**(641,217)**	**(560,523)**
PROFIT BEFORE INCOME TAX		**467,152**	**352,908**
Income tax expense	31	(49,902)	(34,000)
NET PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		**417,250**	**318,908**
From this, attributable to:			
Non-controlling interest		**341**	**97**
Owners of the company		**416,909**	**318,811**
DISCONTINUED OPERATIONS			
LOSS FROM DISCONTINUED OPERATION	**46**	**(4,668)**	**(586)**
PROFIT FROM CONTINUING AND DISCOUNTINUED OPERATION		**412,582**	**318,322**
Consolidated earnings per share (in HUF)			
From continuing operations			
Basic	**42**	**1,594**	**1,218**
Diluted	**42**	**1,593**	**1,217**
From continuing and discontinued operations			
Basic	**42**	**1,576**	**1,215**
Diluted	**42**	**1,575**	**1,215**

Statement of Comprehensive Income

(consolidated, in accordance with IFRS, for the year ended 31 December 2019, in HUF mn)

	2019	2018
NET PROFIT FOR THE PERIOD	**412,582**	**318,322**
Items that may be reclassified subsequently to profit or loss:		
Fair value adjustment of securities at fair value through other comprehensive income	26,164	(32,289)
Derivative financial instruments designated as cash-flow hedge	11	(9)
Net investment hedge in foreign operations	(2,526)	(3,253)
Foreign currency translation difference	79,440	10,007
Deferred tax related to items that may be reclassified subsequently to profit or loss	(2,915)	2,829
Items that will not be reclassified subsequently to profit or loss:		
Fair value changes of equity instruments at fair value through other comprehensive income	7,619	10,176
Deferred tax related to equity instruments at fair value through other comprehensive income	(644)	(1,039)
Change of actuarial costs related to employee benefits	(161)	(65)
Subtotal	**106,988**	**(13,643)**
NET COMPREHENSIVE INCOME	**519,570**	**304,679**
From this, attributable to:		
Non-controlling interest	768	(134)
Owners of the company	518,802	304,813

The accompanying notes to consolidated financial statements on pages 104 to 212 form an integral part of these Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards as adopted by EU.

Statement of Changes in Equity

(consolidated, in accordance with IFRS, for the year ended 31 December 2019, in HUF mn)

	Note	Share capital	Capital reserve	Share-based payment reserve	Retained earnings and other reserves*	Option reserve	Treasury shares	Total attributable to share-holders'	Non-controlling interest	Total
Balance as at 1 January 2018		**28,000**	**52**	**31,835**	**1,695,460**	**(55,468)**	**(63,289)**	**1,636,590**	**3,465**	**1,640,055**
Effect of transition due to IFRS 9 application		–	–	–	(51,475)	–	–	(51,475)	(127)	(51,602)
Adjusted balance as at 1 January 2018		**28,000**	**52**	**31,835**	**1,643,985**	**(55,468)**	**(63,289)**	**1,585,115**	**3,338**	**1,588,453**
Net profit for the period		–	–	–	318,233	–	–	318,233	89	318,322
Other Comprehensive Income		–	–	–	(13,420)	–	–	(13,420)	(223)	(13,643)
Total comprehensive income		**–**	**–**	**–**	**304,813**	**–**	**–**	**304,813**	**(134)**	**304,679**
Increase due to business combinations		–	–	–	–	–	–	–	(752)	(752)
Share-based payment	36	–	–	3,797	–	–	–	3,797	–	3,797
Dividend for the year 2017		–	–	–	(61,320)	–	–	(61,320)	–	(61,320)
Correction duet to MRP**		–	–	–	156	–	–	156	–	156
Sale of Treasury shares	25	–	–	–	–	–	21,814	21,814	–	21,814
Treasury shares – loss on sale	25	–	–	–	(2,390)	–	–	(2,390)	–	(2,390)
Treasury shares – acquisition	25	–	–	–	–	–	(26,524)	(26,524)	–	(26,524)
Payments to ICES holders	24	–	–	–	(1,256)	–	–	(1,256)	–	(1,256)
Balance as at 31 December 2018		**28,000**	**52**	**35,632**	**1,883,988**	**(55,468)**	**(67,999)**	**1,824,205**	**2,452**	**1,826,657**
Net profit for the period		–	–	–	412,241	–	–	412,241	341	412,582
Other Comprehensive Income		–	–	–	106,561	–	–	106,561	427	106,988
Total comprehensive income		**–**	**–**	**–**	**518,802**	**–**	**–**	**518,802**	**768**	**519,570**
Increase due to business combination		–	–	–	–	–	–	–	1,736	1,736
Share-based payment	36	–	–	3,547	–	–	–	3,547	–	3,547
Dividend for the year 2018		–	–	–	(61,320)	–	–	(61,320)	–	(61,320)
Correction due to MRP**		–	–	–	376	–	–	376	–	376
Sale of Treasury shares	25	–	–	–	–	–	15,956	15,956	–	15,956
Treasury shares – loss on sale	25	–	–	–	(5,012)	–	–	(5,012)	–	(5,012)
Treasury shares – acquisition	25	–	–	–	–		(8,888)	(8,888)	–	(8,888)
Payments to ICES holders	24	–	–	–	(1,334)	–	–	(1,334)	–	(1,334)
Balance as at 31 December 2019		**28,000**	**52**	**39,179**	**2,335,500**	**(55,468)**	**(60,931)**	**2,286,332**	**4,956**	**2,291,288**

The accompanying notes to consolidated financial statements on pages 104 to 212 form an integral part of these Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards as adopted by EU.

* See details in Note 21, where the Retained earnings and other reserves category contains the capital reserve, share-based payment reserve and option reserve which are presented here separately.

** Based on MRP's Articles of Association, dividend on members' shares paid back to the Founder i.e. OTP Bank.

Statement of Cash-flows

(consolidated, in accordance with IFRS, for the year ended 31 December 2019, in HUF mn)

	Note	2019	2018
OPERATING ACTIVITIES			
Net profit for the period (attributable to the owners of the company)		**412,241**	**318,233**
Net accrued interest		(6,590)	(2,434)
Dividend income		(7,958)	(5,736)
Depreciation and amortization	11	78,864	51,475
Goodwill impairment	11	4,887	5,962
Release of loss allowance on securities	7, 10	(10)	(608)
Loss allowance on loans and placements	5, 8	57,058	39,287
Loss allowance on investments	9	3,342	1,232
(Release of loss allowance)/Loss allowance on investment properties	12	(123)	244
Impairment on tangible and intangible assets	11	2,078	2,262
Loss allowance on other assets	14	6,258	944
Provision/(Release of provision) on off-balance sheet commitments and contingent liabilities	21	3,767	(1,841)
Share-based payment	2, 36	3,547	3,797
Unrealized losses on fair value change of securities held for trading		6,975	9,128
Unrealized losses/(gains) on fair value change of derivative financial instruments		14,232	(29,525)
Impairment on discontinued operations		6,032	–
Net changes in assets and liabilities in operating activities			
Net (increase)/decrease in financial assets at fair value through profit or loss	6	(30,651)	178,542
Net increase in compulsory reserves at the National Banks	4	(48,081)	(329,936)
Net increase in loans at amortized cost before loss allowance for loans and in loans at fair value	8	(1,402,625)	(1,166,242)
Net decrease/(increase) in other assets before loss allowance	14	7,037	(26,857)
Net increase in deposits from customers	17	1,476,678	1,054,945
Cash payments for the interest portion of the lease liability	32	(1,604)	–
Short-term lease payments, payments for leases of low-value assets, variable lease payments not included in the measurement of the lease liability	32	(6,559)	–
Net increase in other liabilities	21	175,849	101,877
Income tax paid	31	(30,170)	(17,377)
Net Cash Provided by Operating Activities		**724,474**	**187,372**
INVESTING ACTIVITIES			
Decrease in placement with other banks before loss allowance for placements	5	203,483	42,811
Purchase of securities at fair value through other comprehensive income	7	(2,392,184)	(1,644,093)
Proceeds from sale of securities at fair value through other comprehensive income	7	2,258,296	1,896,981
Net increase in investments	9	(3,908)	(6,308)
Dividends received		6,096	5,490
Purchase of securities at amortized cost	10	(4,749,976)	(2,615,632)
Redemption of securities at amortized cost	10	4,600,424	2,188,898
Purchase of property, equipment and intangible assets	11	(267,652)	(104,199)
Proceeds from disposals of property, equipment and intangible assets	11	31,612	37,404
Net increase in investment properties before loss allowance	12	(3,022)	(2,974)
Net cash paid for acquisition	38	(38,410)	–
Net Cash Used in Investing Activities		**(355,241)**	**(201,622)**
FINANCING ACTIVITIES			
Net decrease in amounts due to banks, the National Governments, deposits from the National Banks and other banks	15	(239,947)	(111,891)
Net (decrease)/increase in financial liabilities at fair value through profit or loss	16	(6,833)	31,986
Cash received from issuance of securities	18	9,732	224,413
Cash used for redemption of issued securities	18	(31,969)	(57,401)
Cash payments for the principal portion of the lease liability	32	(12,440)	–
Increase in subordinated bonds and loans	22	140,387	5,733
Payments to ICES holders	24	(1,334)	(1,256)
Sale of Treasury shares	25	10,943	7,138
Purchase of Treasury shares	25	(8,888)	(14,238)
Dividends paid	24	(61,307)	(61,164)
Net Cash (Used in)/Provided by Financing Activities		**(201,656)**	**23,320**
Cash and cash equivalents at the beginning of the period		**819,979**	**800,689**
Foreign currency translation		79,034	10,220
Net increase in cash and cash equivalents		167,577	9,070
Adjustment due to discontinued operation		(16,853)	–
Cash and cash equivalents at the end of the period	**4**	**1,049,737**	**819,979**

The accompanying notes to consolidated financial statements on pages 104 to 212 form an integral part of these Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards as adopted by EU.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

1.1 General information

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

The Bank's registered office address is 16 Nádor Street, Budapest H-1051.

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 on PORTAL in the USA.

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

The structure of the Share capital by shareholders:

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

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

The Bank and its subsidiaries ("Entities of the Group", together the "Group") provide a full range of commercial banking services through a wide network of 1,734 branches in the following countries Hungary, Bulgaria, Serbia, Croatia, Russia, Romania, Ukraine, Slovakia, Albania, Montenegro and Slovenia, as well as provides other services in the Netherlands, Cyprus and Malta.

The number of the active employees without long-term breaks, and with part-time employees taken into account proportionately, at the Group:

	2019	2018
The number of employees at the Group	39,971	41,128
The average number of employees at the Group	40,795	41,225

1.2 Basis of Accounting

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

The Entities of the Group maintain their accounting records and prepare their statutory accounts in accordance with the commercial, banking and fiscal regulations prevailing in Hungary and in case of foreign subsidiaries in accordance with the commercial, banking and fiscal regulations of the country in which they are domiciled.

The Group's presentation and functional currency is the Hungarian Forint ("HUF"). Due to the fact that the Bank is listed on international and national stock exchanges, the Bank is obliged to present its financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (the "EU"). Certain adjustments have been made to the Entities' statutory accounts in order to present the Consolidated Financial Statements of the Group in accordance with all standards and interpretations approved by the International Accounting Standards Board ("IASB").

The Consolidated Financial Statements have been prepared in accordance with IFRS as adopted by the EU.

1.2.1 The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2019

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

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

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

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

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

- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures" – Interest rate Benchmark Reform** – adopted by EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8**

"Accounting Policies, Changes in Accounting Estimates and Errors" – Definition of Material – adopted by EU on 10 December 2019 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to References to the Conceptual Framework in IFRS Standards** – adopted by EU on 6 December 2019 (effective for annual periods beginning on or after 1 January 2020).

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

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

The Group anticipates of the these new standards, amendments to the existing Standards and new interpretations will have no significant impact on the Consolidated Financial Statements of the Group in the period of initial application.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies applied in the preparation of the accompanying Consolidated Financial Statements are summarized below:

2.1 Basis of Presentation

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

The presentation of Consolidated Financial Statements in conformity with IFRS as adopted by the EU requires the Management of the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of 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 financial statements.

2.2 Foreign currency translation

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currencies are translated into functional currencies at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the exchange rates quoted by the National Bank of Hungary ("NBH"), or if there is no official rate, at exchange rates quoted by OTP Bank as at the date of the Consolidated Financial Statements.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see Note 2.7 below for hedging accounting policies); and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in Other Comprehensive Income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting Consolidated Financial Statements, the assets and liabilities of the Group's foreign operations are translated into HUF using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in Other Comprehensive Income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Group are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in Other Comprehensive Income and accumulated in equity.

2.3 Principles of consolidation

Included in these Consolidated Financial Statements are the accounts of those subsidiaries in which the Bank exercises control. The list of the major fully consolidated subsidiaries, the percentage of issued capital owned by the Bank and the description of their activities is provided in Note 34. However, certain subsidiaries in which the Bank holds a controlling interest have not been consolidated because the effect of consolidating such companies is not material to the Consolidated Financial Statements as a whole (see Note 2.14). As the ultimate parent, OTP Bank is preparing Consolidated Financial Statements of the Group.

2.4 Accounting for acquisitions

Business combinations are accounted for using acquisition method. Any goodwill arising on acquisition is recognized in the Consolidated Statement of Financial Position and accounted for as indicated below.
The acquisition date is the date on which the acquirer effectively obtains control over the acquiree. Before this date, it should be presented as Advance for investments within Other assets.
Goodwill, which represents the residual cost of the acquisition after obtaining the control over the acquiree in the fair value of the identifiable assets acquired and liabilities assumed is held as an intangible asset and recorded at cost less any accumulated impairment losses in the Consolidated Financial Statements.

If the Group loses control of a subsidiary, derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost and recognizes any difference as a gain or loss on the sale attributable to the parent in Statement of Profit or Loss.
Goodwill acquired in a business combination is tested for impairment annually or more frequently if events or changes in circumstances indicate. The goodwill is allocated to the cost generating units that are expected to benefit from the synergies of the combinations.
The Group 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 Group defines the impairment need on goodwill based on the strategic factors and financial data of its cash-generating units.

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

Negative goodwill (gain from bargain purchase), when the interest of the acquirer in the net fair value of the acquired identifiable net assets exceeds the cost of the business combination, is recognized immediately in the Consolidated Statement of Profit or Loss as other income.

2.5 Securities at amortized cost

The Group 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 amortisation of any discount or premium on the acquisition of a security at amortized cost is aggregated with other investment income receivable over the term of the investment so that the revenue recognized in each period represents a constant yield on the investment. Securities at amortised cost are accounted for on a trade date basis.
Such securities comprise mainly securities issued by the Hungarian and foreign Governments 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, so unrealized gains and losses on held for trading securities are recognized in profit or loss and included in the Consolidated Statement of Profit or Loss for the period. The Group holds held for trading securities within the business model to obtain short-term gains, consequently realised and unrealised gains and losses are recognized in the net operating income.
The Group applies the FIFO[1] inventory valuation method for securities held for trading.
Such securities consist of equity instruments, shares in investment funds, Hungarian and foreign government bonds, discounted treasury bills and other securities.

2.6.2 Financial assets designated as fair value through profit or loss

The Group may – at initial recognition – irrevocable designate a financial asset as measured at fair value through profit or loss that would otherwise be measured at fair value through other comprehensive income or at amortized cost.
The Group may use fair value designation only in the following cases:
- if the classification eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases ('accounting mismatch').

The use of the fair value designation is based only on direct decision of management of the Group.

2.6.3 Derivative financial instruments

In the normal course of business, the Group 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 Group both for trading purposes and to hedge interest rate risk and currency exposures associated with its transactions in the financial markets.

[1] First In First Out

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. The Group 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 the Group has almost all of its 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 Consolidated 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 the risk management policy of the Group, 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 Consolidated 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 these forward contracts does not represent the actual market or credit risk associated with these contracts. Foreign currency contracts are used by the Group for risk management and trading purposes. The risk management foreign currency contracts of the Group were used to hedge the exchange rate fluctuations of loans and deposits to credit institutions denominated in foreign currency.

Foreign exchange swaps and interest rate swaps

The Group enters into foreign exchange swap and interest rate swap ("IRS") transactions. The swap transaction is an agreement concerning the swap of certain financial instruments, which usually consists of spot and one or more forward contracts.

IRS transactions oblige 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 IRS transactions. Such notional principal amounts often are used to express the volume of these transactions but are not actually exchanged between the counterparties.

IRS transactions are used by the Group for risk management and trading purposes.

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 indexes. 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 Group 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 counterparties. The Group's forward rate agreements were transacted for management of interest rate exposures and have been accounted for at mark-to-market fair value.

Foreign exchange options

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

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

Changes in the fair value of derivatives that are designated and qualify as hedging instruments in fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the Consolidated 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 hedging instrument in fair value hedges is charged directly to the Consolidated Statement of Profit or Loss.
The conditions of hedge accounting applied by the Bank are the following: formally designated as hedge relationship, proper hedge documentation is prepared, effectiveness test is performed and based on it the hedge is qualified as effective.
The Group implemented hedge accounting rules prescribed by IFRS 9 in 2018.

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 the hedged risk are recognized in their effective portion as reserve in Other Comprehensive Income. Amounts deferred in Comprehensive Income are transferred to the Consolidated Statement of Profit or Loss and classified as revenue or expense in the periods during which the hedged assets and liabilities affect the Consolidated Statement of Profit or Loss for the period. The ineffective element of the changes in fair value of hedging instrument is charged directly to the Consolidated Statement of Profit or Loss.
The Group terminates the hedge relationship 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 by the Group as long as the underlying asset is derecognized.

2.8 Offsetting

Financial assets and liabilities may be offset and the net amount is reported in the Consolidated Statement of Financial Position when the Group has a legally enforceable right to set off the recognized amounts and the transactions are intended to be reported in the Consolidated Statement of Financial Position on a net basis. The Group does not offset any financial assets and financial liabilities.

2.9 Embedded derivatives

Sometimes, a derivative may be a component of a combined or hybrid contracts 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 value or is measured at fair value but changes in fair value are recognized 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.

2.10 Securities at fair value through other comprehensive income

Securities at fair value through other comprehensive income are held within a business model whose objective is achieved by both collecting of contractual cash-flows and selling securities. Furthermore contractual terms of these securities give rise on specified dates to cash-flows that are solely payment of principal and interest on the principal amount outstanding.
Investments in securities are accounted for on a trade date basis and are initially measured at fair value. Securities at fair value through other comprehensive income are measured at subsequent reporting dates at fair value.
Unrealized gains and losses on securities at fair value through other comprehensive income are recognized directly in Other Comprehensive Income, except for interest and foreign exchange gains/losses on monetary items, unless such financial asset at fair value through other comprehensive income is part of an effective hedge. Such gains and losses will be reported when realized in Consolidated Statement of Profit or Loss for the applicable period. The Group applies the FIFO inventory valuation method for securities at fair value through other comprehensive income.
Such securities consist of Hungarian and foreign government bonds, corporate bonds, mortgage bonds, discounted Treasury bills and other securities.
The Group has elected to present in the Statement of Other Comprehensive Income changes of fair value of those equity instruments which are neither held for trading nor recognised under IFRS 3.
The loss allowance is calculated based on discounted cash-flow methodology for debt instruments and calculated based on fair value on equity instruments, using the expected future cash-flow and original effective interest rate if there is objective evidence of loss allowance based on significant or prolonged decrease on fair value.
Securities at fair value through other comprehensive income are remeasured at fair value based on quoted prices or amounts 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 future cash-flows and the fair value of any unquoted equity instruments are calculated using the EPS ratio.
In some cases the Group made an irrevocable election at initial recognition for certain equity instruments to present subsequent changes in fair value of these securities in the consolidated other comprehensive income instead of in profit or loss.
The Group may use fair value through other comprehensive income option only in the following cases:

- if the classification eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases ('accounting mismatch'),
- if the group of financial assets, financial liabilities or both 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 Group's key management personnel.

The use of the fair value option is based only on direct decision of management of the Group.

2.11 Loans, placements with other banks and loss allowance for loan and placements

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

Those Loans and placements with other banks that are accounted at amortized cost, stated at the principal amounts outstanding (including accrued interest), net of allowance for loan or placement losses, respectively.

Transaction fees and charges should adjust the carrying amount at initial recognition and be included in effective interest calculation. Loans and placements with other banks are derecognised when the contractual rights to the cash-flows expire or they are transferred. When a financial asset is derecognised the difference of the carrying amount and the consideration received is recognised in the profit or loss. When a financial asset is derecognised the difference of the carrying amount and the consideration received is recognised in the profit or loss. When the contractual cash-flows of a financial asset are modified and the modification does not result in the derecognition of the financial asset the Bank recalculate the gross carrying amount of the financial asset by discounting the expected future cash-flows with the original effective interest rate of the asset. The difference between the carrying amount and the present value of the expected cash-flows is recognised as a modification gain or loss in the profit or loss.

Interest and amortised cost are accounted using effective interest rate method. Initially financial asset shall be recognized initially at fair value which is usually equal to transaction value of loans and receivables. Initial fair value of loans and receivables lent at interest below market conditions is lower than their transaction price. As a consequence the Group is deferring the difference between the fair value at initial recognition and the transaction price relating to loans and receivables because input data for measuring the fair values are not available on observable markets.

The amount of loss allowance is the difference between the gross carrying amount and the recoverable amount, being the present value of the expected cash-flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate.
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 "Income/Expenses from write-off of loans and placements" in the Consolidated Statement of Profit or Loss.

The Group applies partial or full write-off for loans based on the definitions and prescriptions of financial instruments in accordance with IFRS 9. If the Group 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 impairment loss of the loans shall be written off in the same amount to the estimated maximum recovery amount while the net carrying value remains unchanged. In those cases when on the previously partially or fully written-off loans or placements, which perhaps were derecognized from the books no having been reasonable expectations later nevertheless recoveries could be determined then it will be reversal of loss allowance in the Consolidated Statement of Profit or Loss on "Incomes from recoveries exceeding the gross loans and placements with other banks".

Modified assets

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

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

The changes of net present value should be calculated on Group member level in case of retail portfolio. Each retail contract is restructured based on restructuring frameworks. The Group members 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.

2.12 Loss allowance

Loss allowance for loans and placements with other banks is recognised by the Group based on the expected credit loss model in accordance with IFRS 9. Based on the three stage model loss allowance is recognised at an amount equal to 12-month expected credit loss from the initial recognition. On 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 loans and placements with other banks represent Management assessment for potential losses in relation to these activities.

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

At subsequent measurement the Group recognises impairment gain or loss through "Loss allowance on loan and placement losses" in the Consolidated Statement of Profit 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 IFRS 9 standard Group classifies the financial assets measured at amortized cost, at fair value through other comprehensive income and loan commitments and financial guarantees into the following stages:

- stage 1 – performing financial instruments without significant increase in credit risk since initial recognition
- stage 2 – performing financial instruments with significant increase in credit risk since initial recognition but not credit-impaired
- stage 3 – non-performing, credit-impaired financial instruments
- POCI – purchased or originated credit impaired

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

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

Stage 1: financial instruments include all financial instruments in the case of which the events and conditions specified in respect of stage 2 and stage 3 do not exist on the reporting date.

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

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

The subject of default qualification is that exposure (on-balance and off-balance) which originates credit risk (so originated from loan commitments, risk-taking contracts).
A financial instruments shows significant increase in credit risk, and is allocated to stage 2, if in respect of which any of the following triggers exist on the reporting date, without fulfilling any of the conditions for the allocation to the non-performing stage (stage 3):

- 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 retail mortgage loans, the loan-to-value ratio exceeds a predefined rate,

- default on another loan of the retail client, if no cross-default exists,
- monitoring classification of corporate and municipal clients above different thresholds defined on group level (without aiming to give an exhaustive list):
  - financial difficulties at the debtor (capital adequacy, liquidity, deterioration of the instrument quality),
  - significant decrease of the liquidity or the activity on the active market of the financial instrument can be observed,
  - the rating of the client reflects high risk but it is better than the default one,
  - significantly decrease in the value of the recovery from which the debtor would disburse the loan,
  - clients under liquidation.

A financial instrument is non-performing, the instrument is became allocated to stage 3 when any of the following events or conditions exists in respect thereof on the reporting date:

- defaulted (based on the group level default definition),
- it is classified as non-performing forborne (based on the group level forborne definition),
- the monitoring classification of corporate and municipal clients above different thresholds defined on group level (without aiming to give an exhaustive list):
  - breaching of contracts,
  - significant financial difficulties of the debtor (like capital adequacy, liquidity, deterioration of the instrument quality),
  - bankruptcy, liquidation, debt settlement processes against debtor,
  - forced strike-off started against debtor,
  - termination of loan contract by the bank,
  - occurrence of fraud event,
  - termination of the active market of the financial instrument.

When loss allowance is calculated at exposures categorized into stages the following process is needed by stages:

- stage 1 (performing): loss allowance at an amount equal to 12-month expected credit loss should be recognized,
- stage 2 (significant increase in credit risk): loss allowance at an amount equal to lifetime expected credit loss should be recognized,
- stage 3 (non-performing): loss allowance at an amount equal to lifetime expected credit loss should be recognized.

For lifetime expected credit losses, an entity 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 the lifetime cash shortfalls that will result if a default occurs in the 12 months after the reporting date (or a shorter period if the expected life of a financial instrument is less than 12 months), weighted by the probability of that default occurring.

An entity shall measure expected credit losses of a financial instrument 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 or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

2.13 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 Consolidated Statement of Financial Position and the consideration received is recorded in Other liabilities or Amounts due to banks, the National Governments, deposits from the National Banks and other banks. Conversely, debt or equity securities purchased under a commitment to resell are not recognized in the Consolidated Statement of Financial Position and the consideration paid is recorded either in Placements with other banks or Deposits

from customers. Interest is accrued based on the effective interest method evenly over the life of the repurchase agreement.
In the case of security lending transactions the Group doesn't recognize or derecognize the securities because believes 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.

2.14 Associates and other investments

Companies where the Bank has the ability to exercise significant influence are accounted for using the equity method. However, certain associated companies in which the Bank holds a significant interest have not been accounted for in accordance with the equity method because the effect of using the equity method to account for such companies is not material to the Consolidated Financial Statements as a whole.
Unconsolidated subsidiaries and associated companies that were not accounted for using the equity method and other investments where the Bank does not hold a significant interest are recorded according to IFRS 9, when appropriate.
Gains and losses on the sale of investments are determined on the basis of the specific identification of the cost of each investment.

2.15 Property and equipment, Intangible assets

Property and 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 the useful lives.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets based on the following annual percentages:

Intangible assets	
Software	3.33–80%
Property rights	2.8–92.3%
Property	0.7–33%
Office equipment and vehicles	1–50%

Depreciation and amortization on Property and equipment and Intangible assets commence on the day such assets are placed into service.

At each balance sheet date, the Group reviews the carrying value of its Property and equipment and Intangible assets to determine if there is any indication that those assets have suffered an impairment loss. If any 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 Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where the carrying value of Property and equipment and Intangible assets is greater than the estimated recoverable amount, it is impaired immediately to the estimated recoverable amount.

The Group may conclude contracts for purchasing property, equipment and intangible assets, where the purchase price is settled in foreign currency. By entering into such agreements, firm commitment in foreign currency due on a specified future date arises at the Group.
Reducing the foreign currency risk caused by firm commitment, forward foreign currency contracts may be concluded to ensure the amount payable in foreign currency on a specified future date on one hand and to eliminate the foreign currency risk arising until settlement date of the contract on the other hand.

In the case of an effective hedge the realised profit or loss of the hedging instrument is stated as the part of the cost of the hedged asset as it has arisen until recognising the asset.

2.16 Financial liabilities

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

2.17 Leases

The Group as a lessor

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.
Amounts due from lessees under finance leases are recorded as other receivables at the amount of the net investment in the lease of the Group. Finance lease income is allocated to accounting periods so as to reflect a constant rate of return on the net investment outstanding of the Group in respect of the leases. Direct costs such as commissions are included in the initial measurement of the finance lease receivables.
Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

The Group as a lessee

Applied rules for lessee changed after 1 January 2019 in accordance with IFRS 16. At initial application of IFRS 16 the Group as lessee did not apply the practical expedient described in IFRS 16. C3 but reassessed all its contracts whether they are or contain a lease at the date of initial application. The Group chose the modified retrospective approach and recognised the right-of-use assets measuring them at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application. Therefore the initial application of IFRS 16 did not affect the consolidated equity. The Group applied the following practical expedients available during the transition:

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Adjusted the right-of-use asset at the date of initial application by the amount of any provision for onerous leases in the statement of financial position.
- Applied a simplified method for contracts mature within 12 months for the date of initial application.
- Excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- Used hindsight such as in determining the lease term if the contract contains options to extend or terminate the lease.

The Group separates non-lease components from lease components of the contracts and does not apply the practical expedient described in IFRS 16.15.

At the commencement date, the lessee recognises a right-of-use asset and a lease liability, except for short-term leases and leases, where the underlying asset is of low value (less than USD 5,000). For these leases, the Group recognises the lease payments as an expense on either a straight-line basis over the lease term or another systematic basis if that basis is more representative of the pattern of the lessee's benefit.
At the commencement date, the lease liability is measured at the present value of the lease payments that are not paid at that date, discounted by using the rate implicit in the lease, or if this cannot be determined, by using the incremental borrowing rate of the Group.

At the commencement date, the right-of-use asset is measured at cost that comprises the amount of the initial measurement of the lease liability; any lease payments made at or before the commencement date, less any lease incentives received; any initial direct costs incurred by the lessee; and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

As the Group chose the modified retrospective approach and recognised the cumulative effect of initially applying IFRS 16 on 1 January 2019, as of 31 December 2018 the leases were presented according to IAS 17 as it follows. Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, were capitalised at their fair value and depreciated over the useful lives of assets. The principal element of each future lease obligation was recorded as a liability, while the interest elements were charged to the Consolidated Statement of Profit or Loss over the period of the leases to produce a constant rate of charge on the balance of principal payments outstanding. Payments made under operating leases were charged to the Consolidated Statement of Profit or Loss on a straight-line basis over the term of the lease. When an operating lease was terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty was recognized as an expense in the period in which termination took place.

2.18 Investment properties

Investment properties of the Group are land, buildings, part of buildings which 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 Group 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.
The depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets.

2.19 Share capital

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

2.20 Treasury shares

Treasury shares are shares which are purchased on the stock exchange and the over-the-counter market by the Bank and its subsidiaries and are presented in the Consolidated Financial Position at cost as a deduction from Consolidated Shareholders' Equity.

Gains and losses on the sale of treasury shares are credited or charged directly to shareholder's equity. Derecognition of treasury shares is based on the FIFO method.

2.21 Interest income and interest expense

Interest income and expenses are recognized in profit or loss in the period to which they relate, using the effective interest rate method. The time-proportional income similar to interest income of derivative financial instruments is calculated without using the effective interest method and the positive fair value adjustment of interest rate swaps are included in income similar to interest income.

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

The Group recognizes interest income when if assumes that the interest associated with the transaction will flow to the Group and the amount of the revenue can be reasonably measured. All interest income and expense recognized are arising from loans, placements with other banks, securities at fair value through other comprehensive income, securities at amortized cost and amounts due to banks, deposits from customers, liabilities from issued securities, subordinated bonds and loans are presented under these lines of financial statements.

2.22 Fees and Commissions

Fees and commissions that are not involved in the amortized cost model are recognized in the Consolidated Statement of Profit or Loss on an accrual basis according to IFRS 15 Revenue from contracts with customers (see more details in Note 29). These fees are related to deposits, cash withdrawals, security trading, bank card etc.

2.23 Dividend income

Dividend income refers to any distribution of an entity earnings to shareholders from stocks or mutual funds that is owned by the Group. The Group recognizes dividend income in the Consolidated Financial Statements when its right to receive payment is established.

2.24 Income tax

The annual taxation charge is based on the tax payable under fiscal regulations prevailing in the country where the company is incorporated, 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 apply to the future period when the asset is expected to be realized or the liability is settled.

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

The Bank and a few of its subsidiaries are 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 of the Bank and its entities for the second period preceding the current tax year), banking tax is not considered as income tax.

2.25 Off-balance sheet commitments and contingent liabilities

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

In case of commitments and contingent liabilities, the management determines the adequacy of the loss allowance 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 Group recognizes 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. For financial guarantees and loan commitments given which are under IFRS 9 the expected credit loss model is applied when the provision is calculated (see more details in Note 2.12).

2.26 Share-based payment and employee benefit

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

The Bank issues equity-settled share-based payment to certain employees. Equity-settled share-based payment is measured at fair value at the grant date. The fair value determined at the grant date of the equity-settled share-based payment is expensed on a straight-line basis over the year, based on the Bank's estimate of shares that will eventually vest. Share-based payment is recorded in Consolidated Statement of Profit or Loss as Personnel expenses.

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 Group has applied the requirement of IAS 19 Employee Benefits. IAS 19 requires to recognise employee benefits to be paid as a liability and as an expense in the Consolidated Financial Statements.

2.27 Consolidated Statement of Cash-flows

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

2.28 Segment reporting

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.
Based on the above, the segments identified by the Group 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 Bank, Asset Management subsidiaries, Other subsidiaries, Corporate Center.

2.29 Comparative figures

These Consolidated Financial Statements are prepared in accordance with the same accounting policies in all respects as the Consolidated Financial Statements prepared in accordance with IFRS as adopted by the EU for the year ended 31 December 2018, however certain balances have been reclassified in order to facilitate a better understanding of the costs associated with the core operations of the Group. Additional disclosures have been made throughout the Consolidated Financial Statements where relevant. In the Consolidated Statement of Profit or Loss for the year 2018 Risk cost elements classification has been changed, but this did not result in any change to Consolidated Net Profit for the Period. In addition, in the Consolidated Statement of Financial Position, tangible assets subject to operating lease under IAS 17 were presented within Other assets as at 31 December 2018. Following the introduction of IFRS 16 on 1 January 2019, the Group has reassessed its assets classification subject to operating lease are included in the consolidated financial statement line items consistent with the nature of the underlying asset.

Previous presentation	Revised presentation	2019	2018 Revised presentation	IFRS 5*	Reclassification	2018 As previously presented
Interest incomes	**Interest incomes**	**894,144**	**746,029**	**(11,929)**	**-**	**757,958**
Interest expenses	**Interest expenses**	**(197,095)**	**(132,644)**	**591**	**-**	**(133,235)**
Loss allowance on loans and placement losses	Loss allowance on loan and placement losses	(49,120)	(22,616)	3,164	13,507	(39,287)
	Release of loss allowance on securities at fair value through other comprehensive income and on securities at amortized cost	9	607	(1)	608	–
	Provision for loan commitments and financial guarantees given	(7,995)	(6,481)	(110)	(6,371)	–
	Release of impairment/(Impairment) of assets subject to operating lease and of investment properties	280	(326)	–	(326)	–
NET INTEREST INCOME AFTER LOSS ALLOWANCE, IMPAIRMENT AND PROVISIONS	**NET INTEREST INCOME AFTER LOSS ALLOWANCE, IMPAIRMENT AND PROVISIONS**	**640,223**	**584,569**	**(8,285)**	**7,418**	**585,436**
Release of loss allowance on securities at fair value through other comprehensive income and on securities at amortized cost		**-**	**-**	**-**	**(608)**	**608**
Other operating income	**Other operating income**	**111,093**	**25,872**	**(43)**	**(13,507)**	**39,422**
Other operating expense	**Other operating expense**	**(44,758)**	**(19,173)**	**125**	**6,697**	**(25,995)**
Net operating gain	**Net operating income**	**127,701**	**54,726**	**184**	**(7,418)**	**62,328**

* The IFRS 5 Discontinued operation amounts are shown to facilitate reconciliation of those line items which have been reclassified.

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

The presentation of financial statements in conformity with IFRS as adopted by EU requires the Management of the Group to make judgement 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 ongoing basis. Revisions to accounting estimates are recognized in the period. Actual results could differ from those estimates. Significant areas of subjective judgement include:

3.1 Loss allowances on financial instruments

The Group regularly assesses its financial instruments portfolio for loss allowance. Management determines the adequacy of the loss 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 the three stage model was implemented for IFRS 9 purposes.
The impairment methodology is used to classify financial instruments in order to determine whether credit risk has significantly increased since initial recognition and to identify the credit-impaired assets. For instruments with credit-impairment or significant increase of credit risk lifetime expected losses will be recognized (see more details in Note 33.1).

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

3.3 Provisions

Provision is recognized and measured for commitments to extend credit and for warranties arising from banking activities based on IFRS 9 Financial Instruments.
Provision for these instruments is recognised based on the credit conversion factor, which shows the proportion of the undrawn credit line that will probably be drawn.
Other provisions are recognized and measured based on IAS 37 Provisions, Contingent Liabilities

and Contingent Assets. The Group is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Group assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for (see Note 21). Other provision for off-balance sheet items includes provision for litigation, provision for retirement and expected liabilities and provision for confirmed letter of credit. A provision is recognized by the Group when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

3.4 Impairment on goodwill

Goodwill acquired in a business combination is tested for impairment annually or more frequently when there is an indication that the unit might be impaired, in accordance with IAS 36 "Impairment of assets". The Group 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 Group defines the impairment need on goodwill based on the strategic factors and financial data of its cash-generating units. In the calculation of the goodwill impairment, also the expectations about possible variations in the amount or timing of those future cash-flows, the time value of money, represented by the current market risk-free rate of interest and other factors are reflected.

3.5 Business model

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

- Business model whose objective is to hold financial assets in order to collect contractual cash-flows. Within this business model the Group 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 Group only manages securities.
- Business model whose objective is to achieve gains in a short-term period. Within this business model the Group manages securities and derivative financial instrument.

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

	2019	2018
Cash on hand		
In HUF	186,172	172,176
In foreign currency	337,245	233,198
	523,417	**405,374**
Amounts due from banks and balances with the National Banks		
Within one year:		
In HUF	79,295	58,743
In foreign currency	1,130,023	1,083,155
	1,209,318	**1,141,898**
Over one year:		
In HUF	–	–
In foreign currency	51,643	–
	51,643	**–**
Total	**1,784,378**	**1,547,272**
Compulsory reserve set by the National Banks*	(734,641)	(727,293)
Cash and cash equivalents	**1,049,737**	**819,979**

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

	2019	2018
Within one year:		
In HUF	81,349	45,117
In foreign currency	216,659	291,111
	298,008	**336,228**
Over one year:		
In HUF	102,048	80,459
In foreign currency	10,563	4,416
	112,611	**84,875**
Loss allowance on placements	(540)	(497)
Total	**410,079**	**420,606**

An analysis of the change in the loss allowance on placements with other banks is as follows:

	2019	2018
Balance as at 1 January	**497**	**68**
Effect of transition due to IFRS 9 application	–	269
Loss allowance for the period	3,561	2,879
Release of loss allowance for the period	(3,650)	(2,683)
Reclassification	–	(105)
Foreign currency translation difference	132	69
Closing balance	**540**	**497**

Interest conditions of placements with other banks:

	2019	2018
In HUF	(1.5)%–3.84%	(1.0)%–3.84%
In foreign currency	(2.39)%–15.5%	(2.28)%–13.69%
Average interest rates on placements with other banks	**2.06%**	**1.62%**

* Foreign subsidiary banks within the Group have to comply with country specific regulation of local National Banks. Each country within the Group has its own regulation for compulsory reserve calculation and maintenance. Based on that banks are obliged to place compulsory reserve at their National Bank in a specified percentage of their liabilities considered in compulsory reserve calculation.

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

Securities held for trading:

	2019	2018
Government bonds	71,194	34,462
Equity instruments and fund units	1,076	5,539
Discounted Treasury bills	50	1,059
Other non-interest bearing securities	7,516	7,207
Other interest bearing securities	20,212	2,172
	100,048	**50,439**
Non-trading securities mandatorily at fair value through profit or loss	**39,317**	**27,512**
Equity instruments, open-ended fund units	34,915	26,206
Bonds	4,402	1,306
Debt securities designated at fair value through profit or loss	2,001	–
Total	**141,366**	**77,951**

Positive fair value of derivative financial assets held for trading:

	2019	2018
Interest rate swaps held for trading	61,198	44,120
Foreign exchange swaps held for trading	35,602	31,994
Foreign exchange forward contracts held for trading	3,543	2,502
CCIRS and mark-to-market CCIRS* held for trading	1,216	12,417
Other derivative transactions held for trading	9,065	12,372
	110,624	**103,405**
Total	**251,990**	**181,356**

An analysis of securities held for trading portfolio by currency:

	2019	2018
Denominated in HUF	27.8%	30.0%
Denominated in foreign currency	72.2%	70.0%
Total	**100.0%**	**100.0%**

An analysis of government bond portfolio by currency:

	2019	2018
Denominated in HUF	25.7%	19.5%
Denominated in foreign currency	74.3%	80.5%
Total	**100.0%**	**100.0%**
Interest rates on securities held for trading	0.01%–7.5%	0.01%–7.5%

* CCIRS: Cross Currency Interest Rate Swaps (see Note 2.6.3).

Interest conditions and the remaining maturities of securities held for trading can be analysed as follows:

	2019	2018
Within one year:		
With variable interest	124	2,043
With fixed interest	24,496	9,015
	24,620	**11,058**
Over one year:		
With variable interest	1,046	2,198
With fixed interest	65,790	24,437
	66,836	**26,635**
Non-interest bearing securities	8,592	12,746
Total	**100,048**	**50,439**

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

	2019	2018
Within one year:		
With variable interest	–	25
With fixed interest	866	789
	866	**814**
Over one year:		
With variable interest	25	492
With fixed interest	3,511	–
	3,536	**492**
Non-interest bearing securities	34,915	26,206
Total	**39,317**	**27,512**
Dividend income from shares measured at fair value through profit or loss	5,728	5,125

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

	2019	2018
Securities at fair value through other comprehensive income		
Government bonds	1,772,612	1,420,341
Discounted Treasury bills	443,690	288,613
Mortgage bonds	97,268	82,133
Corporate bonds	73,062	62,099
Listed securities:		
In HUF	2,999	–
In foreign currency	46,486	37,683
	49,485	37,683
Non-listed securities:		
In HUF	18,516	22,974
In foreign currency	5,061	1,442
	23,577	24,416
Subtotal	**2,386,632**	**1,853,186**
Non-trading equity instruments designated to measure at fair value through other comprehensive income		
Listed securities:		
In HUF	–	–
In foreign currency	5,443	5,358
	5,443	5,358
Non-listed securities:		
In HUF	539	576
In foreign currency	34,165	24,729
	34,704	25,305
Subtotal	**40,147**	**30,663**
Total securities at fair value through other comprehensive income	**2,426,779**	**1,883,849**

An analysis of securities at fair value through other comprehensive income by currency:

	2019	2018
Denominated in HUF	47.8%	57.8%
Denominated in foreign currency	52.2%	42.2%
Total	**100.0%**	**100.0%**

	2019	2018
Dividend from shares measured at fair value through other comprehensive income		
related to derecognized equity instruments	7	–
related to equity instrument existing at the balance sheet date	236	191
Accumulated gain transferred within reserves	1,842	–

An analysis of government bonds by currency:

	2019	2018
Denominated in HUF	39.5%	52.4%
Denominated in foreign currency	60.5%	47.6%
Total	**100.0%**	**100.0%**

	2019	2018
Interest rates on securities at fair value through other comprehensive income denominated in HUF	0.16%–7.5%	0.01%–7.5%
Interest rates on securities at fair value through other comprehensive income denominated in foreign currency	0.25%–17.25%	0.3%–20.4%
Average interest rates securities at fair value through other comprehensive income denominated in HUF	1.96%	1.69%
Average interest rates on securities at fair value through other comprehensive income denominated in foreign currency	2.24%	2.29%

Interest conditions and the remaining maturities of securities at fair value through other comprehensive income can be analysed as follows:

	2019	2018
Within one year:		
With variable interest	7,799	13,732
With fixed interest	878,644	656,026
	886,443	**669,758**
Over one year:		
With variable interest	60,974	101,829
With fixed interest	1,439,215	1,081,599
	1,500,189	**1,183,428**
Non-interest bearing securities	40,147	30,663
Total	**2,426,779**	**1,883,849**

Certain securities are hedged against interest rate risk (see Note 33.4).

During year 2019 the Group sold HUF 3,126 million equity instruments designated at fair value through other comprehensive income while in 2018 no equity instruments were sold.

NOTE 8: LOANS AT AMORTIZED COST AND AT FAIR VALUE (in HUF mn)

	2019	2018
Short-term loans and promissory notes (within one year)	3,196,480	2,517,071
Long-term loans and promissory notes (over one year)	8,373,834	5,681,357
Finance lease receivables	982,853	519,004
	12,553,167	**8,717,432**
Loss allowance on loans	(693,317)	(676,359)
Loss allowance on finance lease receivables	(13,590)	(9,005)
Loans at amortized cost	**11,846,260**	**8,032,068**

An analysis of the gross loan portfolio by currency:

	2019	2018
In HUF	28%	34%
In foreign currency	72%	66%
Total	**100%**	**100%**

Interest rates of the loan portfolio are as follows:

	2019	2018
Short-term loans denominated in HUF	0.0%–34%*	0.0%–37.45%
Long-term loans denominated in HUF	0.0%–34%*	0.01%–38.98%
Short-term loans denominated in foreign currency	(0.45)%–90.0%**	(0.64)%–90.0%
Long-term loans denominated in foreign currency	(0.45)%–90.0%**	(0.64)%–90.0%
Average interest rates on loans denominated in HUF	6.13%	6.87%
Average interest rates on loans denominated in foreign currency	5.76%	7.05%

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

	2019	2018
Balance as at 1 January	**676,359**	**738,795**
Effect of transition due to IFRS 9 application	–	47,626
Loss allowance on finance lease***	–	(9,005)
Loss allowance for the period	480,962	460,340
Release of loss allowance	(277,779)	(271,375)
Use of loss allowance	(94,458)	(126,747)
Partial write-off****	(112,198)	(169,904)
Decrease due to IFRS 5	(27,616)	–
Reclassification	–	26
Foreign currency translation difference	48,047	6,603
Closing balance	**693,317**	**676,359**

* The highest interest rate relates to HUF loans regarding purchasing products and services.
** The highest interest rate relates to loans in foreign currency regarding POS services in Russia.
*** See details in Note 32.
**** See details in Note 2.11.

Movement in loss allowance on loans and placements is summarized as below:

	2019	2018
(Release of loss allowance)/Loss allowance on placements and gains from write-off and sale of placements	(235)	144
Loss allowance on loans and gains from write-off and sale of loans	44,027	22,472
Total*	**43,792**	**22,616**
Loans mandatorily at fair value through profit or loss		
Short-term loans at fair value through profit or loss with market risk value adjustment	2,663	3,487
Long-term loans at fair value through profit or loss with market risk value adjustment	31,866	32,854
Accumulated negative changes in fair value	(1,727)	(1,816)
Loans measured at fair value through profit or loss	**32,802**	**34,525**

An analysis of the loan portfolio mandatorily at fair value through profit or loss by currency:

	2019	2018
In HUF	91%	95%
In foreign currency	9%	5%
Total	**100%**	**100%**

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

	2019	2018
Short-term loans denominated in HUF	1.5%–10.08%	1.19%–10.08%
Long-term loans denominated in HUF	1.5%–10.08%	1.19%–10.08%
Short-term loans denominated in foreign currency	8.3%	8.3%
Long-term loans denominated in foreign currency	2.5%–4.5%	3.25%–3.5%

NOTE 9: ASSOCIATES AND OTHER INVESTMENTS (in HUF mn)

	2019	2018
Investments		
Investments in associates (non-listed)	14,254	11,904
Other investments (non-listed) at cost	15,384	11,279
	29,638	**23,183**
Impairment on investments	(8,816)	(5,592)
Total	**20,822**	**17,591**

An analysis of the change in the impairment on investments is as follows:

	2019	2018
Balance as at 1 January	**5,592**	**4,404**
Impairment for the period	3,342	1,232
Reclassification to securities at fair value through other comprehensive income	(80)	(41)
Foreign currency translation difference	(38)	(3)
Closing balance	**8,816**	**5,592**

* See details in Note 28.

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

	2019	2018
Government bonds	1,933,837	1,733,391
Corporate bonds	22,719	10,068
Mortgage bonds	7,739	–
Discounted Treasury bills	6,516	–
	1,970,811	**1,743,459**
Loss allowance on securities at amortized cost	(2,739)	(2,939)
Total	**1,968,072**	**1,740,520**

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

	2019	2018
Within one year:		
With variable interest	–	–
With fixed interest	261,358	177,203
	261,358	**177,203**
Over one year:		
With variable interest		–
With fixed interest	1,709,453	1,566,256
	1,709,453	**1,566,256**
Total	**1,970,811**	**1,743,459**

An analysis of securities at amortized cost by currency :

	2019	2018
Denominated in HUF	86.5%	93.1%
Denominated in foreign currency	13.5%	6.9%
Total	**100.0%**	**100.0%**

	2019	2018
Interest rates of securities at amortized cost with variable interest	–	–
Interest rates of securities at amortized cost with fixed interest	0.5%-13.5%	0.5%-18.0%
Average interest rates on securities at amortized cost	3.36%	3.98%

An analysis of the change in the loss allowance on securities at amortized cost is as follows:

	2019	2018
Balance as at 1 January	**2,939**	**716**
Effect of transition due to IFRS 9 application	–	2,014
Loss allowance for the period	593	995
Release of loss allowance	(755)	(783)
Use of loss allowance	(52)	(46)
Foreign currency translation difference	14	43
Closing balance	**2,739**	**2,939**

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

For the year ended 31 December 2019:

	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Tangible assets subject to operating lease*	Total
Cost						
Balance as at 1 January	**323,269**	**239,639**	**195,040**	**22,881**	**37,845**	**818,674**
Increase due to acquisition	47,100	38,869	7,645	2,246	2,197	98,057
Additions	70,795	16,565	28,201	53,066	7,301	175,928
Foreign currency translation differences	19,703	6,144	5,117	448	878	32,290
Disposals	(16,522)	(12,517)	(13,176)	(55,837)	(16,422)	(114,474)
Disposal due to IFRS 5	(12,692)	(9,188)	(7,646)	(91)	–	(29,617)
Change in consolidation scope	783	26	267	4	–	1,080
Balance as at 31 December	**432,436**	**279,538**	**215,448**	**22,717**	**31,799**	**981,938**
Depreciation and Amortization						
Balance as at 1 January	**156,558**	**68,251**	**135,536**	**–**	**14,467**	**374,812**
Charge for the period (without goodwill impairment)	34,548	7,802	20,418	–	5,397	68,165
Goodwill impairment	4,887	–	–	–	–	4,887
Foreign currency translation differences	831	2,932	4,275	–	110	8,148
Disposals	–	(3,016)	(9,052)	–	(9,085)	(21,153)
Disposal due to IFRS 5	(7,581)	(4,885)	(6,021)	–	–	(18,487)
Change in consolidation scope	171	1	165	–	–	337
Impairment	**803**	**–**	**1,337**	**–**	**440**	**2,580**
Balance as at 31 December	**190,217**	**71,085**	**146,658**	**–**	**11,329**	**419,289**
Carrying value						
Balance as at 1 January	**166,711**	**171,388**	**59,504**	**22,881**	**23,378**	**443,862**
Balance as at 31 December	**242,219**	**208,453**	**68,790**	**22,717**	**20,470**	**562,649**

An analysis of the intangible assets for the year ended 31 December 2019 is as follows:

	Self-developed	Other	Total
Intangible assets			
Gross values	5,300	315,450	**320,750**
Amortization	(2,396)	(181,434)	**(183,830)**
Carrying value	2,904	134,016	**136,920**

An analysis of the changes in the goodwill for year ended 31 December 2019 is as follows:

	Goodwill
Gross balance as at 1 January	**97,728**
Additions	6,776
Foreign currency translation difference	7,298
Disposals	(115)
Balance as at 31 December	**111,687**
Impairment as at 1 January	**5,962**
Additions	4,887
Foreign currency translation difference	(4,461)
Disposals	–
Balance as at 31 December	**6,388**
Carrying value	
Balance as at 1 January	**91,766**
Balance as at 31 December	**105,299**

* Assets subject to operating lease in 2018 are recognized under IAS17 and are presented in the Consolidated Statement of Financial Position within other assets (see details in Note 14). However assets subject to operating lease in 2019 under IFRS 16 are presented based on the nature of the underlying asset, so they were transferred to tangible assets.

Carrying value of the goodwill allocated to the appropriate cash generation units:

List of units	HUF mn
JSC "OTP Bank" (Russia)	44,530
DSK Bank EAD	28,541
OTP banka Hrvatska d.d.	19,187
Expressbank AD	13,030
POK-DSK Rodina a.d.	11
Total	**105,299**

The Bank decided that the recoverable amount is determined based on fair value less cost of disposal. When the Bank prepares goodwill impairment tests of the subsidiaries, two methods are used based on discounted cash-flow calculation that shows the same result; however they represent different economical logics. On one hand is the free cash-flow method (FCF) 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.

On the basis of the internal regulation of the Bank as at 31 December 2019 impairment test was prepared where a three-year cash-flow model was applied with an explicit period between 2020–2022. The basis for the estimation was the financial actual figures for November 2019, while for the three-year explicit period the Bank applied the prognosis for year 2019 and on the basis of this the prepared medium-term (2020–2022) forecasts. When the Bank prepared the calculations for the period 2020–2022, it considered the actual worldwide economic situations, the expected economic growth for the following years, their possible effects on the financial sector, the plans for growing which result from these, and the expected changes of the mentioned factors.

Present value calculation with the FCF method

The Bank calculated the expected cash-flow for the given period based on the expected after tax profit of the companies. For calculating the discount factor as risk free rates in case of OTP Bank JSC (Ukraine) the local interbank interest rate in foreign currency with a period of one year was applied, while in case of the other subsidiaries the ten-year local government bonds in foreign currency or swap yields were considered as presented in the actual macro forecasts. The Bank calculated risk premiums on the basis of information from the country risk premiums that are published on damodaran.com, which were modified with CDS spread in case of Crnogorska komercijalna banka a.d., since according to the Bank's assumption the risk free interest rate includes the country-dependent risks in an implicit way.
The growth rate in the explicit period is the growth rate of the profit after tax adjusted by the interest rate of the cash and subordinated loans. The supposed growth rates for the periods of residual values reflect the long-term economic expectations in case of every country.
The values of the subsidiaries in the FCF method were then calculated as the sum of the discounted cash-flows of the explicit period, the present value of the terminal values and the initial free capital assuming an effective capital structure.

Present value calculation with the EVA method

A company creates positive economic profit/value if the profitability of the invested capital is higher than the normal profit – the profit that can be usually generated in the banking sector –, which means that the company's profitability exceeds the expected yield. The economic profit of the subsidiaries was calculated by deducting the cost of invested capital from the net profit for the year. The applied discount factor and the indicators used for calculating the residual value (long-term cost of capital and growth rate) are the same that are used in the FCF method.

Summary of the impairment test for the year ended 31 December 2019

Based on the valuations of the subsidiaries as at 31 December 2019 HUF 4,887 million goodwill impairment for OTP Bank Romania S.A. was needed to book by the Group.

For the year ended 31 December 2018:

	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Total
Cost					
Balance as at 1 January	**302,057**	**226,513**	**174,585**	**20,033**	**723,188**
Additions	42,443	30,452	33,878	46,009	152,782
Foreign currency translation differences	(3,210)	3,403	1,200	321	1,714
Disposals	(18,030)	(20,733)	(14,660)	(43,483)	(96,906)
Change in consolidation scope	9	4	37	1	51
Balance as at 31 December	**323,269**	**239,639**	**195,040**	**22,881**	**780,829**
Depreciation and Amortization					
Balance as at 1 January	**125,988**	**58,146**	**125,664**	**–**	**309,798**
Charge for the year (without goodwill impairment)	27,245	7,080	17,150	–	51,475
Goodwill impairment	5,962	–	–	–	5,962
Foreign currency translation differences	732	5,229	854	–	6,815
Disposals	(5,577)	(2,233)	(8,187)	–	(15,997)
Change in consolidation scope	8	1	22	–	31
Impairment	**2,200**	**28**	**33**	**–**	**2,261**
Balance as at 31 December	**156,558**	**68,251**	**135,536**	**–**	**360,345**
Carrying value					
Balance as at 1 January	**176,069**	**168,367**	**48,921**	**20,033**	**413,390**
Balance as at 31 December	**166,711**	**171,388**	**59,504**	**22,881**	**420,484**

An analysis of the intangible assets for the year ended 31 December 2018 is as follows:

	Self-developed	Other	Total
Intangible assets			
Gross values	5,924	219,617	**225,541**
Amortization	(1,975)	(148,621)	**(150,596)**
Carrying value	**3,949**	**70,996**	**74,945**

An analysis of the changes in the goodwill for the year ended 31 December 2018 is as follows:

	Goodwill
Gross balance as at 1 January	**101,489**
Additions	–
Foreign currency translation difference	(3,761)
Disposals	–
Balance as at 31 December	**97,728**
Impairment as at 1 January	**513**
Additions	5,962
Foreign currency translation difference	–
Disposals	(513)
Balance as at 31 December	**5,962**
Carrying value	
Balance as at 1 January	**100,976**
Balance as at 31 December	**91,766**

Carrying value of the goodwill allocated to the appropriate cash generation units:

List of units	HUF million
JSC "OTP Bank" (Russia)	38,048
DSK Bank EAD	28,541
OTP banka Hrvatska d.d.	18,664
OTP Bank Romania S.A.	6,388
Other*	125
Total	**91,766**

Summary of the impairment test for the year ended 31 December 2018

Based on the valuations of the subsidiaries as at 31 December 2018 HUF 229 million goodwill impairment for OTP Real Estate Lease Ltd. and HUF 5,733 million for Monicomp Ltd. was needed to book on Group level.

NOTE 12: INVESTMENT PROPERTIES (in HUF mn)

An analysis of the change in gross values of investment properties is as follows:

	2019	2018
Gross values		
Balance as at 1 January	**49,256**	**50,887**
Increase due to transfer from inventories or owner-occupied properties	3,752	11,249
Increase from purchase	2,516	553
Increase due to transfer from held-for-sale properties	366	649
Increase from acquisition	299	–
Other additions	12	1,522
Disposal due to transfer to inventories or owner-occupied properties	(778)	(4,140)
Disposal due to transfer to held-for-sale properties	(999)	(440)
Disposal due to sale	(1,278)	(12,477)
Other disposal	(7)	(1)
Foreign currency translation difference	767	1,454
Closing balance	**53,906**	**49,256**

The applied depreciation and amortization rates were the following:

	2019	2018
Depreciation and amortization rates	1%–22.2%	1%–50.0%

An analysis of the movement in the depreciation and amortization on investment properties is as follows:

	2019	2018
Depreciation and amortization		
Balance as at 1 January	**7,139**	**7,422**
Additions due to transfer from inventories or owner-occupied properties	1,482	–
Charge for the period	926	761
Additions due to transfer from held-for-sale properties	2	–
Disposal due to sale	(655)	(422)
Disposal due to transfer to inventories or owner-occupied properties	(710)	(801)
Other disposal for the period	–	(52)
Foreign currency translation difference	168	231
Closing balance	**8,352**	**7,139**

* Other category includes: Nimo 2002 Ltd., POK DSK-Rodina a.d.

An analysis of the movement in the impairment on investment properties is as follows:

	2019	2018
Impairment		
Balance as at 1 January	**4,002**	**8,080**
Impairment for the period	255	451
Release of impairment for the period	(378)	(207)
Use of impairment	(27)	(4,593)
Foreign currency translation difference	142	271
Closing balance	**3,994**	**4,002**
Carrying values		
Balance as at 1 January	**38,115**	**35,385**
Balance as at 31 December	**41,560**	**38,115**
Fair values	**45,768**	**44,616**
Income and expenses		
Rental income	2,061	2,945
Direct operating expenses of investment properties – income generating	687	75
Direct operating expenses of investment properties – non income generating	8	9

NOTE 13: POSITIVE FAIR VALUE OF DERIVATIVE FINANCIAL ASSETS DESIGNATED AS HEDGE ACCOUNTING (in HUF mn)

Positive fair value of derivative financial assets designated as fair value and as cash-flow hedge:

	2019	2018
Interest rate swaps designated as fair value hedge	3,758	5,610
CCIRS and mark-to-market CCIRS designated as fair value hedge	3,705	4,003
Interest rate swaps designated as cash-flow hedge	–	3,751
MIRS* designated as cash-flow hedge	–	1,837
Total	**7,463**	**15,201**

* Monetary policy interest rate swaps.

NOTE 14: OTHER ASSETS* (in HUF mn)

	2019	2018
Inventories	58,420	59,146
Prepayments and accrued income	42,671	34,245
Receivables from card operations	28,749	49,265
Other advances	18,294	10,197
Receivables, subsidies from the State, Government	17,910	4,456
Trade receivables	17,861	11,821
Receivables due from pension funds and investment funds	15,668	989
Current income tax receivable	12,769	14,258
Settlement and suspense accounts	6,282	4,953
Stock exchange deals	6,058	12,092
Receivables from investment services	3,896	6,985
Giro clearing accounts	2,817	4,652
Receivables from leasing activities	1,768	1,609
Advances for securities and investments	746	679
Receivable from the National Asset Management	62	1,487
Tangible assets subject to operating lease**	–	23,378
Other assets	19,866	25,323
Loss allowance on other assets	(26,488)	(27,603)
Total other assets	**227,349**	**237,932**
Fair value of derivative financial assets designated as hedge accounting relationship***	7,463	15,201
Deferred tax assets****	26,543	20,769
Subtotal	**34,006**	**35,970**
Total	**261,355**	**273,902**

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

	2019	2018
Balance as at 1 January	**27,603**	**28,595**
Effect of transition due to IFRS 9 application		(218)
Loss allowance/(Release of loss allowance) for the period	5,277	(47)
Use of loss allowance	(6,345)	(1,107)
Transfer due to IFRS 5	(420)	–
Transfer of tangible assets subject to operating lease**	(585)	–
Reclassification	–	79
Foreign currency translation difference	958	301
Closing balance	**26,488**	**27,603**

NOTE 15: AMOUNTS DUE TO BANKS, THE NATIONAL GOVERNMENTS, DEPOSITS FROM THE NATIONAL BANKS AND OTHER BANKS (in HUF mn)

	2019	2018
Within one year:		
In HUF	275,359	51,090
In foreign currency	166,813	128,467
	442,172	**179,557**
Over one year:		
In HUF	151,415	124,512
In foreign currency	219,812	56,406
	371,227	**180,918**
	813,399	**360,475**

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

** Assets subject to operating lease in 2018 are recognized under IAS17 and are presented in the Consolidated Statement of Financial Position within other assets. However assets subject to operating lease in 2019 under IFRS 16 are presented based on the nature of the underlying asset, so they were transferred to tangible assets (see details in Note 11).

*** See Note 13.

**** See Note 31.

Interest rates on amounts due to banks, the National Governments, deposits from the National Banks and other banks are as follows:

	2019	2018
Within one year:		
In HUF	(0.85)%–0.9%	(15.0)%–2.67%
In foreign currency	(0.89)%–21.5%*	(0.8)%–21.5%
Over one year:		
In HUF	0.0%–3.84%	0.0%–2.67%
In foreign currency	(0.45)%–17.6%*	0.0%–21.5%
Average interest rates on amounts due to banks, the National Governments, deposits from the National Banks and other banks denominated in HUF	1.14%	2.21%
Average interest rates on amounts due to banks, the National Governments, deposits from the National Banks and other banks denominated in foreign currency	2.05%	1.71%

NOTE 16: FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn)

	2019	2018
Within one year in HUF	2,679	3,422
Over one year in HUF	28,183	28,809
	30,862	**32,231**

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

	2019	2018
Contractual amount	29,590	30,911
Fair value adjustment due to market risk	1,272	1,320
Carrying amount	**30,862**	**32,231**

NOTE 17: DEPOSITS FROM CUSTOMERS (in HUF mn)

	2019	2018
Within one year:		
In HUF	5,454,729	4,893,454
In foreign currency	8,977,145	6,100,941
	14,431,874	**10,994,395**
Over one year:		
In HUF	302,049	251,723
In foreign currency	437,385	38,967
	739,434	**290,690**
Total	**15,171,308**	**11,285,085**

* The highest interest rate for within and over one year due to banks relate to loans taken from EBRD in Ukraine.

Interest rates on deposits from customers are as follows:

	2019	2018
Within one year:		
In HUF	(3.13)%–7.96%	(5.11)%–9.69%
In foreign currency	(0.6)%–9.7%	(0.42)%–23.0%
Over one year:		
In HUF	(5.09)%–7.96%	0.0%–9.96%
In foreign currency	0.0%–15.0%	0.0%–17.57%
Average interest rates on deposits from customers denominated in HUF	0.08%	0.11%
Average interest rates on deposits from customers denominated in foreign currency	0.69%	0.75%

An analysis of deposits from customers by type, without accrued interest liability, is as follows:

	2019		2018	
Retail deposits	9,195,778	61%	6,840,516	61%
Corporate deposits	5,171,579	34%	3,863,176	34%
Municipality deposits	803,951	5%	581,393	5%
Total	**15,171,308**	**100%**	**11,285,085**	**100%**

NOTE 18: LIABILITIES FROM ISSUED SECURITIES (in HUF mn)

	2019	2018
With original maturity		
Within one year:		
In HUF	26,139	49,931
In foreign currency	3,816	5,091
	29,955	**55,022**
Over one year:		
In HUF	363,159	362,856
In foreign currency	53	88
	363,212	**362,944**
Total	**393,167**	**417,966**

Interest rates on liabilities from issued securities are as follows:

	2019	2018
Issued securities denominated in HUF	0.0%–9.0%	0.2%–9.48%
Issued securities denominated in foreign currency	0.74%–6.70%	0.6%–7.0%
Average interest rates on issued securities denominated in HUF	1.80%	2.33%
Average interest rates on issued securities denominated in foreign currency	0.06%	1.66%

Issued securities denominated in HUF as at 31 December 2019:

	Name	Date of issue	Maturity	Nominal value (in HUF mn)	Amortized cost (in HUF mn)	Interest conditions (actual interest rate in % p.a.)		Hedged
1	OTP 2020/Ax	25/03/2010	30/03/2020	238	326	indexed	NaN	hedged
2	OTP 2020/Bx	28/06/2010	09/07/2020	267	285	indexed	NaN	hedged
3	OTP 2020/Cx	11/11/2010	05/11/2020	166	221	indexed	NaN	hedged
4	OTP 2020/Dx	16/12/2010	18/12/2020	177	193	indexed	NaN	hedged
5	OTP 2020/Ex	18/06/2014	22/06/2020	2,939	2,903	indexed	0.70	hedged
6	OTP 2020/Fx	10/10/2014	16/10/2020	2,650	2,551	indexed	0.20	hedged
7	OTP 2020/Gx	15/12/2014	21/12/2020	2,372	2,273	indexed	0.30	hedged
8	OTP 2021/Ax	01/04/2011	01/04/2021	192	253	indexed	NaN	hedged
9	OTP 2021/Bx	17/06/2011	21/06/2021	255	424	indexed	NaN	hedged
10	OTP 2021/Cx	19/09/2011	24/09/2021	231	198	indexed	NaN	hedged
11	OTP 2021/Dx	21/12/2011	27/12/2021	274	305	indexed	NaN	hedged
12	OTP 2022/Ax	22/03/2012	23/03/2022	217	235	indexed	NaN	hedged
13	OTP 2022/Bx	18/07/2012	18/07/2022	183	318	indexed	1.70	hedged
14	OTP 2022/Cx	29/10/2012	28/10/2022	217	278	indexed	1.70	hedged
15	OTP 2022/Dx	28/12/2012	27/12/2022	265	379	indexed	1.70	hedged
16	OTP 2023/Ax	22/03/2013	24/03/2023	340	370	indexed	1.70	hedged
17	OTP 2023/Bx	28/06/2013	26/06/2023	214	268	indexed	0.60	hedged
18	OTP 2024/Ax	18/06/2014	21/06/2024	241	253	indexed	1.30	hedged
19	OTP 2024/Bx	10/10/2014	16/10/2024	311	302	indexed	0.70	hedged
20	OTP 2024/Cx	15/12/2014	20/12/2024	259	249	indexed	0.60	hedged
21	OTP 2020/RF/A	12/07/2010	20/07/2020	2,152	2,252	indexed	NaN	hedged
22	OTP 2020/RF/B	12/07/2010	20/07/2020	1,276	1,429	indexed	NaN	hedged
23	OTP 2020/RF/C	11/11/2010	05/11/2020	2,622	2,662	indexed	NaN	hedged
24	OTP 2021/RF/A	05/07/2011	13/07/2021	2,402	2,804	indexed	NaN	hedged
25	OTP 2021/RF/B	20/10/2011	25/10/2021	2,655	2,858	indexed	NaN	hedged
26	OTP 2021/RF/C	21/12/2011	30/12/2021	505	558	indexed	NaN	hedged
27	OTP 2021/RF/D	21/12/2011	30/12/2021	357	385	indexed	NaN	hedged
28	OTP 2021/RF/E	21/12/2011	30/12/2021	67	68	indexed	NaN	hedged
29	OTP 2022/RF/A	22/03/2012	23/03/2022	1,869	1,797	indexed	1.70	hedged
30	OTP 2022/RF/B	22/03/2012	23/03/2022	728	698	indexed	1.70	hedged
31	OTP 2022/RF/C	28/06/2012	28/06/2022	171	205	indexed	1.70	hedged
32	OTP 2022/RF/D	28/06/2012	28/06/2022	249	278	indexed	1.70	hedged
33	OTP 2022/RF/E	29/10/2012	31/10/2022	661	645	indexed	1.70	hedged
34	OTP 2022/RF/F	28/12/2012	28/12/2022	538	532	indexed	1.70	hedged
35	OTP 2023/RF/A	22/03/2013	24/03/2023	760	746	indexed	1.70	hedged
36	OJB 2020/I	19/11/2004	12/11/2020	5,503	5,599	9.0	fixed	
37	OJB 2020/II	31/05/2011	12/11/2020	1,487	1,502	9.0	fixed	
38	OJB 2021/I	15/02/2017	27/10/2021	114,000	112,979	2.0	fixed	
39	OJB 2023/I	05/04/2018	24/11/2023	43,600	44,137	1.75	fixed	
40	OJB 2024/A	17/09/2018	20/05/2024	48,475	48,130	0.72	floating	
41	OJB 2024/B	18/09/2018	24/05/2024	55,829	55,461	0.72	floating	
42	OJB 2024/II	10/10/2018	24/10/2024	92,000	90,771	2.50	fix	
43	Other			218	218			
	Total issued securities in HUF			**390,132**	**389,298**			

Issued securities denominated in foreign currency as at 31 December 2019:

	Name	Date of issue	Maturity	Type of FX	Nominal value FX mn	Nominal value HUF mn	Amortized cost FX mn	Amortized cost HUF mn	Interest conditions (actual interest rate in % p.a.)	
1	OTP_VK_USD_1_2020/I	21/02/2019	21/02/2020	USD	1.53	450	1.54	452	1.48	floating
2	OTP_VK_USD_1_2020/II	04/04/2019	04/04/2020	USD	2.47	727	2.48	731	1.42	floating
3	OTP_VK_USD_1_2020/III	16/05/2019	16/05/2020	USD	0.89	263	0.89	263	1.32	floating
4	OTP_VK_USD_1_2020/IV	27/06/2019	27/06/2020	USD	1.87	552	1.87	552	1.32	floating
5	OTP_VK_USD_1_2020/V	15/08/2019	15/08/2020	USD	2.00	589	2.01	591	1.20	floating
6	OTP_VK_USD_1_2020/VI	26/09/2019	26/09/2020	USD	0.75	220	0.75	221	1.20	floating
7	OTP_VK_USD_1_2020/VII	07/11/2019	07/11/2020	USD	1.68	494	1.68	495	1.10	floating
8	OTP_VK_USD_1_2020/VIII	19/12/2019	19/12/2020	USD	1.52	448	1.52	448	1.10	floating
9	Other*				22	103	24	116		
	Total issued securities in FX				**34.71**	**3,846**	**36.74**	**3,869**		
	Total issued securities							**393,167**		

Hedge accounting

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

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

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 risk of change in 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.

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

On 23 April 2019 the Bank initiated term note program in the value of HUF 200 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 25 June 2019 the prospectus of Term Note Program and the disclosure as at 28 June 2019. The prospectus is valid for 12 months following the disclosure. The Issuer can initiate to introduce the bonds issued under the program to the Hungarian, Slovakian, Romanian, Bulgarian and Croatian Stock Exchange without any obligations.

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

On 19 July 2018 the Bank initiated term note program in the value of HUF 200 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 13 August 2018 the prospectus of Term Note Program and the disclosure as at 16 August 2018. The prospectus is valid for 12 months following the disclosure. The Issuer can initiate to introduce the bonds issued under the program to the Hungarian, Slovakian, Romanian, Bulgarian and Croatian Stock Exchange without any obligations.

* Other category includes promissory notes issued by JSC "OTP Bank" (Russia) in the amount of HUF 116 million.

NOTE 19: DERIVATIVE FINANCIAL LIABILITIES HELD-FOR-TRADING (in HUF mn)

Negative fair value of derivative financial liabilities held for trading by type of contracts:

	2019	2018
Held-for-trading interest rate swaps	46,717	27,956
Held-for-trading foreign exchange swaps	28,453	27,120
Held-for-trading foreign exchange forward contracts	5,561	2,982
Held-for-trading option contracts	3,128	3,631
Held-for-trading CCIRS and mark-to-market CCIRS	1,037	9,165
Held-for-trading forward rate agreements (FRA)	32	57
Held-for-trading forward security agreements	8	9
Held-for-trading other transactions	1,807	2,396
Total	**86,743**	**73,316**

NOTE 20: NEGATIVE FAIR VALUE OF DERIVATIVE FINANCIAL LIABILITIES DESIGNATED AS HEDGE ACCOUNTING (in HUF mn)

The negative fair value of derivative financial liabilities designated as fair value and as cash-flow hedge by type of contracts:

	2019	2018
Interest rate swaps designated as fair value hedge	8,839	6,458
CCIRS and mark-to-market CCIRS designated as fair value hedge	1,870	352
Interest rate swaps designated as cash-flow hedge	–	523
MIRS designated as cash-flow hedge	–	74
Total	**10,709**	**7,407**

NOTE 21: OTHER LIABILITIES* (in HUF mn)

	2019	2018
Provision on off-balance sheet commitments and contingent liabilities	102,449	83,014
Liabilities from investment services	101,417	67,976
Liabilities connected to Cafeteria benefits	80,003	37,187
Accrued expenses	58,425	40,120
Accounts payable	50,974	35,562
Current income tax payable	35,928	21,402
Clearing, settlement and suspense accounts	35,393	38,797
Salaries and social security payable	24,937	25,741
Liabilities from card transactions	20,563	46,430
Advances received from customers	15,555	12,246
Insurance technical reserve	10,396	4,312
Liabilities due to refunding assets	9,133	9,417
Liabilities due to short positions	7,040	13,784
Liabilities related to housing loans	6,055	8,037
Giro clearing accounts	3,935	6,888
Provision due to CHF loans conversion at foreign subsidiaries	1,985	2,415
Loans from government	1,291	878
Dividend payable	108	48
Liabilities connected to loans for collection	–	806
Other	62,881	43,747
Total other liabilities	**628,468**	**498,807**
Fair value of derivative financial liabilities designated as hedge accounting	10,709	7,407
Deferred tax liabilities	29,195	6,865
Subtotal	**39,904**	**14,272**
Total	**668,372**	**513,079**

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

	2019	2018
Commitments and guarantees given	48,662	28,144
Pending legal issues and tax litigation	28,650	25,930
Pensions and other post employment defined benefit obligations	11,253	12,236
Restructuring	2,626	799
Other long-term employee benefits	2,343	1,690
Provision due to CHF loans conversion at foreign subsidiaries	1,985	2,415
Other provision	8,915	14,215
Total	**104,434**	**85,429**

The movements of provision for impairment on off-balance sheet commitments and contingent liabilities can be summarized as follows:

	2019	2018
Balance as at 1 January	**85,429**	**81,857**
Effect of transition due to IFRS 9 application	–	4,989
Provision for the period	62,115	49,032
Release of provision for the period	(50,462)	(50,873)
Use of provision	(4,266)	(1,457)
Change due to acquisition	9,698	–
Transfer due to IFRS 5	(1,355)	–
Foreign currency translation differences	3,275	1,881
Closing balance	**104,434**	**85,429**

* Other liabilities – except deferred tax liabilities and fair value of derivative financial liabilities designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Unrealised gains/losses on derivative financial instruments is recovering in accordance with their maturity. Besides the total other liabilities mentioned above, which are expected to be recovered or settled more than twelve months after the reporting period are the following: accrued contractual liabilities, compulsory pension reserve, loans from government and liabilities from preferential dividend shares.

** See Note 20.

*** See Note 31.

NOTE 22: SUBORDINATED BONDS AND LOANS (in HUF mn)

	2019	2018
Within one year:		
In foreign currency	2,700	458
Over one year:		
In foreign currency	247,238	80,971
Total	**249,938**	**81,429**
Types of subordinated bonds and loans		
Debt securities issued	244,924	76,627
Deposits	5,014	4,802
Total	**249,938**	**81,429**

Interest rates on subordinated bonds and loans are as follows:

	2019	2018
Denominated in foreign currency	2.60%-5.00%	2.68%-5.00%
Average interest rates on subordinated bonds and loans	2.82%	2.76%

Subordinated bonds and loans can be detailed as follows:

Type	Nominal value	Date of issuance	Date of maturity	Issue price	Interest conditions	Interest rate as at 31 December 2019
Subordinated bond	EUR 234.4 million	07/11/2006	Perpetual	99.375%	Three-month EURIBOR + 3%, variable after year 10 (payable quarterly)	2.600%
Subordinated bond	EUR 500 million	15/07/2019	15/07/2029	99.738%	Fixed 2.875% annual in the first 5 years and callable after 5 years, variable after year 5 (payable annually) calculated as a sum of the initial margin (320 basis point) and the 5 year mid-swap rate prevailing at the end of the 5 year	2.875%
Subordinated loan	USD 17.0 million	05/06/2018	05/06/2025	100.00%	Bullet repayment, once at the end of the loan agreement	5.00%

NOTE 23: SHARE CAPITAL (in HUF mn)

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

NOTE 24: RETAINED EARNINGS AND RESERVES* (in HUF mn)

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

The retained earnings and reserves according to IFRS contains the retained earnings (HUF 632,436 million and HUF 592,917 million)

* See more details about the Consolidated Statement of Comprehensive Income and about the Consolidated statement of Changes in equity on page 101 and 102.

and reserves (HUF 1,686,827 million and HUF 1,271,287 million) as at 31 December 2019 and 2018 respectively. The reserves include mainly the option reserve, other reserves, the fair value adjustment of financial instruments at fair value through other comprehensive income, fair value of hedge transactions, additional reserves of Income Certificates Exchangeable for Shares ("ICES"), changes in equity accumulated in the previous years at the subsidiaries and due to consolidation as well as translation of foreign exchange differences.

In the Consolidated Financial Statements the Group recognizes the non-monetary items at historical cost. The difference between the historical cost of the non-monetary items in forint amount and the translated foreign currencies into the presentation currency using the exchange rate at the balance sheet date, is presented in the shareholders' equity as a translation difference. The accumulated amounts of exchange differences were HUF (72,404) million and HUF (151,439) million as at 31 December 2019 and 2018 respectively.

Share capital

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

Share-based payment reserve

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

Retained earnings

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

Put option reserve

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

Other comprehensive income

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

	2019	2018
Retained earnings	632,436	592,917
Capital reserve	52	52
Option reserve	(55,468)	(55,468)
Other reserves	87,035	79,829
Fair value of financial instruments measured at fair value through other comprehensive income	68,314	39,670
Share-based payment reserve	39,179	35,632
Fair value of derivative financial instruments designated as cash-flow hedge	2	(9)
Net investment hedge in foreign operations	(18,814)	(16,288)
Extra reserves	89,935	89,935
Net profit for the period	412,241	318,233
Changes in equity accumulated in the previous years at the subsidiaries and due to consolidation	1,136,755	931,140
Foreign currency translation differences	(72,404)	(151,439)
Retained earnings and other reserves	**2,319,263**	**1,864,204**

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

NOTE 25: TREASURY SHARES (in HUF mn)

	2019	2018
Nominal value (Ordinary shares)	1,778	1,848
Carrying value at acquisition cost	60,931	67,999

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

Change in number of shares	2019	2018
Number of shares as at 1 January	**18,475,833**	**18,274,010**
Additions	906,194	1,358,018
Disposals	(1,602,182)	(1,156,195)
Closing number of shares	**17,779,845**	**18,475,833**

Change in carrying value	2019	2018
Balance as at 1 January	**67,999**	**63,289**
Additions	8,887	14,238
Disposals	(15,955)	(9,528)
Closing balance	**60,931**	**67,999**

NOTE 26: NON-CONTROLLING INTEREST (in HUF mn)

	2019	2018
Balance as at 1 January	**2,452**	**3,465**
Increase due to business combination	1,736	–
Non-controlling interest included in net profit for the period	341	89
Changes due to ownership structure	(10)	(11)
Effect of transition due to IFRS 9 application	–	(127)
Purchase of non-controlling interest	–	(752)
Foreign currency translation difference	437	(212)
Closing balance	**4,956**	**2,452**

NOTE 27: INTEREST INCOMES AND EXPENSES (in HUF mn)

	2019	2018
Interest income calculated using the effective interest method from/on		
Loans	614,051	509,829
Securities at amortized cost	62,468	59,205
Securities at fair value through other comprehensive income	46,521	37,912
Finance lease receivables	40,914	33,072
Placements with other banks	9,777	7,525
Banks and balances with the National Banks	2,037	421
Liabilities (negative interest expense)	1,532	(320)
Non-trading securities mandatorily at fair value through profit or loss	202	6
Subtotal	**777,502**	**647,650**
Income similar to interest income from		
Swap deals related to placements with other banks	78,113	64,874
Swap deals related to credit institutions	28,710	22,239
Rental income	9,819	11,266
Subtotal	**116,642**	**98,379**
Total interest income	**894,144**	**746,029**
Interest expense due to/from/on		
Swaps related to banks, National Governments and to deposits from the National Banks	81,261	39,175
Deposits from customers	59,242	46,588
Swaps related to deposits from customers	24,789	22,304
Banks, National Governments and on deposits from the National Banks	10,321	9,067
Issued securities	6,749	6,310
Depreciation of assets subject to operating lease, and investment properties	6,147	7,308
Subordinated and supplementary bonds and loans	4,743	2,169
On assets (negative interest income)	2,036	(326)
Leases	1,652	–
Other	155	49
Total interest expense	**197,095**	**132,644**

NOTE 28: LOSS ALLOWANCES AND PROVISION (in HUF mn)

	2019	2018
Loss allowance on loans		
Loss allowance for the period	390,182	338,701
Release of loss allowance	(285,570)	(258,408)
Income from loan recoveries	(60,735)	(55,880)
Modification gains on loans measured at amortized cost	150	(1,941)
	44,027	**22,472**
Loss allowance on finance lease	4,440	–
Losses on finance lease	888	–
	49,355	**22,472**
(Release of loss allowance)/Loss allowance on placements		
Allowance for the period	3,561	2,879
Release of allowance	(3,650)	(2,683)
Gains on placements due to write-off and sale	(146)	(52)
	(235)	**144**
Release of loss allowance on securities at fair value through other comprehensive income and on securities at amortized cost		
Allowance for the period	746	175
Release of allowance	(755)	(782)
	(9)	**(607)**
(Release of loss allowance)/Loss allowance of intangible, tangible assets subject to operating lease and of investment properties		
Allowance for the period	2,246	533
Release of allowance	(2,526)	(207)
	(280)	**326**
Provision for commitments and guarantees given		
Provision for the period	49,832	43,149
Release of provision	(41,837)	(36,668)
	7,995	**6,481**
Loss allowances and provisions	**56,826**	**28,816**

NOTE 29: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn)

Income from fees and commissions:

	2019	2018
Fees and commissions related to lending*	**25,687**	**22,134**
Deposit and account maintenance fees and commissions	166,483	142,459
Fees and commissions related to the issued bank cards	76,247	59,242
Fees related to cash withdrawal	40,206	34,169
Fees and commissions related to fund management	35,354	20,233
Fees and commissions related to security trading	24,293	19,442
Insurance fee income	14,670	14,946
Other	30,408	20,457
Fees and commissions from contracts with customers	**387,661**	**310,948**
Total	**413,348**	**333,082**

Fee type	Nature and timing of obligation settlement, and the significant payment terms	Revenue recognition under IFRS 15
Deposit and account maintenance fees and commissions and fees related to cash withdrawal	The Group 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, 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 Group 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 Group 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 place or charged monthly at the end of the month.
Fees and commission related to the issued bank cards	The Group 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 for those cards which are in use by the clients. 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 Group 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 Group 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 place or charged monthly at the end of the month.
Fees and commissions related to security trading	The Group provides its clients 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 place.
Fees and commissions related to fund management	Fees from fund management services provided to investment funds and from portfolio management provided to insurance companies, funds. The fee incomes are calculated on the basis of market value of the portfolio and by the fee rates determined in the contracts about portfolio management.	
Net insurance fee income	Due to the fact that the Group rarely provides 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 %.	
Other	Fees that are not significant in the Group total income are included in Other fees category. Such fees are safe lease, special procedure fee, account rent 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 were met, usually 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 place.

* Such kinds of fees and commissions related to lending which aren't included in the effective interest rate calculation due to their nature.

Expense from fees and commissions:

	2019	2018
Fees and commissions related to issued bank cards	29,528	23,134
Interchange fees	15,405	10,419
Fees and commissions related to deposits	5,422	4,453
Cash withdrawal transaction fees	3,642	2,541
Fees and commissions paid on loans	3,146	3,640
Fees and commissions related to security trading	3,132	3,076
Insurance fees	1,122	4,018
Postal fees	975	898
Fees and commissions related to collection of loans	948	693
Money market transaction fees and commissions	73	136
Other	9,510	5,938
Total	**72,903**	**58,946**
Net profit from fees and commissions	**340,445**	**274,136**

NOTE 30: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn)

	2019	2018
Other operating income		
Negative goodwill due to acquisition	80,667	–
Gains on transactions related to property activities	8,230	1,890
Rental income	1,308	–
Gains on transactions related to insurance activity	848	673
Non-repayable assets received	174	575
Gains on sale of receivables	–	5,894
Other income from non-financial activities	19,866	16,840
Total	**111,093**	**25,872**
Other operating expenses		
Financial support for sport association and organization of public utility	9,568	7,123
Provision/(Release of provision) for off-balance sheet commitments and contingent liabilities	3,827	(6,537)
Loss allowance on other assets	6,255	861
Non-repayable assets contributed	3,627	2,342
Loss allowance on investments*	3,342	1,232
Impairment on tangible and intangible assets	2,358	2,262
Expenses from losses due to foreign currency loan conversion at foreign subsidiaries	274	377
Fine imposed by Competition Authority	143	1,441
Release of provision due to foreign currency loan conversion at foreign subsidiaries	(169)	(1,700)
Other	15,533	11,772
Total	**44,758**	**19,173**
Other administrative expenses		
Personnel expenses		
Wages	214,409	187,213
Taxes related to personnel expenses	40,902	37,845
Other personnel expenses	21,443	19,542
Subtotal	**276,754**	**244,600**
Depreciation and impairment of tangible, intangible assets and goodwill impairment	**81,935**	**56,100**
Other administrative expenses		
Taxes, other than income tax**	96,932	86,146
Services	88,579	66,510
Professional fees	38,362	32,303
Administration expenses	32,041	36,538
Advertising	18,794	17,519
Rental fees	7,820	20,807
Subtotal	**282,528**	**259,823**
Total	**641,217**	**560,523**

* See details in Note 9.

** Special tax of financial institutions was paid by the Group in the amount of HUF 12,043 million and HUF 11,514 million for the year 2019 and 2018 respectively, recognized as an expense thus decreased the corporate tax base. For the year ended 31 December 2019 financial transaction duty was paid by the Bank in the amount of HUF 61 billion.

The table below contains the detailing of the fees for non-audit services:

Deloitte Auditing and Consulting Ltd.	2019	2018
OTP Bank – annual audit – separate financial statements	53	52
OTP Bank – annual audit – consolidated financial statements	14	13
Other audit services based on statutory provisions to OTP Group members	970	473
Other services providing assurance	4	9
Other non-audit services	92	27
Total	**1,133**	**574**

Deloitte Network	2019	2018
Audit based on statutory provisions	779	722
Other services providing assurance	27	2
Tax consulting services	46	182
Other non-audit services	710	550
Total	**1,562**	**1,456**

NOTE 31: INCOME TAXES (in HUF mn)

The Group is presently liable for income tax at rates between 9% and 35% of taxable income.

Deferred tax is calculated at the income tax rate of 9% in Hungary and Montenegro, 10% in Bulgaria, 12% in Moldova, 12.5% in Cyprus, 15% in Serbia and Albania, 16% in Romania, 18% in Ukraine and Croatia, 19% in Slovenia, 20% in Russia, 25% in the Netherlands and 35% in Malta.

The breakdown of the income tax expense is:

	2019	2018
Current tax expense	42,591	22,482
Deferred tax expense	7,311	11,518
Total	**49,902**	**34,000**

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

	2019	2018
Balance as at 1 January	**13,904**	**20,148**
Effect of transition due to IFRS 9 application	–	2,678
Deferred tax expense in profit or loss	(7,311)	(11,357)
Deferred tax related to items recognized directly in equity and in Comprehensive Income	(877)	2,780
Due to acquisition of subsidiary	(9,068)	–
Foreign currency translation difference	700	(345)
Closing balance	**(2,652)**	**13,904**

A breakdown of the deferred tax assets are as follows::

	2019	2018
Loss allowance on granted loans	12,187	2,553
Premium and discount amortization on bonds	4,975	2,838
Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments	3,948	3,714
Loss allowance/impairment on other financial and non-financial assets	3,238	2,334
Fair value adjustment of securities at fair value through profit or loss and through other comprehensive income	2,766	2,335
Difference in depreciation and amortization	1,074	925
Tax accrual caused by negative taxable income	902	2,319
Temporary differences arising on consolidation	827	–
Fair value adjustment of derivative financial instruments	553	19
Difference due to IFRS 9	483	505
Unused tax allowance	398	5,348
Adjustment from effective interest rate method	254	465
Amounts unenforceable by tax law	210	13
Difference in accounting for leases	156	32
Difference due to transition to IFRS	–	4,748
Refundable tax in accordance with Acts on Customer Loans	–	245
Other	6,825	3,752
Deferred tax asset	**38,796**	**32,145**

A breakdown of the deferred tax liabilities are as follows:

	2019	2018
Fair value adjustment of securities at fair value through profit or loss and through other comprehensive income	(13,798)	(7,435)
Deferred tax due to acquisition	(9,720)	(4,461)
Difference in depreciation and amortization	(9,200)	(3,127)
Premium and discount amortization on bonds	(2,588)	(1)
Temporary differences arising on consolidation	(598)	(25)
Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments	(408)	(408)
Amounts unenforceable by tax law	(104)	–
Loss allowance/impairment on other financial and non-financial assets	(75)	(73)
Difference due to IFRS 9	(70)	–
Loss allowance on granted loans	(23)	–
Fair value adjustment of derivative financial instruments	–	(850)
Difference in accounting for leases	–	(631)
Difference due to transition to IFRS	–	(264)
Other	(4,864)	(966)
Deferred tax liabilities	**(41,448)**	**(18,241)**
Net deferred tax (liability)/asset (net amount presented in the statement of financial positions)	**(2,652)**	**13,904**
Deferred tax assets	26,543	20,769
Deferred tax liabilities	(29,195)	(6,865)

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

	2019	2018
Profit before income tax	467,152	352,908
Income tax expense at statutory tax rates	55,812	43,254
Income tax adjustments due to permanent differences are as follows		
Deferred use of tax allowance	5,046	6,122
Share-based payment	319	342
Permanent differences from unused tax losses	–	118
Difference due to transition to IFRS	–	(422)
Amounts unenforceable by tax law	(58)	(17)
Use of tax allowance in the current year	(6,975)	(4,835)
Other	(4,242)	(10,562)
Income tax	**49,902**	**34,000**
Effective tax rate	**10.68%**	**9.63%**

NOTE 32: LEASE (in HUF mn)

The Group as a lessee

At initial application of IFRS 16 the Group as lessee chose the modified retrospective approach (see Note 2.17), so there are no comparative figures for 31 December 2018.

Amounts recognised at initial application:

	1 January 2019
Lease liability	45,460
Prepaid or accrued lease payments as at 31 December 2018	298
Right-of-use asset	**45,758**
therein:	
Property	45,438
Office equipment and vehicles	320
Cumulative impact recognized as an adjustment to the equity at the date of initial application	–

Average weighted amount of the implicit interest rate/incremental borrowing rate applied as at 1 January 2019 to recognize the lease liabilities: ~3.68%.

Amounts recognised in profit and loss:

	2019
Interest expense on lease liabilities	1,652
Expense relating to short-term leases	5,923
Expense relating to leases of low value assets	382
Expense relating to variable lease payments not included in the measurement of lease liabilities	4
Income from subleasing right-of-use assets	6
Gains or losses arising from sale and leaseback transactions	–

Right-of-use assets by class of underlying assets:

	Property	Office equipment and vehicles	Total
Depreciation expense of right-of-use assets	13,272	1,008	**14,280**
Additions to right-of-use assets	21,081	842	**21,923**
Carrying amount of right-of-use assets at the end of the reporting period	52,038	912	**52,950**

The total cash outflow for leases was 20,603 HUF million in 2019.

An analysis of the changes in the gross value and amortization of the right-of-use assets for the year ended 31 December 2019 is as follows:

Gross value	Property	Office equipment and vehicles	Total
Balance as at 1 January	**45,438**	**320**	**45,758**
Additions due to new contracts	21,081	842	**21,923**
Derecognition due to expired contracts	(3,901)	(20)	**(3,921)**
Changes from reassessment and modification	311	(5)	**306**
Foreign currency translation difference	3,000	54	**3,054**
Closing balance	**65,929**	**1,191**	**67,120**

Amortization	Property	Office equipment and vehicles	Total
Balance as at 1 January	–	–	–
Depreciation for the period	13,272	1,008	**14,280**
Derecognition due to expired contracts	(308)	(5)	**(313)**
Changes from reassessment and modification	(33)	4	**(29)**
Foreign currency translation difference	960	(728)	**232**
Closing balance	**13,891**	**279**	**14,170**

Leasing liabilities by maturities:

Within one year	9,789
Over one year	44,404
Total	**54,194**

The Group as a lessor

The Group's leasing activities are most significant in Hungary, Slovenia, Bulgaria, Croatia and Ukraine. The main activity of the leasing companies is finance leasing. About half of the underlying assets are passenger cars, besides this the Group leases mainly agricultural machinery, commercial vehicles, vessels and construction machinery.

In 2019, the gross value of the Group's finance lease receivables increased by 89%, much of which is due to acquisitions in 2019.

The Group manages the risk associated with the rights held in the underlying assets by, inter alia, buy-back agreements, determining the residual values on level lower than future market values and registering pledge on the underlying asset.

Amounts receivable under finance leases:

	2019*
In less than 1 year	317,799
Between 1 and 2 years	238,249
Between 2 and 3 years	196,142
Between 3 and 4 years	139,292
Between 4 and 5 years	93,361
More than 5 years	49,639
Total receivables from undiscounted lease payments	**1,034,482**
Unguaranteed residual values	401
Gross investment in the lease	**1,034,883**
Less: unearned finance income	(52,030)
Present value of minimum lease payments receivable	**982,853**
Loss allowance	(13,590)
Net investment in the lease	**969,263**

Result from finance leases:

	2019*
Selling profit or loss	(78)
Finance income on the net investment in the lease	40,914
Income relating to variable lease payments not included in the measurement of the net investment in the lease	–

* Amounts receivables under finance leases were recorded in loans at amortized cost at the amount of net investment in the lease of the Group, with no separate detailed disclosure in 2018. As such, there are no comparative figures for prior period 2018.

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

	2019	2018
Balance as at 1 January	**9,005**	**7,516**
Loss allowance for the period	13,415	**7,345**
Release of loss allowance	(8,535)	**(5,163)**
Use of loss allowance	(809)	**(515)**
Partial write-off	–	**(477)**
Foreign currency translation difference	514	**299**
Closing balance	**13,590**	**9,005**

Amounts receivable under operating leases:

	2019
In less than 1 year	11,990
Between 1 and 2 years	6,928
Between 2 and 3 years	5,033
Between 3 and 4 years	3,955
Between 4 and 5 years	1,781
More than 5 years	491
Total receivables from undiscounted lease payments	**30,178**
Result from operating leases	
Lease income	11,127
Therein lease income relating to variable lease payments that do not depend on an index or a rate	–

NOTE 33: 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 Group. The most significant risks the Group faces include:

33.1 Credit risk

The Group 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 Group 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 sub-limits 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 principal repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is managed by obtaining collateral, corporate and personal guarantees.

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 (AC, 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. It should be at least one scenario in which the entity anticipates 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.

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 Headquarter 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 are responsible for parameter estimations/updates, macroeconomic scenarios are calculated by OTP Bank Headquarter for each subsidiary and each parameter. Based on the consensus proposal of Local Risk Management and OTP Bank Headquarter, the Group Reserve Committee decides on the modification of parameters (all parameters for impairment calculation).

At least on a yearly basis the impairment parameters should be backtested as well.

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.

33.1.1 Financial instruments by stages

Gross carrying amount and accumulated loss allowance of financial assets at amortized cost and of interest bearing securities at fair value through other comprehensive income and financial commitments and provision on them by stages:

As at 31 December 2019:

	Carrying amount/ Exposure	Stage 1
Placements with other banks	**410,079**	410,443
Mortgage loans	**3,144,032**	2,930,435
Loans to medium and large corporates	**4,176,545**	3,949,756
Consumer loans	**2,831,310**	2,664,985
Loans to micro and small enterprises	**816,284**	742,009
Car-finance loans	**534,339**	491,689
Municipal loans	**343,750**	343,370
Loans at amortized cost	**11,846,260**	11,122,244
Interest bearing securities at fair value through other comprehensive income**	**2,386,632**	2,386,632
Securities at amortized cost	**1,968,072**	1,970,083
Financial assets total	**16,611,043**	**15,889,402**
Loan commitments given	**2,955,152**	2,937,741
Financial guarantees given	**641,925**	635,410
Other commitments given	**601,412**	600,052
Financial liabilities total	**4,198,489**	**4,173,203**

As at 31 December 2018:

	Carrying amount/ Exposure	Stage 1
Placements with other banks	**420,606**	419,468
Mortgage loans	**2,399,184**	2,121,746
Loans to medium and large corporates	**2,651,852**	2,432,280
Consumer loans	**1,833,060**	1,744,664
Loans to micro and small enterprises	**582,012**	494,635
Car-finance loans	**296,684**	277,750
Municipal loans	**269,276**	269,034
Loans at amortized cost	**8,032,068**	7,340,109
Interest bearing securities at fair value through other comprehensive income**	**1,853,186**	1,853,186
Securities at amortized cost	**1,740,520**	1,742,754
Financial assets total	**12,046,380**	**11,355,517**
Loan commitments given	**2,008,387**	1,988,798
Financial guarantees given	**427,093**	418,032
Other commitments given	**531,766**	521,045
Financial liabilities total	**2,967,246**	**2,927,875**

* Stage 3 includes POCI category too.

** Interest bearing securities at fair value through other comprehensive income is recognized in the Consolidated statement of financial position as at fair value (see in Note 7). Loss allowances for securities at fair value through other comprehensive income categorized in stage 1 and stage 2 is recognized in the Other comprehensive income which is included in the accumulated loss allowance of this table.

Gross carrying amount/Notional value			Accumulated loss allowance/Provision			
Stage 2	Stage 3*	Total	Stage 1	Stage 2	Stage 3*	Total
147	29	**410,619**	513	5	22	**540**
138,118	230,043	**3,298,596**	7,936	5,213	141,415	**154,564**
181,564	210,485	**4,341,805**	40,367	16,200	108,693	**165,260**
209,280	281,845	**3,156,110**	57,797	39,956	227,047	**324,800**
68,224	51,382	**861,615**	7,788	5,962	31,581	**45,331**
42,058	14,264	**548,011**	2,639	1,610	9,423	**13,672**
3,257	403	**347,030**	2,788	267	225	**3,280**
642,501	788,422	**12,553,167**	119,315	69,208	518,384	**706,907**
–	–	**2,386,632**	2,927	–	–	**2,927**
–	728	**1,970,811**	2,014	–	725	**2,739**
642,648	**789,179**	**17,321,229**	**124,769**	**69,213**	**519,131**	**713,113**
37,380	4,447	**2,979,568**	21,254	1,497	1,665	**24,416**
11,864	5,740	**653,014**	6,927	974	3,188	**11,089**
4,478	8,110	**612,640**	8,316	257	2,655	**11,228**
53,722	**18,297**	**4,245,222**	**36,497**	**2,728**	**7,508**	**46,733**

Gross carrying amount/Notional value			Accumulated loss allowance/Provision			
Stage 2	Stage 3*	Total	Stage 1	Stage 2	Stage 3*	Total
1,606	29	**421,103**	463	12	22	**497**
184,617	275,484	**2,581,847**	3,415	8,478	170,770	**182,663**
182,051	194,608	**2,808,939**	23,083	16,719	117,285	**157,087**
127,858	235,098	**2,107,620**	56,524	25,503	192,533	**274,560**
78,411	63,866	**636,912**	5,379	7,152	42,369	**54,900**
17,122	16,108	**310,980**	1,344	818	12,134	**14,296**
1,655	445	**271,134**	1,634	35	189	**1,858**
591,714	785,609	**8,717,432**	91,379	58,705	535,280	**685,364**
–	–	**1,853,186**	3,098	–	–	**3,098**
–	705	**1,743,459**	2,234	–	705	**2,939**
593,320	**786,343**	**12,735,180**	**97,174**	**58,717**	**536,007**	**691,898**
33,881	3,551	**2,026,230**	14,941	2,082	820	**17,843**
10,868	6,639	**435,539**	5,009	572	2,865	**8,446**
11,974	511	**533,530**	1,507	167	90	**1,764**
56,723	**10,701**	**2,995,299**	**21,457**	**2,821**	**3,775**	**28,053**

33.1.2 Movement table of loss allowance/provision on financial instruments

Movement of loss allowance on financial assets at amortized cost and on interest bearing securities at fair value through other comprehensive income and of provision of financial commitments:

As at 31 December 2019:

	Opening balance	Increases due to origination and acquisition	Decreases due to derecognition
Stage 1	**97,174**	**107,450**	**(26,719)**
Placements with other banks	463	3,975	(144)
Loans at amortized cost	91,379	101,861	(25,623)
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	5,332	1,614	(952)
Stage 2	**58,717**	**19,549**	**(14,884)**
Placements with other banks	12	2	–
Loans at amortized cost	58,705	19,547	(14,884)
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	–	–	–
Stage 3*	**536,007**	**28,353**	**(75,876)**
Placements with other banks	22	–	–
Loans at amortized cost	535,280	27,628	(75,094)
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	705	725	(782)
Loss allowance on financial assets total	**691,898**	**155,352**	**(117,479)**
Loan commitments and financial guarantees given – stage 1	21,457	16,460	(4,010)
Loan commitments and financial guarantees given – stage 2	2,821	1,188	(92)
Loan commitments and financial guarantees given – stage 3	3,775	3,283	(2,138)
Financial liabilities total	**28,053**	**20,931**	**(6,240)**

As at 31 December 2018:

	Opening balance	Increases due to origination and acquisition	Decreases due to derecognition
Stage 1	**92,280**	**72,512**	**(17,906)**
Placements with other banks	312	1,204	(9)
Loans at amortized cost	86,748	69,669	(17,670)
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	5,220	1,639	(227)
Stage 2	**40,244**	**7,773**	**(3,602)**
Placements with other banks	1	–	–
Loans at amortized cost	40,163	7,773	(3,602)
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	80	–	–
Stage 3*	**653,886**	**46,631**	**(72,208)**
Placements with other banks	24	–	(2)
Loans at amortized cost	653,177	45,926	(72,206)
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	685	705	–
Loss allowance on financial assets total	**786,410**	**126,916**	**(93,716)**
Loan commitments and financial guarantees given – stage 1	14,198	4,908	(2,018)
Loan commitments and financial guarantees given – stage 2	1,689	1,447	(33)
Loan commitments and financial guarantees given – stage 3	4,433	2,631	(388)
Financial liabilities total	**20,320**	**8,986**	**(2,439)**

* Stage 3 includes POCI category too.

Transfers between stages (net)	Changes due to change in credit risk (net)	Changes due to modifications without derecognition (net)	Decrease in loss allowance account due to	Other adjustments	Closing balance
(70,791)	**16,615**	**(5,070)**	**(960)**	**7,070**	**124,769**
(1)	(1,165)	9	–	(2,624)	**513**
(70,785)	19,848	(5,079)	(960)	8,674	**119,315**
(5)	(2,068)	–	–	1,020	**4,941**
(2,766)	**12,234**	**406**	**(388)**	**(3,655)**	**69,213**
1	3	–	–	(13)	**5**
(2,772)	12,236	406	(388)	(3,642)	**69,208**
5	(5)	–	–	–	**–**
73,557	**(16,754)**	**4,647**	**(79,597)**	**48,794**	**519,131**
–	–	–	–	–	**22**
73,557	(16,720)	4,647	(79,597)	48,683	**518,384**
–	(34)	–	–	111	**725**
–	**12,095**	**(17)**	**(80,945)**	**52,209**	**713,113**
192	(2,120)	(903)	(1)	5,422	**36,497**
(265)	(1,226)	55	(1)	248	**2,728**
73	2,479	(163)	(100)	299	**7,508**
–	**(867)**	**(1,011)**	**(102)**	**5,969**	**46,733**

Transfers between stages (net)	Changes due to change in credit risk (net)	Changes due to modifications without derecognition (net)	Decrease in loss allowance account due to	Other adjustments	Closing balance
(196,638)	**143,939**	**(2,247)**	**(45)**	**5,279**	**97,174**
–	(1,037)	–	–	(7)	**463**
(196,638)	146,458	(2,247)	(45)	5,104	**91,379**
–	(1,482)	–	–	182	**5,332**
78,714	**(54,101)**	**(940)**	**(132)**	**(9,239)**	**58,717**
–	13	(1)	–	(1)	**12**
78,714	(54,034)	(939)	(132)	(9,238)	**58,705**
–	(80)	–	–	–	**–**
117,924	**(185,877)**	**6,507**	**(51,530)**	**20,674**	**536,007**
–	–	–	–	–	**22**
117,924	(184,904)	6,507	(51,530)	20,386	**535,280**
–	(973)	–	–	288	**705**
–	**(96,039)**	**3,320**	**(51,707)**	**16,714**	**691,898**
913	1,846	171	–	1,439	**21,457**
(1,030)	813	(4)	–	(61)	**2,821**
117	(2,932)	(121)	–	35	**3,775**
–	**(273)**	**46**	**–**	**1,413**	**28,053**

33.1.3 Loan portfolio by countries

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

Country	2019		2018	
	Carrying amount of gross loan at amortized cost and placement with other banks portfolio	Loss allowance	Carrying amount of gross loan at amortized cost and placement with other banks portfolio	Loss allowance
Hungary	4,122,987	134,243	3,369,319	154,995
Bulgaria	2,419,203	148,053	1,435,621	126,059
Croatia	1,380,175	68,906	1,282,367	72,827
Serbia	1,215,038	23,021	367,995	18,506
Slovenia	823,611	4,025	1,291	10
Russia	812,703	159,045	658,205	131,619
Romania	747,026	41,319	622,602	37,917
Ukraine	484,678	74,650	360,652	77,470
Montenegro	333,697	20,198	169,368	30,153
Albania	152,279	3,688	–	–
Moldova	104,796	1,797	–	–
France	92,791	63	55,888	30
Slovakia	69,158	24,769	519,264	32,155
United Kingdom	47,618	1,171	46,183	1,163
Germany	46,553	189	38,102	214
Switzerland	34,232	635	51,744	292
Belgium	24,042	98	31,092	123
Cyprus	16,221	431	19,310	635
United States of America	11,471	56	23,901	42
The Netherlands	6,491	167	19,334	234
Italy	5,811	125	11,877	129
Greece	2,147	132	870	104
Austria	2,129	16	10,804	21
Spain	893	23	629	12
Norway	568	36	2,170	38
Poland	525	21	4,300	41
Czech Republic	454	24	6,175	104
Sweden	437	45	440	43
Turkey	433	46	13,148	71
Denmark	427	10	354	1
Ireland	401	118	1,006	130
Israel	384	2	247	1
Bosnia and Herzegovina	382	44	637	202
Luxembourg	347	13	122	1
Canada	222	1	3,306	1
Australia	214	1	6,811	–
Kazakhstan	73	21	107	52
Iceland	51	49	49	48
United Arab Emirates	34	24	64	55
Latvia	29	15	28	15
Japan	19	–	61	–
Egypt	14	1	90	29
Other*	3,022	156	3,002	319
Total	**12,963,786**	**707,447**	**9,138,535**	**685,861**

Loans at fair value:

Country	2018	2019
Hungary	29,732	32,745
Croatia	489	1,780
Slovenia	2,581	–
Total	**32,802**	**34,525**

* Other category as at 31 December 2019 includes e.g.: Macedonia, Malta, Algeria, Portugal, Finland, China, Republic of South-Africa, Belorussia, Armenia, Hong Kong, Syria, India, Tunisia, Jordan, Estonia, Nigeria, Brazil, Iran, Georgia, Kosovo, Morocco, Vietnam, Lithuania, South-Korea, Islamic Republic of Pakistan.

The loan portfolio increased mostly in Serbia, Bulgaria, Montenegro and Ukraine and there couldn't be noticed decreases only in Slovakia which is classified as the discontinued operation.

Their stock of loss allowances increased mostly in Serbia, Russia and Bulgaria, while the decreasing tendency was the highest in Montenegro and Hungary among the countries of the Group members.

33.1.4 Collateral

The values of collateral held by the Group by type are as follows **(total collateral).** The collateral covers loans as well as off-balance sheet exposures.

Types of collateral	2019	2018
Mortgages	11,113,017	8,650,498
Guarantees of state or organizations owned by state	486,112	118,495
Assignments (revenue or other receivables)	447,820	432,671
Guarantees and warranties	423,035	399,206
Securities	186,154	94,724
Cash deposits	130,913	94,593
Other	2,216,505	1,149,140
Total	**15,003,556**	**10,939,327**

The values of collateral held by the Group by type are as follows **(to the extent of the exposures).** The collaterals cover loans as well as off-balance sheet exposures.

Types of collateral	2019	2018
Mortgages	5,184,997	3,873,185
Guarantees of state or organizations owned by state	439,148	103,148
Assignments (revenue or other receivables)	306,863	374,541
Guarantees and warranties	303,711	270,773
Securities	137,613	61,287
Cash deposits	70,910	51,485
Other	1,331,823	657,228
Total	**7,775,065**	**5,391,647**

The coverage level of the loan portfolio (total collateral) increased by 1.23%, while the coverage level to the extent of the exposures decreased by 3.05% as at 31 December 2019.

33.1.5 Restructured loans

	2019		2018	
	Gross portfolio	Loss allowance	Gross portfolio	Loss allowance
Loans to medium and large corporations	22,418	3,948	33,218	7,863
Retail mortgage loans	16,564	1,218	23,579	3,632
Retail consumer loans	16,344	3,748	11,976	3,823
Loans to micro and small enterprises	9,344	1,728	5,356	1,171
Municipal	9	3	–	–
Other loans	305	32	299	64
Total	**64,984**	**10,677**	**74,428**	**16,553**

The forborne definition used by the Group is based on EBA (EU) 2015/227 regulation.

33.1.6 Financial instruments by rating categories*

Securities held for trading as at fair value through profit or loss as at 31 December 2019:

	Aaa	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2
Government bonds	–	–	–	–	–	–	30,070	23,715	–	11,211
Equity instruments and fund units	–	27	41	52	18	30	6	18	–	–
Discounted Treasury bills	–	–	–	–	–	–	–	12	–	–
Other interest bearing securities	123	–	–	–	602	–	8,807	5,377	1,404	3,078
Other non-interest bearing securities	–	–	–	–	–	–	–	–	–	–
Total	**123**	**27**	**41**	**52**	**620**	**30**	**38,883**	**29,122**	**1,404**	**14,289**

Non-trading securities mandatorily at fair value through profit or loss as at 31 December 2019:

	Baa1	Baa2	Baa3	Ba2	Not rated	Total
Non-trading equity instruments mandatorily at fair value through profit or loss	8,204	461	–		26,250	**34,915**
Non-trading debt instruments mandatorily at fair value through profit or loss	–	–	866		3,536	**4,402**
Debt securities designated at fair value through profit or loss	–	–	–	2,001	–	**2,001**
Total	**8,204**	**461**	**866**	**2,001**	**29,786**	**41,318**

Securities at fair value through other comprehensive income as at 31 December 2019:

	Aaa	Aa2	Aa3	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3	B1
Government bonds	12,213	7,103	–	38,730	6,536	114,296	180,974	1,013,472	–	137,353	156,000	60,930
Discounted Treasury bills	–	–	–	–	–	–	–	339,398	–	104,292	–	–
Mortgage bonds	–	–	–	–	–	65,086	–	7,841	–	–	–	–
Corporate bonds	–	–	–	–	4,700	–	3,529	34,900	4,950	892	–	–
Non-trading equity instruments	–	–	6,370	–	–	–	–	1,139	–	–	–	–
Total	**12,213**	**7,103**	**6,370**	**38,730**	**11,236**	**179,382**	**184,503**	**1,396,750**	**4,950**	**242,537**	**156,000**	**60,930**

Securities at amortized cost as at 31 December 2019:

	Aa2	Baa1	Baa3	Ba2	Ba3	B1	B3	Caa1	Not rated	Total
Government bonds	41,010	42,454	1,722,028	1,444	5,520	26,442	5,218	89,721	–	**1,933,837**
Corporate bonds	–	–	–	9,975	–	–	–	–	12,744	**22,719**
Mortgage bonds	–	–	7,739	–	–	–	–	–	–	**7,739**
Discounted treasury bills	–	–	–	–	–	–	6,516	–	–	**6,516**
Total	**41,010**	**42,454**	**1,729,767**	**11,419**	**5,520**	**26,442**	**11,734**	**89,721**	**12,744**	**1,970,811**
Provision										**(2,739)**
Total	**41,010**	**42,454**	**1,729,767**	**11,419**	**5,520**	**26,442**	**11,734**	**89,721**	**12,744**	**1,968,072**

* Moody's ratings.

Ba3	Not rated	Total
6,198	–	**71,194**
7	877	**1,076**
38	–	**50**
–	821	**20,212**
–	7,516	**7,516**
6,243	**9,214**	**100,048**

Caa1	Not rated	Total
45,005	–	**1,772,612**
–	–	**443,690**
–	24,341	**97,268**
–	24,091	**73,062**
–	32,638	**40,147**
45,005	**81,070**	**2,426,779**

33.2 Maturity analysis of assets, liabilities and liquidity risk

Liquidity risk is a measure of the extent to which the Group may be required to raise funds to meet its commitments associated with financial instruments. The Group maintains its liquidity profiles in accordance with regulations prescribed 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 Group 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 Group'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 Group must keep high quality liquidity reserves which means it can fulfill all liabilities when they fall due without material additional costs.

The liquidity reserves can be divided in two parts. There are separate decentralized liquid asset portfolios at subsidiary level and a centralized flexible liquidity pool at a 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 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 Group increased significantly while the liquidity risk exposure has decreased considerably. Currently the (over)coverage of potential liquidity risk exposure by high quality liquid assets is high. In the year ended 31 December 2019 there were no material changes in the liquidity risk management process.

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.

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.

As at 31 December 2019:

	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Banks	1,671,732	19,884	92,762	–	–	1,784,378
Placements with other banks, net of loss allowance for placements	215,621	69,283	110,150	16,206	1,257	412,517
Trading securities at fair value through profit or loss	10,398	13,875	53,442	13,277	3,203	94,195
Non-trading instruments mandatorily at fair value through profit or loss	227	–	3,309	10,935	19,920	34,391
Debt securities designated at fair value through profit or loss	–	–	2,001	–	–	2,001
Securities at fair value through other comprehensive income	327,488	572,117	952,654	486,814	40,186	2,379,259
Loans at amortized cost	1,812,719	2,560,969	4,901,264	3,962,681	29,721	13,267,354
Loans measured at fair value through profit or loss	1,085	2,421	13,616	16,807	–	33,929
Associates and other investments	–	–	–	–	29,638	29,638
Securities at amortized cost	143,579	124,320	1,097,138	530,139	–	1,895,176
Other financial assets*	109,999	3,826	3,233	405	18,748	136,211
TOTAL ASSETS	**4,292,848**	**3,366,695**	**7,229,569**	**5,037,264**	**142,673**	**20,069,049**
Amounts due to the National Governments, to the National Banks and other banks	285,734	61,745	334,553	143,979	–	826,011
Financial liabilities designated at fair value through profit or loss	677	1,928	11,606	16,651	–	30,862
Deposits from customers	12,372,360	1,301,904	1,150,368	356,471	–	15,181,103
Liabilities from issued securities	1,850	24,902	368,266	104	–	395,122
Leasing liabilities	2,210	7,647	30,540	14,087	5	54,489
Other financial liabilities*	310,060	13,998	4,246	23	9,693	338,020
Subordinated bonds and loans	2,695	–	–	249,532	–	252,227
TOTAL LIABILITIES	**12,975,586**	**1,412,124**	**1,899,579**	**780,847**	**9,698**	**17,077,834**
NET POSITION	**(8,682,738)****	**1,954,571**	**5,329,990**	**4,256,417**	**132,975**	**2,991,215**
Receivables from derivative financial instruments held for trading	2,010,040	1,583,020	698,897	441,348	–	4,733,305
Liabilities from derivative financial instruments held for trading	(2,177,179)	(1,255,660)	(776,359)	(352,566)	(234)	(4,561,998)
Net position of financial instruments held for trading	(167,139)	327,360	(77,462)	88,782	(234)	171,307
Receivables from derivative financial instruments designated as hedge accounting	2,253	94,227	151,825	156,010	–	404,316
Liabilities from derivative financial instruments designated as hedge accounting	(8,737)	(250,345)	(231,794)	(76,210)	–	(567,085)
Net position of financial instruments designated as hedge accounting	(6,484)	(156,118)	(79,969)	79,800	–	(162,771)
Net position of derivative financial instruments total	**(173,623)**	**171,242**	**(157,431)**	**168,582**	**(234)**	**8,536**
Commitments to extend credit	2,240,364	337,644	351,136	92,511	5,457	3,027,112
Bank guarantees	164,575	281,387	259,246	145,286	116,155	966,649
Confirmed letters of credit	12,587	5,887	2,147	7,433	5,242	33,296
Factoring loan commitment	228,145	–	–	–	–	228,145
Off-balance sheet commitments	**2,645,671**	**624,918**	**612,529**	**245,230**	**126,854**	**4,255,202**

* Without derivative financial instruments.

** 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 Group could be required to pay. On-demand deposits are presented in the earliest (within 3 month) period category, however based on the Management's discretion the Group has got appropriate liquidity reserves as maintenance and management of liquidity risk.

As at 31 December 2018:

	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Banks	1,545,507	1,765	–	–	–	1,547,272
Placements with other banks, net of loss allowance for placements	217,194	151,072	32,676	23,305	388	424,635
Trading securities at fair value through profit or loss	19,043	4,922	11,855	7,079	20,852	63,751
Non-trading instruments mandatorily at fair value through profit or loss	1,184	–	–	3	5,132	6,319
Securities at fair value through other comprehensive income	257,993	412,482	875,882	276,358	25,681	1,848,396
Loans at amortized cost	1,021,119	1,978,693	2,764,680	2,740,366	5,792	8,510,650
Loans measured at fair value through profit or loss	1,071	3,178	12,770	17,506	–	34,525
Associates and other investments	–	–	–	–	17,591	17,591
Securities at amortized cost	60,240	119,592	871,365	610,122	–	1,661,319
Other financial assets*	54,275	35	1	–	193	54,504
TOTAL ASSETS	**3,177,626**	**2,671,739**	**4,569,229**	**3,674,739**	**75,629**	**14,168,962**
Amounts due to the National Governments, to the National Banks and other banks	102,257	43,600	145,367	69,261	–	360,485
Financial liabilities designated at fair value through profit or loss	576	2,757	10,418	18,480		32,231
Deposits from customers	9,995,997	943,409	211,109	141,113	–	11,291,628
Liabilities from issued securities	41,642	6,722	192,865	177,569	–	418,798
Other financial liabilities*	141,373	333	–	6	967	142,679
Subordinated bonds and loans	719	1,693	9,060	69,961	–	81,433
TOTAL LIABILITIES	**10,282,564**	**998,514**	**568,819**	**476,390**	**967**	**12,327,254**
NET POSITION	**(7,104,938)****	**1,673,225**	**4,000,410**	**3,198,349**	**74,662**	**1,841,708**
Receivables from derivative financial instruments held for trading	1,330,293	396,708	340,219	257,349	–	2,324,569
Liabilities from derivative financial instruments held for trading	(1,631,984)	(691,221)	(424,756)	(513,369)	–	(3,261,330)
Net position of financial instruments held for trading	(301,691)	(294,513)	(84,537)	(256,020)	–	(936,761)
Receivables from derivative financial instruments designated as hedge accounting	27,095	91,548	241,913	45,726	–	406,282
Liabilities from derivative financial instruments designated as hedge accounting	(26,821)	(76,655)	(438,482)	(60,192)	–	(602,150)
Net position of financial instruments designated as hedge accounting	274	14,893	(196,569)	(14,466)	–	(195,868)
Net position of derivative financial instruments total	**(301,417)**	**(279,620)**	**(281,106)**	**(270,486)**	**–**	**(1,132,629)**
Commitments to extend credit	894,592	1.041,823	210,537	40,667	–	2,187,619
Bank guarantees	195,512	173,734	132,467	96,381	2,184	600,278
Off-balance sheet commitments	**1,090,104**	**1,215,557**	**343,004**	**137,048**	**2,184**	**2,787,897**

* Without derivative financial instruments.

** 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 Group could be required to pay. On-demand deposits are presented in the earliest (within 3 month) period category, however based on the Management's discretion the Group has got appropriate liquidity reserves as maintenance and management of liquidity risk.

33.3 Net foreign currency position and foreign currency risk

As at 31 December 2019:

	USD	EUR	CHF	Others	Total
Assets	599,946	5,532,766	72,366	5,701,836	11,906,914
Liabilities	(708,409)	(4,808,619)	(75,407)	(4,639,952)	(10,232,387)
Derivative financial instruments	182,049	(735,690)	(755)	(116,723)	(671,119)
Net position	**73,586**	**(11,543)**	**(3,796)**	**945,161**	**1,003,408**

As at 31 December 2018:

	USD	EUR	CHF	Others	Total
Assets	519,763	3,340,594	71,914	3,960,318	7,892,589
Liabilities	(567,176)	(2,855,678)	(53,833)	(3,020,425)	(6,497,112)
Derivative financial instruments	62,014	(355,835)	(20,117)	(27,253)	(341,191)
Net position	**14,601**	**129,081**	**(2,036)**	**912,640**	**1,054,286**

The table above provides an analysis of the main foreign currency exposures of the Group. The remaining foreign currencies are shown within 'Others'. 'Others' category contains mainly foreign currencies in RON, RSD, HRK, UAH, RUB, BGN, ALL and MDL. The Group monitors its foreign exchange position for compliance with the regulatory requirements of the National Banks and its own limit system established in respect of limits on open positions. The measurement of the open foreign currency position of the Group involves monitoring the "VaR" limit on the foreign exchange exposure of the Group.

33.4 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 interest bearing assets and liabilities of the Group 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 Group 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 Group. 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.

As at 31 December 2019:

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
ASSETS															
Cash, amounts due from banks and balances with the National Banks	**41,319**	**576,425**	**2,106**	**7,513**	**–**	**18,818**	**–**	**8,690**	**–**	**15,205**	**222,043**	**892,259**	**265,468**	**1,518,910**	**1,784,378**
fixed rate	40,555	534,313	2,102	7,513	–	18,818	–	8,690	–	15,205	–	–	42,657	584,539	627,196
variable rate	764	42,112	4	–	–	–	–	–	–	–	–	–	768	42,112	42,880
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	222,043	892,259	222,043	892,259	1,114,302
Placements with other banks, net of allowance for placements losses	**4,385**	**106,884**	**40,321**	**34,598**	**1,988**	**33,702**	**98,889**	**–**	**19,457**	**7,076**	**18,131**	**44,648**	**183,171**	**226,908**	**410,079**
fixed rate	4,385	75,852	40,321	34,597	903	26,166	98,889	–	19,457	6,254	–	–	163,955	142,869	306,824
variable rate	–	31,032	–	1	1,085	7,536	–	–	–	822	–	–	1,085	39,391	40,476
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	18,131	44,648	18,131	44,648	62,779
Trading instruments at fair value through profit or loss	**650**	**3,942**	**124**	**5,929**	**4,497**	**12,483**	**4,400**	**21,646**	**10,571**	**27,214**	**7,542**	**1,050**	**27,784**	**72,264**	**100,048**
fixed rate	18	3,927	1	5,529	4,497	12,483	4,400	21,646	10,571	27,214	–	–	19,487	70,799	90,286
variable rate	632	15	123	400	–	–	–	–	–	–	–	–	755	415	1,170
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	7,542	1,050	7,542	1,050	8,592
Non-trading instruments mandatorily at fair value through profit or loss	**–**	**–**	**–**	**25**	**–**	**866**	**–**	**–**	**–**	**3,511**	**27,810**	**7,105**	**27,810**	**11,507**	**39,317**
fixed rate	–	–	–	–	–	866	–	–	–	3,511	–	–	–	4,377	4,377
variable rate	–	–	–	25	–	–	–	–	–	–	–	–	–	25	25
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	27,810	7,105	27,810	7,105	34,915
Financial assets designated at fair value through profit or loss	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,001**	**–**	**2,001**	**2,001**
fixed rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
variable rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	2,001	–	2,001	2,001
Securities at fair value through other comprehensive income	**89,175**	**51,659**	**138,245**	**68,746**	**428,028**	**171,582**	**94,464**	**213,344**	**401,659**	**713,667**	**867**	**55,343**	**1,152,438**	**1,274,341**	**2,426,779**
fixed rate	55,863	51,659	123,562	68,197	413,278	171,034	93,464	212,521	401,659	713,667	–	–	1,087,826	1,217,078	2,304,904
variable rate	33,312	–	14,683	549	14,750	548	1,000	823	–	–	–	–	63,745	1,920	65,665
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	867	55,343	867	55,343	56,210
Loans, net of allowance for loan losses	**671,022**	**4,000,115**	**626,022**	**1,324,980**	**445,759**	**1,409,902**	**104,728**	**420,600**	**1,410,440**	**1,235,749**	**144,222**	**52,721**	**3,402,193**	**8,444,067**	**11,846,260**
fixed rate	8,995	847,866	3,325	325,968	17,804	548,240	42,160	330,099	1,176,056	835,078	–	–	1,248,340	2,887,251	4,135,591
variable rate	662,027	3,152,249	622,697	999,012	427,955	861,662	62,568	90,501	234,384	400,671	–	–	2,009,631	5,504,095	7,513,726
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	144,222	52,721	144,222	52,721	196,943
Loans mandatorily at fair value through profit or loss	**29,732**	**543**	**–**	**108**	**–**	**487**	**–**	**316**	**–**	**1,616**	**–**	**–**	**29,732**	**3,070**	**32,802**
fixed rate	–	54	–	108	–	487	–	316	–	1,616	–	–	–	2,581	2,581
variable rate	29,732	489	–	–	–	–	–	–	–	–	–	–	29,732	489	30,221
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Securities at amortized cost	**–**	**101,371**	**–**	**19,739**	**111,029**	**12,506**	**38,195**	**43,189**	**1,553,408**	**88,635**	**–**	**–**	**1,702,632**	**265,440**	**1,968,072**
fixed rate	–	101,371	–	19,739	111,029	12,506	38,195	43,189	1,553,408	88,635	–	–	1,702,632	265,440	1,968,072
variable rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Fair value adjustment of derivative financial instruments	**966,352**	**432,710**	**847,077**	**359,143**	**765,880**	**459,987**	**15,461**	**273,274**	**20,584**	**85,850**	**167,569**	**362,920**	**2,782,923**	**1,973,884**	**4,756,807**
fixed rate	930,477	423,788	697,547	335,985	766,569	425,038	15,461	273,274	20,584	85,850	–	–	2,430,638	1,543,935	3,974,573
variable rate	35,875	8,922	149,530	23,158	(689)	34,949	–	–	–	–	–	–	184,716	67,029	251,745
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	167,569	362,920	167,569	362,920	530,489
Other financial assets	**16,988**	**2,343**	**94**	**367**	**–**	**5**	**–**	**3**	**–**	**1**	**48,574**	**54,678**	**65,656**	**57,397**	**123,053**
fixed rate	16,859	2,343	–	331	–	1	–	3	–	1	–	–	16,859	2,679	19,538
variable rate	129	–	94	36	–	4	–	–	–	–	–	–	223	40	263
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	48,574	54,678	48,574	54,678	103,252

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
LIABILITIES															
Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks	**265,712**	**84,798**	**2,633**	**130,754**	**5,086**	**112,533**	**1,834**	**78,312**	**103,826**	**18,079**	**19**	**9,813**	**379,110**	**434,289**	**813,399**
fixed rate	212,975	78,022	2,633	63,143	5,085	27,300	1,834	76,875	103,826	17,715	–	–	326,353	263,055	589,408
variable rate	52,737	6,776	–	67,611	1	85,233	–	1,437	–	364	–	–	52,738	161,421	214,159
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	19	9,813	19	9,813	9,832
Financial liabilities designated at fair value through profit or loss	**28,862**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,000**	**28,862**	**2,000**	**30,862**
fixed rate	102	–	–	–	–	–	–	–	–	–	–	–	102	–	102
variable rate	28,760	–	–	–	–	–	–	–	–	–	–	–	28,760	–	28,760
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	2,000	–	2,000	2,000
Deposits from customers	**5,124,112**	**6,546,522**	**183,647**	**570,419**	**127,494**	**830,168**	**45,174**	**325,413**	**239,092**	**426,589**	**37,258**	**715,420**	**5,756,777**	**9,414,531**	**15,171,308**
fixed rate	434,026	2,729,694	183,647	570,286	127,494	828,984	45,174	325,411	239,092	426,583	–	–	1,029,433	4,880,958	5,910,391
variable rate	4,690,086	3,816,828	–	133	–	1,184	–	2	–	6	–	–	4,690,086	3,818,153	8,508,239
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	37,258	715,420	37,258	715,420	752,678
Liabilities from issued securities	**16,708**	**592**	**144,381**	**1,273**	**8,347**	**1,936**	**112,697**	**–**	**106,267**	**53**	**898**	**15**	**389,298**	**3,869**	**393,167**
fixed rate	218	40	–	8	6,901	–	112,697	–	106,267	53	–	–	226,083	101	226,184
variable rate	16,490	552	144,381	1,265	1,446	1,936	–	–	–	–	–	–	162,317	3,753	166,070
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	898	15	898	15	913
Fair value adjustment of derivative financial instruments	**1,275,341**	**129,626**	**828,476**	**357,746**	**623,403**	**588,552**	**281,358**	**8,789**	**37,297**	**72,359**	**370,245**	**167,431**	**3,416,120**	**1,324,503**	**4,740,623**
fixed rate	1,224,793	123,378	687,545	341,726	623,287	567,367	281,358	8,789	37,297	72,148	–	–	2,854,280	1,113,408	3,967,688
variable rate	50,548	6,248	140,931	16,020	116	21,185	–	–	–	211	–	–	191,595	43,664	235,259
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	370,245	167,431	370,245	167,431	537,676
Leasing liabilities	**1,252**	**4,951**	**126**	**1,113**	**1,120**	**7,393**	**924**	**6,082**	**5**	**24,800**	**99**	**6,329**	**3,526**	**50,668**	**54,194**
fixed rate	1,252	4,878	126	902	1,120	6,551	924	5,026	5	21,374	–	–	3,427	38,731	42,158
variable rate	–	73	–	211	–	842	–	1,056	–	3,426	–	–	–	5,608	5,608
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	99	6,329	99	6,329	6,428
Other financial liabilities	**4,920**	**171**	**575**	**1,816**	**–**	**2,039**	**–**	**255**	**–**	**503**	**230,989**	**96,752**	**236,484**	**101,536**	**338,020**
fixed rate	4,177	136	–	1,816	–	2,039	–	239	–	503	–	–	4,177	4,733	8,910
variable rate	743	35	575	–	–	–	–	16	–	–	–	–	1,318	51	1,369
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	230,989	96,752	230,989	96,752	327,741
Subordinated bonds and loans	**–**	**–**	**–**	**77,934**	**–**	**166,602**	**–**	**–**	**–**	**5,397**	**–**	**5**	**–**	**249,938**	**249,938**
fixed rate	–	–	–	–	–	–	–	–	–	5,397	–	–	–	5,397	5,397
variable rate	–	–	–	77,934	–	166,602	–	–	–	–	–	–	–	244,536	244,536
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	5	–	5	5
Net position	**(4,960,992)**	**(1,495,897)**	**493,963**	**757,185**	**991,731**	**577,220**	**(85,850)**	**561,889**	**2,929,632**	**1,634,523**	**(99,898)**	**365,609**	**(731,414)**	**2,400,529**	**1,669,115**

As at 31 December 2018:

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
ASSETS															
Cash, amounts due from banks and balances with the National Banks	**29,189**	**344,793**	**4**	**88**	**–**	**18**	**–**	**–**	**–**	**–**	**202,807**	**970,373**	**232,000**	**1,315,272**	**1,547,272**
fixed rate	27,852	342,282	–	88	–	17	–	–	–	–	–	–	27,852	342,387	370,239
variable rate	1,337	2,511	4	–	–	1	–	–	–	–	–	–	1,341	2,512	3,853
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	202,807	970,373	202,807	970,373	1,173,180
Placements with other banks, net of allowance for placements losses	**104,946**	**139,379**	**8,870**	**56,902**	**29,379**	**30,111**	**861**	**–**	**–**	**826**	**31,233**	**18,099**	**175,289**	**245,317**	**420,606**
fixed rate	5,536	98,584	8,870	50,537	58	28,518	861	–	–	826	–	–	15,325	178,465	193,790
variable rate	99,410	40,795	–	6,365	29,321	1,593	–	–	–	–	–	–	128,731	48,753	177,484
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	31,233	18,099	31,233	18,099	49,332
Trading securities at fair value through profit or loss	**1,073**	**4,328**	**1,510**	**441**	**6,086**	**6,044**	**–**	**1,459**	**–**	**18,496**	**6,440**	**4,562**	**15,109**	**35,330**	**50,439**
fixed rate	2	2,583	67	441	5,095	6,044	–	1,459	–	18,496	–	–	5,164	29,023	34,187
variable rate	1,071	1,745	1,443	–	991	–	–	–	–	–	–	–	3,505	1,745	5,250
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	6,440	4,562	6,440	4,562	11,002
Non-trading instruments mandatorily at fair value through profit or loss	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**22,403**	**5,109**	**22,403**	**5,109**	**27,512**
fixed rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
variable rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	22,403	5,109	22,403	5,109	27,512
Securities at fair value through other comprehensive income	**68,525**	**42,076**	**142,135**	**81,260**	**408,288**	**52,665**	**119,081**	**64,060**	**349,897**	**523,535**	**1,965**	**30,362**	**1,089,891**	**793,958**	**1,883,849**
fixed rate	48,869	42,076	60,922	81,260	351,691	52,665	119,081	59,750	348,910	523,535	–	–	929,473	759,286	1,688,759
variable rate	19,656	–	81,213	–	56,597	–	–	4,310	987	–	–	–	158,453	4,310	162,763
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	1,965	30,362	1,965	30,362	32,327
Loans at amortized cost	**441,995**	**2,749,040**	**880,215**	**659,955**	**131,993**	**623,734**	**280,605**	**205,738**	**1,137,939**	**819,655**	**61,697**	**39,501**	**2,934,444**	**5,097,623**	**8,032,067**
fixed rate	14,422	720,941	1,933	108,312	22,887	324,938	219,491	168,363	709,526	399,139	–	–	968,259	1,721,693	2,689,952
variable rate	427,573	2,028,099	878,282	551,643	109,106	298,796	61,114	37,375	428,413	420,516	–	–	1,904,488	3,336,429	5,240,917
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	61,697	39,501	61,697	39,501	101,198
Loans measured at fair value through profit or loss	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**32,745**	**1,780**	**32,745**	**1,780**	**34,525**
fixed rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
variable rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	32,745	1,780	32,745	1,780	34,525
Securities at amortized cost	**–**	**37,214**	**5,062**	**571**	**122,161**	**8,780**	**107,518**	**16,740**	**1,383,536**	**56,328**	**2,535**	**75**	**1,620,812**	**119,708**	**1,740,520**
fixed rate	–	37,214	5,062	571	122,161	8,780	107,518	16,740	1,383,536	56,328	–	–	1,618,277	119,633	1,737,910
variable rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	2,535	75	2,535	75	2,610
Fair value adjustment of derivative financial instruments	**842,714**	**477,367**	**907,278**	**442,794**	**645,969**	**447,455**	**19,192**	**264,128**	**23,172**	**84,528**	**234,315**	**120,494**	**2,672,640**	**1,836,766**	**4,509,406**
fixed rate	814,440	475,377	756,860	408,892	643,141	409,431	19,192	264,128	23,172	84,528	–	–	2,256,805	1,642,356	3,899,161
variable rate	28,274	1,990	150,418	33,902	2,828	38,024	–	–	–	–	–	–	181,520	73,916	255,436
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	234,315	120,494	234,315	120,494	354,809
Other financial assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**37,922**	**16,744**	**37,922**	**16,744**	**54,666**
fixed rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
variable rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	37,922	16,744	37,922	16,744	54,666

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
LIABILITIES															
Amounts due to the Hungarian Government, to the National Banks and other banks	**32,140**	**149,357**	**1,259**	**9,753**	**1,159**	**6,727**	**2,463**	**6,463**	**128,135**	**6,436**	**9,253**	**7,431**	**174,409**	**186,167**	**360,576**
fixed rate	8,655	111,126	1,254	6,929	1,152	3,907	2,463	6,463	128,135	6,436	–	–	141,659	134,861	276,520
variable rate	23,485	38,231	5	2,824	7	2,820	–	–	–	–	–	–	23,497	43,875	67,372
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	9,253	7,431	9,253	7,431	16,684
Financial liabilities designated at fair value through profit or loss	**32,130**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**32,130**	**–**	**32,130**
fixed rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
variable rate	32,130	–	–	–	–	–	–	–	–	–	–	–	32,130	–	32,130
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Deposits from customers	**767,504**	**4,038,620**	**190,038**	**449,593**	**97,267**	**595,259**	**39,958**	**50,021**	**4,041,988**	**747,734**	**3,062**	**264,041**	**5,139,817**	**6,145,268**	**11,285,085**
fixed rate	437,707	1,508,239	190,026	446,960	97,266	595,017	39,958	50,017	4,041,988	747,709	–	–	4,806,945	3,347,942	8,154,887
variable rate	329,797	2,530,381	12	2,633	1	242	–	4	–	25	–	–	329,810	2,533,285	2,863,095
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	3,062	264,041	3,062	264,041	267,103
Liabilities from issued securities	**23,608**	**1,065**	**133,223**	**1,903**	**4,211**	**2,098**	**5,611**	**42**	**242,710**	**47**	**3,424**	**24**	**412,787**	**5,179**	**417,966**
fixed rate	–	227	39,265	–	2,156	4	5,611	42	242,710	47	–	–	289,742	320	290,062
variable rate	23,608	838	93,958	1,903	2,055	2,094	–	–	–	–	–	–	119,621	4,835	124,456
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	3,424	24	3,424	24	3,448
Fair value adjustment of derivative financial instruments	**1,095,148**	**227,313**	**963,041**	**363,943**	**615,257**	**464,843**	**273,251**	**14,581**	**39,995**	**60,652**	**214,445**	**139,054**	**3,201,137**	**1,270,386**	**4,471,523**
fixed rate	1,068,144	216,646	823,357	341,469	612,805	441,177	273,251	14,581	39,995	60,652	–	–	2,817,552	1,074,525	3,892,077
variable rate	27,004	10,667	139,684	22,474	2,452	23,666	–	–	–	–	–	–	169,140	56,807	225,947
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	214,445	139,054	214,445	139,054	353,499
Leasing liabilities	**–**	**10**	**–**	**9**	**–**	**27**	**–**	**4**	**–**	**–**	**–**	**–**	**–**	**50**	**50**
fixed rate	–	10	–	9	–	27	–	4	–	–	–	–	–	50	50
variable rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Other financial liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**106,999**	**35,664**	**106,999**	**35,664**	**142,663**
fixed rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
variable rate	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	106,999	35,664	106,999	35,664	142,663
Subordinated bonds and loans	**–**	**–**	**–**	**76,498**	**–**	**–**	**–**	**–**	**–**	**4,903**	**–**	**28**	**–**	**81,429**	**81,429**
fixed rate	–	–	–	–	–	–	–	–	–	4,903	–	–	–	4,903	4,903
variable rate	–	–	–	76,498	–	–	–	–	–	–	–	–	–	76,498	76,498
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	–	28	–	28	28
Net position	**(462,088)**	**(622,168)**	**657,513**	**340,312**	**625,982**	**99,853**	**205,974**	**481,014**	**(1,558,284)**	**683,596**	**296,879**	**760,857**	**(234,024)**	**1,743,464**	**1,509,440**

33.5 Market risk

The Group 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 Group 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 33.2, 33.3 and 33.4, respectively.)

33.5.1 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 2019	2018
Foreign exchange	479	504
Interest rate	172	212
Equity instruments	21	33
Diversification	–	–
Total VaR exposure	**672**	**749**

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 Group'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 Group to assess its market risk exposures. Details of sensitivity analysis for foreign currency risk are set out in Note 33.5.2, for interest rate risk in Note 33.5.3 and for equity price sensitivity analysis in Note 33.5.4.

33.5.2 Foreign currency sensitivity analysis

The following table details the Group's sensitivity to an increase and decrease in the HUF exchange rate against the EUR and USD, over a 3 months period. Monte Carlo

simulation is used when reporting foreign currency risk internally to key management personnel and represents Management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign activities.
The strategic open position related to the foreign operations was short and amounted to EUR 310 million (kept to hedge the currency risk of the expected FX-denominated net earnings of the main foreign subsidiaries) as at 31 December 2019[2]. High portion of strategic positions is considered as effective hedge of the net investment in foreign subsidiaries – net investment hedge is applied at a Group level –, and so FX risk affects the Group's Comprehensive Income and not its earnings.

A positive number below indicates an increase in profit where the HUF strengthens against the EUR. For a weakening of the HUF against the EUR, there would be an equal and opposite impact on the profit, and the balances below would be negative.

Probability	Effects to the Consolidated Statement of Profit or Loss in 3 months period in HUF billion	
	2019	2018
1%	(12.2)	(12.2)
5%	(8.4)	(8.3)
25%	(3.5)	(3.5)
50%	(0.4)	(0.4)
25%	2.6	2.6
5%	6.8	6.7
1%	9.7	9.6

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

The effect on equity of the foreign currency sensitivity analysis is not significant either for the year ended 31 December 2019 or 2018.

33.5.3 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.
- Assets and liabilities with an interest rate lower than 0.3% 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) HUF base rate stays unchanged and BUBOR decreases gradually to 0.0% (probable scenario)

[2] Significant events after the reporting period related to strategic open position please see Note 48.

2) HUF base rate stays unchanged and BUBOR decreases gradually by 50 bps over the next year (alternative scenario)

The net interest income in a one year period after 1 January 2020 would be decreased by HUF 1,205 million (probable scenario) and HUF 3,060 million (alternative scenario) as a result of these simulation. The same simulation indicated HUF 1,309 million (probable scenario) and HUF 3,424 million (alternative scenario) decrease in the Net interest income in a one year period after 31 December 2018.

This effect is counterbalanced by capital gains HUF 223 million (or probable scenario), HUF 2,670 million (for alternative scenario) as at 31 December 2019 and (HUF 268 million for probable scenario, HUF 3,331 million for alternative scenario) as at 31 December 2018 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	2019		2018	
	Effects to the net interest income (one-year period)	Effects to capital (Price change of government bonds at fair value through other comprehensive income)	Effects to the net interest income (one-year period)	Effects to capital (Price change of government bonds at fair value through other comprehensive income)
HUF (0.1%) parallel shift	(1,742)	558	(1,815)	671
EUR (0.1%) parallel shift	(1,261)	–	(373)	–
USD (0.1%) parallel shift	(253)	–	(172)	–
Total	**(3,256)**	**558**	**(2,360)**	**671**

33.5.4 Equity price sensitivity analysis

The following table shows the effect of the equity price sensitivity. The Group uses VaR calculation with 1 day holding period and 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	2019	2018
VaR (99%, one day, HUF million)	21	33
Stress test (HUF million)	(52)	(43)

33.6 Capital management

Capital management

The primary objective of the capital management of the Group 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 Group members 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 Group members in the short run is the continuous monitoring of their capital position, in the long run the strategic and the business planning, which includes the monitoring and forecast of the capital position. The Group members maintain the capital adequacy required by the regulatory bodies and the planned risk taking mainly by means of ensuring and developing their profitability. In case the planned risk level of a Group member exceeded its Core and the previously raised Supplementary capital, it ensures the prudent operation by occasional measures. A further tool in the capital management of the Bank is the dividend policy, and the transactions performed with the treasury shares.

Capital adequacy

The Capital Requirements Directive package (CRDIV/CRR) transposes the new global standards on banking regulation (known as the Basel III agreement) into the EU legal framework. The new rules are applied from 1 January 2014. They set stronger prudential requirements for institutions, requiring them to keep sufficient capital reserves and liquidity. This new 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 capital adequacy of the Group is supervised based on the financial statements data prepared in accordance with IFRS applying the current directives, rulings and indicators from 1 January 2014.

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

The Group uses the standard method for determining the regulatory capital requirements of the credit risk and market risk, and parallel to that, the base indicator method and the advanced method (AMA) in case of the operational risk.

For international comparison purposes, the Group calculated the Regulatory capital based on IFRS data as adopted by the EU, and the consolidated Capital adequacy ratio based on this in accordance with the regulations of Basel III. The Capital adequacy ratio of the Group (IFRS) was 16.3%, the Regulatory capital was HUF 2,321,248 million and the Total regulatory capital requirement was HUF 1,140,976 million as at 31 December 2019. The same ratios calculated as at 31 December 2018 were the following: 18.3%, HUF 1,731,970 million and HUF 759,113 million.

Calculation on IFRS basis	2019	2018
Core capital (Tier1) = Common Equity Tier1 (CET1)	1,985,666	1,565,247
Issued capital	28,000	28,000
Reserves	2,139,079	1,805,382
Fair value corrections	49,501	23,374
Other capital components	(33,225)	(115,807)
Non-controlling interests	2,571	1,313
Treasury shares	(60,931)	(67,999)
Goodwill and other intangible assets	(230,017)	(168,911)
Other adjustments	90,688	59,895
Additional Tier1 (AT1)	–	–
Supplementary capital (Tier2)	335,582	166,723
Subordinated bonds and loans	244,536	76,496
Other issued capital components	89,935	89,935
Components recognized in T2 capital issued by subsidiaries	1,111	292
Regulatory capital*	**2,321,248**	**1,731,970**
Credit risk capital requirement	1,002,390	637,284
Market risk capital requirement	15,905	32,379
Operational risk capital requirement	122,681	89,450
Total requirement regulatory capital	**1,140,976**	**759,113**
Surplus capital	**1,180,272**	**972,857**
CET1 ratio	13.9%	16.5%
Tier1 ratio	13.9%	16.5%
Capital adequacy ratio	**16.3%**	**18.3%**

* The consolidated regulatory capital of the Group contains the profit decreased by all the planned dividend payment and foreseeable charges.

Basel III

The components of the Common Equity Tier1 capital (CET1) are the following: Issued capital, Reserves (Profit reserves, Other reserves, Changes in the equity of subsidiaries, Net Profit for the year, Changes due to consolidation) Fair value adjustments, Other capital components, (Revaluation reserves, Share based payments, Cash-flow hedges, Net investment hedge in foreign operations), Non-controlling interest, Treasury shares, Goodwill and other Intangible assets, other adjustments (due to prudential filters, due to deferred tax receivables, due to temporary regulations). Supplementary capital (Tier2): Subordinated loan capital, Supplementary loan capital, Other issued capital components, Components recognized in T2 capital issued by subsidiaries.

NOTE 34: RECLASSIFICATION AND TRANSFER OF FINANCIAL INSTRUMENTS (in HUF mn)

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

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

During the year 2018, securities issued by the Hungarian Government with the nominal value of HUF 66,506 million were transferred from the trading portfolio to the securities at fair value through other comprehensive income. The Bank has previously held retail government bonds in the portfolio at fair value through other comprehensive income. During 2018 the Bank changed the business model of the retail government bonds to manage all on the basis of a single business model aimed at collecting the future contractual cash-flows and/or selling them. In 2018, the terms and conditions of sale of retail government bonds and the pricing environment have changed significantly, as a result of which the Bank is no longer able to maintain its sole trading intent with these securities that the Bank applied earlier. Furthermore there is an option-agreement between the Bank and the Government Debt Management Agency ("GDMA") that GDMA will buy back this portfolio therefore it has been reclassified.

Financial assets transferred but not derecognised:

	2019		2018	
	Transferred assets	Associated liabilities	Transferred assets	Associated liabilities
	Carrying amount		Carrying amount	
Financial assets at fair value through profit or loss				
Debt securities	–	–	493	461
Total	**–**	**–**	**493**	**461**
Financial assets at fair value through other comprehensive income				
Debt securities	40,912	40,253	26,663	24,921
Total	**40,912**	**40,253**	**26,663**	**24,921**
Financial assets at amortised cost				
Debt securities			1,797	1,804
Loans and advances	5,263	2,555	460	–
Total	**5,263**	**2,555**	**2,257**	**1,804**
Total	**46,175**	**42,808**	**29,413**	**27,186**

As at 31 December 2019 and 2018, the Group had obligation from repurchase agreements about HUF 111 billion and HUF 1.8 billion respectively. Securities sold temporarily under repurchase agreements will continue to be recognized in the Consolidated Statement of Financial Position of the Group in the appropriate securities category. The related liability is measured at amortized cost in the Consolidated Statement of Financial Position as "Amounts due to the National Governments, to the National Banks and other banks".

NOTE 35: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn)

In the normal course of business, the Group becomes a party to various financial transactions that are not reflected on the Consolidated Statement of Financial Position and are referred to as off-balance sheet financial instruments. The following represent notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

Contingent liabilities:

	2019	2018
Commitments to extend credit	3,027,112	2,187,619
Guarantees arising from banking activities	966,649	600,278
Confirmed letters of credit	33,296	9,798
Contingent liabilities and commitments total in accordance with IFRS 9	**4,027,057**	**2,797,695**
Legal disputes (disputed value)	30,844	30,644
Other	285,296	255,271
Contingent liabilities and commitments total in accordance with IAS 37	**316,140**	**285,915**
Total	**4,343,197**	**3,083,610**

Legal disputes

At the balance sheet date the Group 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 Group 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. Provisions due to legal disputes were HUF 28,650 million as at 31 December 2019 and HUF 25,930 million as at 31 December 2018, respectively (see Note 21).

Commitments to extend credit, guarantees and letters 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 Group 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 Group on behalf of a customer authorising a third party to draw drafts on the Group 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 Group 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 Group 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 Group to assume responsibility for the debt obligation of a borrower if that borrower defaults until a determined amount, 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 Group assumes the obligation derived from guarantee independently by the conditions established by the Group.
A guarantee is most typically required when the ability of the primary obligor or principal to perform its obligations under a contract is in question, or when there is some public or private interest which requires protection from the consequences of the principal's default or delinquency. A contract of guarantee is subject to the statute of frauds (or its equivalent local laws) and is only enforceable if recorded in writing and signed by the surety and the principal.

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

Derivatives

The Group maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except for trading with clients, where the Group in most of the cases requires margin deposits.

NOTE 36: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (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.

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

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

The quantity of usable shares for individuals calculated for settlement of share-based payment shall be determined as the ratio of the amount of share-based payment and share price determined by Supervisory Board[3].

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

At the same time the conditions of discounted share-based payment are determined, and share-based payment shall contain maximum HUF 2,000 discount at the assessment date, and earnings for the shares at the payment date is maximum HUF 4,000. Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment. IAS 19 Employee Benefits shall be applied in accounting for all employee benefits, except those to which IFRS 2 Share-based Payment applies. In case of the jubilee benefits both standards contain regulations.

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.

[3] Until the end of 2014 Board of Directors.

The parameters for the share-based payment relating to years from 2014 by the Board of Directors and from 2015 by the Supervisory Board for periods of each year as follows:

Year	Share purchasing at a discounted price		Price of remuneration exchanged to share	Share purchasing at a discounted price		Price of remuneration exchanged to share	Share purchasing at a discounted price		Price of remuneration exchanged to share
	Exercise price	Maximum earnings		Exercise price	Maximum earnings		Exercise price	Maximum earnings	
					HUF per share				
	for the year 2014			for the year 2015			for the year 2016		
2015	3,930	2,500	–	–	–	–	–	–	–
2016	3,930	3,000	–	4,892	2,500	6,892	–	–	–
2017	3,930	3,000	–	4,892	3,000	6,892	7,200	2,500	9,200
2018	3,930	3,000	–	4,892	3,000	6,892	7,200	3,000	9,200
2019	–	–	–	4,892	3,000	6,892	7,200	3,500	9,200
2020	–	–	–	–	–	–	7,200	4,000	9,200

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		Exercise price	Maximum earnings	
			HUF per share			
	for the year 2017			for the year 2018		
2018	8,064	3,000	10,064	–	–	–
2019	8,064	3,500	10,064	10,413	4,000	12,413
2020	8,064	4,000	10,064	10,413	4,000	12,413
2021	8,064	4,000	10,064	10,413	4,000	12,413
2022	8,064	4,000	10,064	10,913	4,000	12,413
2023	–	–	–	10,913	4,000	12,413
2024	–	–	–	10,913	4,000	12,413
2025	–	–	–	10,913	4,000	12,413

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

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

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

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

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

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

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

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

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

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

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

In connection with shares given as a part of payments detailed in the Direction of Chief Executive about the Remuneration of Work in OTP Bank and the share-based compensation for Board of Directors and connecting compensation based on performance assessment accounted as equity-settled share based transactions, HUF 3,548 million and HUF 3,797 million was recognized as expense for the year ended 31 December 2019 and 2018 respectively.

NOTE 37: RELATED PARTY TRANSACTIONS (in HUF mn)

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

Compensations	2019	2018
Short-term employee benefits	8,453	7,817
Share-based payment	2,732	2,431
Other long-term employee benefits	636	390
Termination benefits	40	36
Post-employment benefits	35	26
Total	**11,896**	**10,700**
Loans provided to companies owned by the Management (normal course of business)	55,517	62,971
Commitments to extend credit and guarantees	27,708	37,809
Credit lines of the members of Board of Directors and the Supervisory Board and their close family members and Treasury credit lines of the members of Board of Directors and their close family members (at normal market conditions)	666	3,692

Types of transactions	2019		2018	
	Non-consolidated subsidiaries	Associated companies	Non-consolidated subsidiaries	Associated companies
Loans provided	2,656	513	5,136	22
Client deposits	5,335	–	4,753	628
Net interest income on loan provided	32	–	144	–
Net fee incomes	30	–	39	–

An analysis of credit line "A" is as follows:

	2019	2018
Members of Board of Directors and their close family members	152.9	130.7
Executives	–	117
Members of Supervisory Board and their close family members	4.0	4.4
Total	**156.9**	**252.1**

An analysis of credit limit related to Mastercard Gold is as follows:

	2019	2018
Members of Board of Directors and their close family members	38.9	29
Executives	1	5
Total	**39.9**	**34**

An analysis of credit limit related to Mastercard Bonus is as follows:

	2019	2018
Executives	–	2
Total	**–**	**2**

An analysis of credit limit related to Visa Card is as follows:

	2019	2018
Members of Board of Directors and their close family members	38.5	31.5
Members of Supervisory Board and their close family members	2.4	0.3
Total	**40.9**	**31.8**

An analysis of credit limit related to AMEX Blue credit card loan is as follows:

	2019	2018
Members of Board of Directors and their close family members	–	2.2
Total	**–**	**2,2**

An analysis of credit limit related to AMEX Gold credit card loan is as follows:

	2019	2018
Members of Board of Directors and their close family members	7.3	4.2
Executives	33	35
Total	**40.3**	**39.2**

An analysis of credit limit related to AMEX Platinum credit card loan is as follows:

	2019	2018
Members of Board of Directors and their close family members	20	17
Executives and their close family members	69	79
Members of Supervisory Board and their close family members	5	–
Total	**94**	**96**

The Members of Board of Directors and their close family members owned credit limit related to other – above not listed – credit card in the amount of HUF 26.9 million and HUF 23.8 million as at 31 December 2019 and 2018.

An analysis of Lombard loans, Personal loans and Loans distributed by the Bank in its capacity of employee at the Bank is as follows:

	2019	2018
Members of Board of Directors and their close family members	53,661	29,084
Executives and their close family members	1,419	230
Members of Supervisory Board and their close family members	10	–
Total Lombard loans	**55,090**	**29,314**
Members of Board of Directors and their close family members	214	–
Executives	7	12
Total Personal loans	**221**	**12**
Executives	–	2
Total loans distributed by the Bank in its capacity of employee	**–**	**2**

An analysis of payment to executives of the Group related to their activity in Board of Directors and Supervisory Board is as follows:

	2019	2018
Members of Board of Directors	3,060	2,262
Members of Supervisory Board	227	202
Total	**3,287**	**2,464**

In the normal course of business, the Bank enters into other transactions with its unconsolidated subsidiaries of the Group, the amounts and volumes of which are not significant to these consolidated financial statements taken as a whole. Related party transactions were made on terms equivalent to those that prevail in arm's length transactions and such terms can be substantiated.

NOTE 38: ACQUISITION (in HUF mn)

Purchase and consolidation of subsidiaries

The Société Générale Group made a strategic decision about the disposal of its bank subsidiaries in the Central and Eastern European countries and the Balkan Region, in order to be able to strengthen its position in other regions. The strategic goal of OTP Group is to strengthen its presence in the Central and Eastern European region and to enter other markets of strategic importance.
By completing these transactions the parties achieved part of their strategic goals. Based on market standards, OTP Group made the due diligence of the subsidiaries using data provided by the Vendor, then in line with the process defined by the Vendor, after several

biddings, the decision was made about the selected subsidiaries. Following the agreement in principles the parties finalized the details of the purchase agreements which were fixed in contracts.
A comprehensive due diligence was performed before every acquisition decision, where in accordance with the main statements of the due diligence, the market environment, the historical performance of the target and the expected profit-making capacity of the target for the period after the closing according to the business plan, the realistic range of the purchase price was defined. Having taken into consideration some other aspects, management laid down the proposed purchase price. Purchasing an entity with positive or negative goodwill is reasoned by altogether the expected cost synergies arising from the market situation and the survey of joint profit-making capacity, the size of the marge typical for the markets, and other strategic considerations (gain of new market shares or increasing them).
Individually the purchase prices were not made public – as it was agreed with the Vendor – however, the aggregated purchase price was HUF 460,077 million.

On 13 December 2019 the financial closure of the Slovenian transaction has been completed (after the acquisition agreement was signed on 2 May 2019). As a result, OTP Bank has become 99.73% owner of **SKB Banka,** the Slovenian subsidiary of Société Générale Group and other local subsidiaries held by SKB Banka, so it was consolidated from December 2019.

On 25 July 2019 the financial closure of the Moldovan transaction has been completed (after the acquisition agreement was signed on 5 February, 2019). As a result, OTP Bank has become 96.69% owner of **Mobiasbanca – Groupe Société Générale S.A.** ("MBSG"), the Moldovan subsidiary of Société Générale Group, so it was consolidated from July 2019.

The financial closure of the transaction, based on the acquisition agreement on purchasing 90.56% shareholding of **Société Générale banka Montenegro a.d.** ("SGM"), the Montenegrin subsidiary of Société Générale Group between Crnogorska komercijalna banka a.d., the Montenegrin subsidiary of OTP Bank and Société Générale Group, has been completed on 16 July 2019. The acquisition agreement between SG and CKB was signed on 27 February 2019 and the Montenegrin subsidiary was consolidated from July 2019.

On 24 September 2019 the financial closure of the Serbian transaction has been completed (after the acquisition agreement was signed on 19 December 2018). As a result, OTP Bank has become 100% owner of **Société Générale banka Srbija a.d. Beograd** ("SGS"), the Serbian subsidiary of Société Générale Group and other local subsidiaries held by SGS, so it was consolidated from September 2019.

In line with the purchase agreement signed on 1 August 2018 by OTP Bank and the Société Générale Group, on 29 March 2019 the financial closure of the Albanian transaction has been completed and it was consolidated. As a result, OTP Bank has become the 100% owner of **Banka Société Générale Albania SH.A.** ("SGAL"), the Albanian subsidiary of Société Générale Group, so it was consolidated from March 2019.

The financial closure of the transaction, based on the acquisition agreement on purchasing 99.74% shareholding of **Société Générale Expressbank** ("SGEB"), the Bulgarian subsidiary of Société Générale Group ("SG"), and other local subsidiaries held by SGEB, between Société Générale Group and DSK Bank EAD ("DSK Bank"), the Bulgarian subsidiary of OTP Bank, has been completed on 15 January 2019, so it was consolidated from January 2019. The acquisition agreement between SG and DSK Bank was signed on 1 August 2018.

The fair value of the assets and liabilities acquired is as follows:

	SKB Banka d.d. Ljubljana Group	Mobiasbanca – OTP Group S.A.	Podgorička banka AD Podgorica	OTP Banka Srbija a.d. Beograd Group	Banka OTP Albania SH.A	Expressbank Group
Cash amounts and due from banks and balances with the National Banks	(86,661)	(8,171)	(48,951)	(123,247)	(35,048)	(119,589)
Placements with other banks, net of loss allowance for placements	(177)	(74,906)	(733)	(13)	(3,951)	(113,360)
Financial assets at fair value through profit or loss	(5,148)	(56)	(673)	(3,706)	–	(20,110)
Securities at fair value through other comprehensive income	(93,807)	–	(10,272)	(106,992)	(50,424)	(116,786)
Loans at amortized cost	(997,417)	(96,837)	(127,867)	(694,521)	(125,400)	(793,134)
Loans mandatorily at fair value through profit or loss	(2,586)	–	–	–	–	–
Associates and other investments	–	–	–	–	–	(803)
Securities at amortized cost	(83,625)	(17,050)	–	(5,402)	–	–
Property and equipment	(11,896)	(3,424)	(3,095)	(10,052)	(626)	(19,178)
Intangible assets	(14,874)	(879)	(1,224)	(11,457)	(1,746)	(15,793)
Right-of-use assets	(1,905)	(1,733)	(263)	(2,430)	(1,256)	(4,838)
Investment properties	(300)	–	–	–	–	–
Derivative financial assets designated as hedge accounting	–	–	–	–	–	–
Other assets	(10,289)	(1,013)	(751)	(5,062)	(1,373)	(5,487)
Total assets	**(1,308,685)**	**(204,069)**	**(193,829)**	**(962,882)**	**(219,824)**	**(1,209,078)**
Amounts due to the banks, the National Governments, deposits from the National Banks and other banks	260,395	15,870	30,518	229,216	18,762	139,753
Financial liabilities at fair value through profit or loss	2,005	–	–	–	–	–
Deposits from customers	886,419	152,145	127,663	541,005	175,534	874,910
Liabilities from issued securities	–	–	–	–	–	–
Derivative financial liabilities held for trading	–	–	–	–	–	3,497
Derivative financial liabilities designated as hedge accounting	3,016	–	–	–	–	–
Leasing liabilities	1,909	–	246	2,422	1,257	4,838
Other liabilities	16,976	3,305	11,739	16,425	1,838	16,886
Subordinated bonds and loans	–	–	–	24,244	–	3,878
Total liabilities	**1,170,720**	**171,320**	**170,166**	**813,312**	**197,391**	**1,043,762**
Net assets	**(137,965)**	**(32,749)**	**(23,663)**	**(149,570)**	**(22,433)**	**(165,316)**

	2019
Net assets total	(531,696)
Non-controlling interest	4,103*
Negative goodwill	67,516
Net cash	**(460,077)**

* Non-controlling interest was measured at its proportionate share of net assets of the acquiree.

Breakdown of the acquired entity's incomes, profit/loss from the date of the acquisition:

	Interest incomes	Net result	One-off expense*
SKB Banka d.d. Ljubljana Group	–	–	4,972
Mobiasbanca – OTP Group S.A.	5,309	1,508	778
Podgorička banka AD Podgorica	3,991	691	978
OTP banka Srbija a.d. Beograd Group	9,820	2,720	2,610
Banka OTP Albania SH.A.	7,418	1,173	1,606
Expressbank Group	34,204	16,682	5,752
Total	**60,742**	**22,774**	**16,696**

Breakdown of the acquired entity's incomes, profit/loss if the Group would have acquired from the beginning of year 2019:

	Interest incomes	Net result	One-off expense*
SKB Banka d.d. Ljubljana Group	30,254	21,350	4,972
Mobiasbanca – OTP Group S.A.	11,553	4,255	778
Podgorička banka AD Podgorica	8,574	2,755	978
OTP banka Srbija a.d. Beograd Group	39,195	18,519	2,610
Banka OTP Albania SH.A.	9,944	2,075	1,606
Expressbank Group	34,204	16,682	5,752
Total	**133,724**	**65,636**	**16,696**

With the acquisitions the following shares were purchased:

	Number of shares	Type	Voting rights
SKB Bank d.d. Ljubljana	12,614,965	ordinary share	99.72%
SKB Leasing d.o.o.	–	–	100.00%
SKB Leasing Select d.o.o.	–	–	100.00%
Mobiasbanca – OTP Group SA	9,669,155	ordinary share	96.69%
Podgorička banka AD Podgorica	87,602	ordinary share	90.56%
OTP banka Srbija a.d. Beograd	5,331,016	ordinary share	100.00%
OTP Leasing Srbija d.o.o. Beograd	–	–	100.00%
OTP Osiguranje ADO Beograd	305,408	ordinary share	100.00%
Banka OTP Albania	67,409	ordinary share	100.00%
Expressbank AD.	33,584,555	ordinary share	100.00%
OTP Leasing EOOD	–	–	100.00%
Express Factoring EOOD	–	–	100.00%
Express Life insurance Joint-Stock Company	29,918	ordinary share	100.00%

* The net result was decreased by the loss allowance on loans in accordance with IFRS 9 after the first day of the acquisition (Day 1).

NOTE 39: SIGNIFICANT SUBSIDIARIES AND ASSOCIATES (in HUF mn)

The control is established when the Group has the right and exposure over the variable positive yield of the investee but the same time put up with the consequences of the negative returns and the Group by its decisions is able to influence the extent of the yields.

The Group primarily considering the following factors in the process of determining the existing of the control:
- investigation of the decision making mechanism of the entity,
- authority of the Board of Directors, Supervisory Board and General meeting based on the deed of association,
- existence of investments with preferential voting rights.

If the control can't be obviously determined then it should be supposed that the control does not exist.
Significant influence is presumed by the Group to exist – unless the contrary case is proven – when the Group holds 20% or more of the voting power of an investee but does not have a control.

Investments in companies in which the Bank has a controlling interest are detailed below. They are fully consolidated companies and incorporated in Hungary unless otherwise stated. The Bank considers the subsidiaries as cash generating units.

Significant subsidiaries

Name	Ownership (Direct and Indirect) 2019	2018	Activity
DSK Bank EAD (Bulgaria)	100.00%	100.00%	commercial banking services
Expressbank AD (Bulgaria)	99.74%	–	commercial banking services
OTP Bank JSC (Ukraine)	100.00%	100.00%	commercial banking services
JSC "OTP Bank" (Russia)	97.91%	97.90%	commercial banking services
OTP banka Hrvatska d.d. (Croatia)	100.00%	100.00%	commercial banking services
OTP Bank Romania S.A. (Romania)	100.00%	100.00%	commercial banking services
Vojvodjanska banka a.d. Novi Sad (Serbia)	100.00%	100.00%	commercial banking services
OTP banka Srbija a.d. Beograd (Serbia)	100.00%	–	commercial banking services
Crnogorska komercijalna banka a.d. (Montenegro)	100.00%	100.00%	commercial banking services
Podgorička banka AD Podgorica (Montenegro)	100.00%	–	commercial banking services
Banka OTP Albania SH.A. (Albania)	100.00%	–	commercial banking services
Mobiasbanca – OTP Group S.A. (Moldova)	98.26%	–	commercial banking services
SKB Banka d.d. Ljubljana (Slovenia)	99.66%	–	commercial banking services
Financing Malta Company Ltd. (Malta)	100.00%	100.00%	refinancing activities
OTP Financing Netherlands B.V. (the Netherlands)	100.00%	100.00%	refinancing activities
OTP Holding Ltd. (Cyprus)	100.00%	100.00%	refinancing activities
OTP Financing Cyprus Ltd. (Cyprus)	100.00%	100.00%	refinancing activities
OTP Factoring Ltd.	100.00%	100.00%	work-out
OTP Mortgage Bank Ltd.	100.00%	100.00%	mortgage lending
OTP Real Estate Ltd.	100.00%	100.00%	real estate management and development
Merkantil Bank Ltd.	100.00%	100.00%	finance lease
OTP Building Society Ltd.	100.00%	100.00%	housing savings and loan
OTP Fund Management Ltd.	100.00%	100.00%	fund management
Bank Center No. 1. Ltd.	100.00%	100.00%	real estate lease
Inga Kettő Ltd.	100.00%	100.00%	property management
OTP Funds Servicing and Consulting Ltd.	100.00%	100.00%	fund services
OTP Real Estate Leasing Ltd. (previously OTP Flat Lease Ltd.)	100.00%	100.00%	real estate leasing

Significant associates and joint ventures*

Most significant indicators of associates and joint ventures which are accounted for using equity method (Szallas.hu and D-ÉG Thermoset Ltd.) or accounted on cost (Company for Cash Services Ltd.) is as follows:

As at 31 December 2019:

	Szallas.hu Ltd.	D-ÉG Thermoset Ltd.	Company for Cash Services Ltd.	Total
Total assets	4,939	3,883	2,736	**11,558**
Total liabilities	1,429	4,629	186	**6,244**
Shareholders' equity	3,510	(746)	2,550	**5,314**
Total revenues	3,405	2,386	1,315	**7,106**
Ownership	50.0%	0.10%	25.0%	

As at 31 December 2018:

	Szallas.hu Ltd.	D-ÉG Thermoset Ltd.	Company for Cash Services Ltd.	Total
Total assets	2,135	3,883	2,377	**8,395**
Total liabilities	813	4,629	112	**5,554**
Shareholders' equity	1,322	(746)	2,265	**2,841**
Total revenues	4,172	2,386	1,136	**7,694**
Ownership	30.0%	0.10%	20.0%	

NOTE 40: 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 Group, they have been excluded from the accompanying Consolidated Statement of Financial Position.

	2019	2018
The amount of loans managed by the Group as a trustee	37,320	38,647

NOTE 41: CONCENTRATION OF ASSETS AND LIABILITIES

In the percentage of the total assets	2019	2018
Receivables from, or securities issued by the Hungarian Government or the NBH	15.63%	18.98%

There were no other significant concentrations of the assets or liabilities of the Group as at 31 December 2019 or 2018 respectively. The Group continuously provides the Authority with reports on the extent of dependency on large depositors as well as the exposure of the biggest 50 depositors towards the Group.

Further to this obligatory reporting to the Authority, the Group 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.

* Based on unaudited financial statements.

The organisational unit of the Bank in charge of partner-risk management analyses the biggest partners on a constant basis and sets limits on the 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' internal regulation (Limit-management regulation) controls risk management which related to exposures of clients. The 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 provision system used by the Bank to control risk exposures. This regulation has to be used by the Bank for its business (lending) risk-taking activity both in retail and corporate sector.

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

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

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

NOTE 42: CONSOLIDATED EARNINGS PER SHARE (in HUF mn)

Consolidated Earnings per share attributable to the ordinary shares of the Group are determined by dividing consolidated Net profit for the period 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.

Consolidated earnings per share from continuing and discontinued operations	2019	2018
Consolidated net profit for the period attributable to ordinary shareholders (in HUF mn)	412,241	318,233
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	261,593,299	261,816,188
Basic Earnings per share (in HUF)	**1,576**	**1,215**
Consolidated net profit for the period attributable to ordinary shareholders (in HUF mn)	412,241	318,233
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	261,660,993	261,939,080
Diluted Earnings per share (in HUF)	**1,575**	**1,215**

Consolidated earnings per share from continuing operations	2019	2018
Consolidated net profit for the period attributable to ordinary shareholders (in HUF mn)	416,909	318,811
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	261,593,299	261,816,188
Basic Earnings per share (in HUF)	**1,594**	**1,218**
Consolidated net profit for the period attributable to ordinary shareholders (in HUF mn)	416,909	318,811
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	261,660,993	261,939,080
Diluted Earnings per share (in HUF)	**1,593**	**1,217**

	2019	2018
	Number of shares	
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	18,406,711	18,183,822
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	**261,593,299**	**261,816,188**
Dilutive effects of options issued in accordance with the remuneration policy and convertible into ordinary shares*	67,694	122,892
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	**261,660,993**	**261,939,080**

NOTE 43: NET GAIN OR LOSS REALIZED ON FINANCIAL INSTRUMENTS (in HUF mn)

As at 31 December 2019:

	Net interest/similar to interest gain and loss	Net non-interest gain and loss	Loss allowances	Other Comprehensive Income
Cash, amounts due from banks and balances with the National Banks	2,037	–	–	–
Placements with other banks, net of loss allowance for placements	11,309	–	235	–
Trading securities at fair value through profit or loss	–	2,542	–	–
Non-trading instruments mandatorily at fair value through profit or loss	202	1,914	–	–
Securities at fair value through other comprehensive income	46,521	8,485**	(153)	30,224
Loans at amortized cost	654,311	22,541	(49,355)	–
Loans measured at fair value through profit or loss	654	–	–	–
Securities at amortized cost	62,468	714	162	–
Other financial assets	3,672***	–	280	–
Derivative financial instruments	773***	(996)	–	–
Total result on financial assets	**781,947**	**35,200**	**(48,831)**	**30,224**
Amounts due to the National Governments, to the National Banks and other banks	(11,990)	–	–	–
Financial liabilities designated at fair value through profit or loss	(367)	(21)	–	–
Deposits from customers	(59,397)	228,939	–	–
Liabilities from issued securities	(6,749)	–	–	–
Leasing liabilities	(1,652)	–	–	–
Subordinated bonds and loans	(4,743)	–	–	–
Total result on financial liabilities	**(84,898)**	**228,918**	**–**	**–**
Total result on financial instruments	**697,049**	**264,118**	**(48,831)**	**30,224**

* Both in year 2019 and in year 2018 the dilutive effect is in connection with the Remuneration Policy and the Management Option Program.

** For the year ended 31 December 2019 HUF 8,485 million net non-interest gain on securities at fair value through other comprehensive income was transferred from other comprehensive income to profit or loss.

*** Gains from other financial assets and derivative financial instruments recognised in net interest income as Income similar to interest income.

As at 31 December 2018:

	Net interest/similar to interest gain and loss	Net non-interest gain and loss	Loss allowances	Other Comprehensive Income
Cash, amounts due from banks and balances with the National Banks	421	–	–	–
Placements with other banks, net of loss allowance for placements	7,205	–	(144)	–
Trading securities at fair value through profit or loss	–	598	–	–
Non-trading instruments mandatorily at fair value through profit or loss	6	–	–	–
Securities at fair value through other comprehensive income	37,912	301*	820	(22,333)
Loans at amortized cost	542,101	18,519	(22,472)	–
Loans measured at fair value through profit or loss	800	–	–	–
Securities at amortized cost	59,205	–	(213)	–
Other financial assets	3,958**	–	(326)	–
Derivative financial instruments	25,634**	9,409	–	–
Total result on financial assets	**677,242**	**28,827**	**(22,335)**	**(22,333)**
Amounts due to the National Governments, to the National Banks and other banks	(8,386)	–	–	–
Financial liabilities designated at fair value through profit or loss	(355)	144	–	–
Deposits from customers	(46,637)	195,323	–	–
Liabilities from issued securities	(6,310)	–	–	–
Leasing liabilities	–	–	–	–
Subordinated bonds and loans	(2,169)	–	–	–
Total result on financial liabilities	**(63,857)**	**195,467**	**–**	**–**
Total result on financial instruments	**613,385**	**224,294**	**(22,335)**	**(22,333)**

NOTE 44: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn)

In determining the fair value of a financial asset or liability the Group 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 Group has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 44 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 amortized cost, the Group used the discounted cash-flow analyses (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 Banks 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 amortized 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,

* For the year ended 31 December 2018 HUF 301 million net non-interest gain on securities at fair value through other comprehensive income was transferred from other comprehensive income to profit or loss.

** Gains from other financial assets and derivative financial instruments recognised in net interest income as Income similar to interest income.

- the fair value of the deposit which can be due in demand cannot be lower than the amount payable on demand.

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 is measured at discounted cash-flow method. Fair value of loans, net of loss allowance for loans measured at discount rate adjustment technique, the discount rate is derived from observed rates of return for comparable assets or liabilities that are traded in the market.

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

a) Fair value of financial assets and liabilities

	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash, amounts due from banks and balances with the National Banks	1,784,378	1,784,378	1,547,272	1,547,272
Placements with other banks, net of loss allowance for placements	410,079	383,455	420,606	419,458
Financial assets at fair value through profit or loss	251,990	251,990	181,356	181,356
Trading securities at fair value through profit or loss	100,048	100,048	50,439	50,439
Fair value of derivative financial assets held for trading	110,624	110,624	103,405	103,405
Non-trading instruments mandatorily at fair value through profit or loss	39,317	39,317	27,512	27,512
Financial assets designated at fair value through profit or loss	2,001	2,001	–	–
Securities at fair value through other comprehensive income	2,426,779	2,426,779	1,883,849	1,883,849
Loans at amortized cost*	11,846,260	12,546,426	8,032,068	8,524,607
Loans measured at fair value through profit or loss	32,802	32,802	34,525	34,525
Securities at amortized cost	1,968,072	2,087,633	1,740,520	1,810,096
Derivative financial assets designated as hedge accounting	7,463	7,463	15,201	15,201
Other financial assets	123,053	123,053	54,666	54,666
Financial assets total	**18,850,876**	**19,643,979**	**13,910,063**	**14,471,030**
Amounts due to the National Governments, to the National Banks and other banks	813,399	1,071,520	360,475	349,810
Financial liabilities designated at fair value through profit or loss	30,862	30,862	32,231	32,231
Deposits from customers	15,171,308	15,240,968	11,285,085	11,274,889
Liabilities from issued securities	393,167	494,196	417,966	488,905
Held-for-trading derivative financial liabilities	86,743	86,743	73,316	73,316
Derivative financial liabilities designated as hedge accounting	10,709	10,709	7,407	7,407
Leasing liabilities	54,194	54,194	50	50
Other financial liabilities	338,020	338,020	142,663	142,663
Subordinated bonds and loans	249,938	237,381	81,429	72,623
Financial liabilities total	**17,148,340**	**17,564,593**	**12,319,193**	**12,369,271**

* Higher discount rate due to the lower yield environment resulted in higher fair value comparing to the carrying values.

b) Fair value of derivative instruments

The Group 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.

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).

The summary of the derivatives held for trading and derivatives designated as hedge accounting of the Group are as follows:

	Fair value	
	2019	2018
Interest rate swaps held for trading		
Positive fair value of interest rate swaps held for trading	61,198	44,120
Negative fair value of interest rate swaps held for trading	(46,717)	(27,956)
Foreign exchange swaps held for trading		
Positive fair value of foreign exchange swaps held for trading	35,602	31,994
Negative fair value of foreign exchange swaps held for trading	(28,453)	(27,120)
CCIRS held for trading		
Positive fair value of CCIRS held for trading	1,216	12,417
Negative fair value of CCIRS held for trading	(1,037)	(9,165)
Other derivative contracts held for trading		
Positive fair value of other derivative contracts held for trading	12,608	14,874
Negative fair value of other derivative contracts held for trading	(10,536)	(9,075)
Interest rate swaps designated as fair value hedge		
Positive fair value of interest rate swaps designated as fair value hedge	3,758	5,610
Negative fair value of interest rate swaps designated as fair value hedge	(8,839)	(6,458)
CCIRS designated as fair value hedge		
Positive fair value of CCIRS designated as fair value hedge	3,705	4,003
Negative fair value of CCIRS designated as fair value hedge	(1,870)	(352)
Interest rate swaps designated as cash-flow hedge		
Positive fair value of interest rate swaps designated as cash-flow hedge	–	3,751
Negative fair value of interest rate swaps designated as cash-flow hedge	–	(523)
MIRS designated as cash-flow hedge		
Positive fair value of MIRS designated as cash-flow hedge	–	1,837
Negative fair value of MIRS designated as cash-flow hedge	–	(74)
Derivative financial assets total	**118,087**	**118,606**
Derivative financial liabilities total	**(97,452)**	**(80,723)**
Derivative financial instruments total	**20,635**	**37,883**

c) Types of hedge accounting

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

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

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

Type of hedge	Type of risk	Type of instrument	Within one month	Within three months and over one month	Within one year and over three months	Within five years and over one year	More than five years	Total
Fair Value Hedge	Interest rate risk	Interest rate swap						
		HUF						
		Notional	–	–	163,114	289,600	368	**453,082**
		Average Interest Rate (%)	–	–	1.72%	1.73%	1.57%	
		EUR						
		Notional	10	–	–	187	27	**224**
		Average Interest Rate (%)	6.00%	–	–	0.54%	0.58%	
		USD						
		Notional	–	–	6	400	74	**480**
		Average Interest Rate (%)	–	–	2.68%	1.91%	2.22%	
Fair Value Hedge	FX & IR risk	CCIRS						
		EUR/HUF						
		Notional	–	1	(2)	15	16	**30**
		Average Interest Rate (%)	(1.67%)	(1.58%)	(1.70%)	(1.61%)	(1.63%)	
		Average FX Rate	306.30	310.86	304.09	309.85	308.81	
Fair Value Hedge	FX risk	CCIRS						
		RON/HUF						
		Notional	–	–	–	1,200	–	**1,200**
		Average FX Rate	–	–	–	68.66	–	
		RUB/HUF						
		Notional	–	–	–	7,000	–	**7,000**
		Average FX Rate	–	–	–	4.23	–	
Fair Value Hedge	Other	Interest rate swap						
		HUF						
		Notional	–	2,879	1,776	30,479	837	**35,971**
Cash-flow Hedge	Interest rate risk	Interest rate swap						
		HUF						
		Notional	–	–	–	24,388	56,054	**80,442**
		Average FX Rate	–	–	–	1.77	2.46	

As at 31 December 2019:

Type of hedge	Type of instrument	Type of risk	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument as at 31 December 2019		Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness for the year ended 31 December 2019
				Assets	Liabilities		
Fair value hedge							
	Interest rate swap	Interest rate risk	687,820	2,251	(8,839)	Derivative financial instruments designated as hedge accounting	341
	Cross-currency swap	FX & IR risk	11,681	–	(488)	Derivative financial instruments designated as hedge accounting	(103)
	Cross-currency swap	FX risk	137,390	3,705	(1,382)	Derivative financial instruments designated as hedge accounting	(271)
	Interest rate swap	Other	30,983	1,507	–	Derivative financial instruments designated as hedge accounting	7

As at 31 December 2018:

Type of hedge	Type of instrument	Type of risk	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument for the year ended 2018		Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness for the year ended 2018
				Assets	Liabilities		
Fair value hedge							
	Interest rate swap	Interest rate risk	661,704	2,649	(6,051)	Derivative financial instruments designated as hedge accounting	1,551
	Cross-currency swap	FX & IR risk	12,998	735	(181)	Derivative financial instruments designated as hedge accounting	(160)
	Cross-currency swap	FX risk	115,060	4,003	(170)	Derivative financial instruments designated as hedge accounting	(438)
	Interest rate swap	Other	38,834	1,818	–	Derivative financial instruments designated as hedge accounting	(3)
Cash-flow hedge							
	Interest rate swap	Interest rate risk	173,600	5,588	(597)	Derivative financial instruments designated as hedge accounting	(278)

As at 31 December 2019:

Type of hedge	Type of risk	Carrying amount of the hedged item as at 31 December 2019		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item for the year ended 31 December 2019		Line item in the statement of financial position in which the hedged item is included
		Assets	Liabilities	Assets	Liabilities	
Fair value hedges						
Loans	Interest rate risk	36,709	–	521	–	Loans
Government bonds	Interest rate risk	578,026	–	109	–	Securities at amortised cost
Government bonds	Interest rate risk	144,234	–	1,074	–	Securities at fair value through other comprehensive income
Government bonds	Interest rate risk	–	–	–	–	Financial assets at fair value through profit or loss
Other securities	Interest rate risk	85,231	–	166	–	Securities at fair value through other comprehensive income
Loans	FX & IR risk	12,242	–	2	–	Loans
Loans	FX risk	136,088	–	1,465	–	Loans
Other securities	Other risk	–	(29,018)	–	(5,765)	Liabilities from issued securities
Fair value hedges total		**992,530**	**(29,018)**	**3,337**	**(5,765)**	

As at 31 December 2018:

Type of hedge	Type of risk	Carrying amount of the hedged item for the year ended 2018		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item for the year ended 2018		Line item in the statement of financial position in which the hedged item is included
		Assets	Liabilities	Assets	Liabilities	
Fair value hedges						
Loans	Interest rate risk	25,958	–	(162)	–	Loans
Government bonds	Interest rate risk	1,236,599	–	(2,298)	–	Securities at amortised cost
Government bonds	Interest rate risk	101,707	–	(280)	–	Securities at fair value through other comprehensive income
Government bonds	Interest rate risk	1,891	–	(1,563)	–	Financial assets at fair value through profit or loss
Other securities	Interest rate risk	185,576	–	(68)	–	Securities at fair value through other comprehensive income
Loans	FX & IR risk	13,308	–	7	–	Loans
Loans	FX risk	103,905	–	(590)	–	Loans
Other securities	Other risk	–	(35,716)	–	5,978	Liabilities from issued securities
Fair value hedges total		**1,668,944**	**(35,716)**	**(4,954)**	**5,978**	
Cash-flow hedges						
Loans	Interest rate risk	–	(17)	1,100	–	Due to banks

As at 31 December 2019:

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

As at 31 December 2018:

Type of instrument	Type of risk	Change in the value of the hedging instrument recognised in cash-flow hedge reserve	Hedge effectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness
Interest rate swap	Interest rate risk	(17)	17	Interest income from placements with other banks, net of allowance for placement losses

As at 31 December 2019:

Type of hedge	Type of risk	Carrying amount of the hedged item as at 31 December 2019 EUR million	Type of hedging instrument	Changes in fair value used for calculating hedge ineffectiveness for the year ended 31 December 2019 HUF million
Net investment hedge for foreign subsidiaries				
Fx assets in foreign subsidiaries	Fx risk	310*	OTP HB Perpet bonds	2,776.3

As at 31 December 2018:

Type of hedge	Type of risk	Carrying amount of the hedged item as at 31 December 2018 EUR million	Type of hedging instrument	Changes in fair value used for calculating hedge ineffectiveness for the year ended 31 December 2018 HUF million
Net investment hedge for foreign subsidiaries				
Fx assets in foreign subsidiaries	Fx risk	310*	OTP HB Perpet bonds	3,744.5

d) Fair value levels

Methods and significant assumptions used to determine fair value of the different levels 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).

* Companies included: DSK Bank EAD, OTP banka Hrvatska d.d., OTP Banka Slovensko, a.s., Crnogorska komercijalna banka a.d.

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

As at 31 December 2019:

	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	251,990	105,246	143,233	3,511
from this: trading securities at fair value through profit or loss	100,048	75,963	24,085	–
from this: positive fair value of derivative financial assets held for trading	110,624	6	110,618	–
from this: non-trading instruments mandatorily at fair value through profit or loss	39,317	29,277	6,529	3,511
from this: financial assets designated at fair value through profit or loss	2,001	–	2,001	–
Securities at fair value through other comprehensive income	2,426,779	1,591,882	775,202	59,695*
Loans mandatorily measured at fair value through profit or loss	32,802	490	2,581	29,731
Positive fair value of derivative financial assets designated as fair value hedge	7,463	–	7,463	–
Financial assets measured at fair value total	**2,719,034**	**1,697,618**	**928,479**	**92,937**
Financial liabilities at fair value through profit or loss	30,862	–	2,001	28,861
Negative fair value of held-for-trading derivative financial liabilities	86,743	249	86,494	–
Negative fair value of derivative financial liabilities designated as fair value hedge	10,709	–	10,709	–
Financial liabilities measured at fair value total	**128,314**	**249**	**99,204**	**28,861**

As at 31 December 2018:

	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	181,356	73,063	108,293	–
from this: trading securities at fair value through profit or loss	50,439	47,498	2,941	–
from this: positive fair value of derivative financial assets held for trading	103,405	299	103,106	–
from this: non-trading instruments mandatorily at fair value through profit or loss	27,512	25,266	2,246	–
Securities at fair value through other comprehensive income	1,883,849	1,474,497	398,662	10,690**
Loans mandatorily measured at fair value through profit or loss	34,525	–	–	34,525
Positive fair value of derivative financial assets designated as fair value hedge	9,613	–	9,613	–
Positive fair value of derivative financial assets designated as cash-flow hedge	5,588	–	5,588	–
Financial assets measured at fair value total	**2,114,931**	**1,547,560**	**522,156**	**45,215**
Financial liabilities at fair value through profit or loss	32,231	–	–	32,231
Negative fair value of held-for-trading derivative financial liabilities	73,316	1,294	72,022	–
Negative fair value of derivative financial liabilities designated as fair value hedge	6,810	–	6,810	–
Negative fair value of derivative financial liabilities designated as cash-flow hedge	597	–	597	–
Financial liabilities measured at fair value total	**112,954**	**1,294**	**79,429**	**32,231**

* The portfolio includes mainly Visa Inc. "C" convertible preferred stock and common shares and HUF 44,098 million Alban government bonds.
** The portfolio includes Visa Inc. "C" convertible preferred stock and common shares.

Movements in Level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

	Opening balance	Purchase (+)	Issue (+)	Settlement/ Close (–)	Sale (–)	Revaluation	Closing balance
Trading securities at fair value through profit or loss	–	–	3,511	–	–	–	3,511
Securities at fair value through other comprehensive income	10,690	47,213	949	(217)	(1,295)	2,355	59,695
Loans mandatorily measured at fair value through profit or loss	34,525	–	–	(5,337)	–	543	29,731
Financial assets measured at fair value total	**45,215**	**47,213**	**4,460**	**(5,554)**	**(1,295)**	**2,898**	**92,937**
Financial liabilities at fair value through profit or loss	32,231	–	–	(3,349)	–	(21)	28,861
Financial liabilities measured at fair value total	**32,231**	**–**	**–**	**(3,349)**	**–**	**(21)**	**28,861**

There were no movements among the levels of fair value hierarchy neither in the year ended 31 December 2019 or 2018 respectively.

NOTE 45: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF mn)

The Group distinguishes business and geographical segments. The report on the base of the business and geographical segments is reported below.

The operations in the Slovakian segment were discontinued in the current year. The segment information reported on the next pages does not include any amounts for these discontinued operations, which are described in more details in Note 46.

The reportable segments of the Group on the base of IFRS 8 are the following: OTP Core Hungary, Russia, Ukraine, Bulgaria, Romania, Serbia, Croatia, Montenegro, Albania, Moldova, Slovenia, Merkantil Bank, Asset Management subsidiaries, Other subsidiaries and Corporate Center.

OTP Core is an economic unit for measuring the result of core business activity of the Group in Hungary. Financials for OTP Core are calculated from the partially consolidated financial statements of the companies engaged in the Group's underlying banking operation in Hungary. These companies include OTP Bank Hungary Plc., OTP Mortgage Bank Ltd., OTP Building Society Ltd., OTP Factoring Ltd., OTP Financial Point Ltd., and companies providing intragroup financing. The Bank Employee Stock Ownership Plan Organization was included from the fourth quarter of 2016; OTP Card Factory Ltd., OTP Facility Management Llc., Monicomp Ltd. and OTP Real Estate Lease Ltd. were included from the first quarter of 2017 (from the first quarter of 2019 OTP Real Estate Lease Ltd. was eliminated from OTP Core); OTP Mobile Service Llc. and OTP Ingatlanpont Llc. were included from the first quarter of 2019.

The consolidated accounting results of these companies are segmented into OTP Core and Corporate Centre. Latter is a virtual entity.

Within the Group, the Corporate Centre acts as a virtual entity established by the equity investment of OTP Core for managing the wholesale financing activity for all the subsidiaries within the Group but outside OTP Core. Therefore the balance sheet of the Corporate Centre is funded by the equity and intragroup lending received from OTP Core, the intragroup lending received from other subsidiaries, and the subordinated debt and senior notes arranged by OTP under its running EMTN program. From this funding pool, the Corporate Centre is to provide intragroup lending to, and hold equity stakes in OTP subsidiaries outside OTP Core. Main subsidiaries financed by Corporate Centre are as follows: Hungarians: Merkantil Bank Ltd., Merkantil Leasing Ltd., OTP Fund Management Ltd., OTP Real Estate Fund Management Ltd., OTP Life Annuity Ltd.; foreigners: banks, leasing companies, factoring companies.

The results of OTP Factoring Ukraine LLC, OTP Factoring SRL, OTP Factoring Bulgaria LLC, OTP Factoring Serbia d.o.o., and OTP Factoring Montenegro d.o.o. are included into the foreign banks segment.

Companies comprising Foreign Leasing in previous periods (OTP Leasing Romania IFN S.A. [Romania], OTP Leasing d.d. and SB Leasing d.o.o. [Croatia], DSK Leasing AD [Bulgaria], OTP Lizing d.o.o, OTP Services d.o. [Serbia]) were presented as part of the operations in the given countries starting from the first quarter of 2019.

From the first quarter of 2019 Expressbank AD and its subsidiaries, OTP Leasing EOOD and Express Factoring EOOD (altogether: Express Group) were included into the Bulgarian operation, so from the first quarter of 2019 the statement of recognised income and balance sheet of DSK Leasing AD was included into this segment too.

The Serbian segment, OTP banka Srbija a.d. Beograd and Vojvodjanska Banka a.d. Novi Sad includes from the first quarter of 2019 the statements of profit or loss and financial positions of OTP Lizing d.o.o és OTP Services d.o.o. and from the third quarter of 2019 the financial position of the newly acquired OTP banka Srbija a.d. Beograd and from the fourth quarter of 2019 its statement of profit or loss too.

The Montenegrin segment, Crnogorska komercijalna banka a.d. and Podgoricka banka a.d. includes from the third quarter of 2019 the statement of profit or loss and financial position of the newly acquired Podgoricka banka a.d.

In the first quarter of 2019 the Albanian, and from the second half of year 2019 the Moldovan and Slovenian segments were included as new segments in the consolidated segment report.

The activities of the other subsidiaries are out of the leasing and fund management activity, such as: OTP Real Estate Ltd., OTP Life Annuity Ltd., OTP Funds Servicing and Consulting Ltd., OTP Building s.r.o., OTP Real Slovensko s.r.o.

The reportable business and geographical segments of the Group are those components where:

- separated incomes and ex penses, assets and liabilities can be identified and assignable to the segments,
- transactions between the different segments were eliminated,
- the main decisive board of the Group regularly controls the operating results,
- separated financial information is available.

Adjustments

Goodwill/investment impairment and their tax saving effect:
As at 31 December 2019 HUF 8,427 million was recognized on goodwill/investment impairment from which HUF 4,887 million was recognized on OTP Bank Romania S.A as goodwill impairment and HUF 3,540 million negative tax effect was recognized due to the impairment and release of impairment on investments, which is mainly related to the release of the previously recognized impairment on OTP Bank JSC (Ukraine).

As at 31 December 2018 HUF 4,136 million tax shield was recognized due to impairment on investment, the effect of which was partly compensated by HUF 2,903 million release of impairment. Altogether with HUF 5,962 million goodwill impairment on OTP Real Estate Lease Ltd. and Monicomp Ltd. negative tax effect was recognized in the amount of HUF 4,729 million.

Special tax on financial institutions (after income tax):
Special tax on financial institutions includes the special tax paid by the Hungarian financial institutions, the Slovakian banking levy and as well as from the fourth quarter of 2019 the banking tax paid by the Romanian bank, subsidiary of OTP Group. Besides, it also contains the Slovakian Deposit Protection Fund contributions being introduced again in 2014, and the contribution into the Resolution Fund in Slovakia, too.

Effect of acquisitions (after income tax):
The following main items might appear on this line: the potential negative goodwill related to acquisitions which improves the accounting result, effects related to the planned sale of the Slovenian bank, expenses related directly to the acquisitions and integration processes, and the volume of Day1 impairment under IFRS 9 booked after the consolidation of the newly acquired subsidiaries during the year 2019.

One-off impact of regulatory changes related to FX consumer contracts in Serbia (after income tax):
HUF (1.6) billion as a negative result on the optional conversion of the Serbian CHF mortgage exposure into EUR.

Information regarding the Group's reportable segments is presented below:

As at 31 December 2019:

Main components of the Consolidated Statement of Profit or Loss in HUF million	OTP Group – consolidated – in the Consolidated Statement of Profit or Loss – structure of accounting reports	Adjustments on the accounting in Recognized Income	OTP Group – consolidated – in the Consolidated Statement of Profit or Loss – structure of management reports	OTP CORE (Hungary)	Foreign banks subtotal (without adjustments)	DSK Group including Expressbank AD (Bulgaria)	OTP banka Hrvatska d.d. (Croatia)	Vojvodjanska banka a.d. + OTP banka Srbija a.d. Beograd (Serbia)
	a	b	1=a+b 1=2+3+14+18+19	2	3=4+…+13	4	5	6
Net profit for the year from continued and discontinued operations	**412,582**		**412,582**					
Net profit for the year from discontinued operations	**4,668**		**4,668**					
Net profit for the year from continued opearations	**417,250**		**417,250**					
Adjustments (total)		**(1,803)**	**(1,803)**					
Dividends and net cash transfers (after income tax)		505	505					
Goodwill/investment impairment (after income tax)		(8,427)	(8,427)					
Bank tax on financial institutions (after income tax)		(16,170)	(16,170)					
Effect of acquisition (after income tax)		23,933	23,933					
One-off impact of regulatory changes related to FX consumer contracts in Serbia (after income tax)		(1,644)	(1,644)					
Consolidated adjusted net profit for the year	**417,250**	**1,802**	**419,052**	**193,991**	**189,612**	**67,879**	**30,718**	**10,430**
Profit before income tax	**467,152**	**(1,179)**	**465,973**	**206,659**	**220,152**	**75,078**	**37,399**	**9,971**
Adjusted operating profit	**523,978**	**(13,932)**	**510,046**	**177,030**	**293,500**	**83,495**	**42,925**	**13,144**
Adjusted total income	1,165,195	(87,467)	1,077,728	435,048	565,450	155,566	85,069	43,277
Adjusted net interest income	697,049	9,249	706,298	261,754	408,725	109,030	56,812	30,809
Adjusted net profit from fees and commissions	340,445	(57,941)	282,504	126,911	123,739	42,019	17,032	9,506
Adjusted other net non-interest income	127,701	(38,775)	88,926	46,383	32,986	4,517	11,225	2,962
Adjusted other administrative expenses	(641,217)	73,535	(567,682)	(258,018)	(271,950)	(72,071)	(42,144)	(30,133)
Total risk costs	**(56,826)**	**9,719**	**(47,107)**	**26,595**	**(73,348)**	**(8,417)**	**(5,526)**	**(3,173)**
Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX)	(56,826)	27,352	(29,474)	30,332	(59,952)	(5,216)	(2,835)	(1,634)
Other provision (adjustment)	0	(17,633)	(17,633)	(3,737)	(13,396)	(3,201)	(2,691)	(1,539)
Total other adjustments (one-off items)*	**0**	**3,034**	**3,034**	**3,034**	**0**	**0**	**0**	**0**
Income tax	**(49,902)**	**2,981**	**(46,921)**	**(12,668)**	**(30,540)**	**(7,199)**	**(6,681)**	**459**
Total Assets**	**19,659,696**	**0**	**19,659,696**	**9,641,692**	**11,965,975**	**3,669,766**	**2,098,951**	**1,659,483**
Total Liabilities***	**17,467,983**	**0**	**17,467,983**	**7,920,820**	**10,207,807**	**3,141,007**	**1,806,302**	**1,410,022**

( ) used at: provisions, impairment and expenses.
* One-off item in the total amount consists the result of the treasury share swap agreement at OTP Core.
** Relating to the discontinued operations the assets were HUF 462,071 million.
*** Relating to the discontinued operations the liabilities were HUF 362,496 million.

SKB Banka (Slovenia)	OTP Bank Romania S.A. (Romania)	OTP Bank JSC (Ukraine)	JSC "OTP Bank" (Russia) and Touch Bank	Crnogorska komercijalna banka a.d. + Podgorička banka AD (Montenegro)	Banka OTP Albania SHA (Albania)	Mobiasbanca – OTP Group S.A. (Moldova)	**Non-banking subsidiaries subtotal**	**Merkantil Bank (Hungary)**	**Asset Management subsidiaries**	**Other subsidiaries**	**Corporate Centre**	**Eliminations and adjustments**
7	8	9	10	11	12	13	14=15+16+17	15	16	17	18	19
0	**6,309**	**35,222**	**28,127**	**6,377**	**2,615**	**1,935**	**32,182**	**7,116**	**15,335**	**9,731**	**3,478**	**(211)**
0	**6,907**	**42,159**	**36,399**	**7,056**	**3,074**	**2,109**	**34,829**	**7,748**	**16,782**	**10,299**	**3,906**	**427**
0	**12,315**	**44,353**	**84,946**	**5,692**	**3,702**	**2,928**	**34,754**	**7,373**	**16,642**	**10,739**	**3,906**	**856**
0	37,531	67,451	146,582	16,120	7,952	5,902	68,079	14,370	21,186	32,523	4,490	4,661
0	28,254	48,128	113,572	11,464	6,697	3,959	18,807	14,013	3	4,791	4,490	12,522
0	3,180	14,877	31,012	4,215	1,007	891	29,118	(104)	20,475	8,747	0	2,736
0	6,097	4,446	1,998	441	248	1,052	20,154	461	708	18,985	0	(10,597)
0	(25,216)	(23,098)	(61,636)	(10,428)	(4,250)	(2,974)	(33,325)	(6,997)	(4,544)	(21,784)	(584)	(3,805)
0	**(5,408)**	**(2,194)**	**(48,547)**	**1,364**	**(628)**	**(819)**	**75**	**375**	**140**	**(440)**	**0**	**(429)**
0	(3,018)	(1,433)	(46,123)	1,293	(249)	(737)	52	143	0	(91)	0	94
0	(2,390)	(761)	(2,424)	71	(379)	(82)	23	232	140	(349)	0	(523)
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	**(598)**	**(6,937)**	**(8,272)**	**(679)**	**(459)**	**(174)**	**(2,647)**	**(632)**	**(1,447)**	**(568)**	**(428)**	**(638)**
1,130,871	**953,345**	**646,295**	**908,388**	**439,836**	**247,997**	**211,043**	**909,128**	**491,399**	**35,846**	**381,883**	**2,946,936**	**(5,804,035)**
998,204	**836,912**	**537,167**	**705,628**	**373,648**	**222,393**	**176,524**	**653,521**	**446,958**	**9,123**	**197,440**	**1,599,877**	**(2,914,042)**

As at 31 December 2019:

Main components of the Consolidated Statement of Profit or Loss in HUF million	OTP Group – consolidated – in the Consolidated Statement of Profit or Loss – structure of accounting reports	Adjustments on the accounting in Recognized Income	OTP Group – consolidated – in the Consolidated Statement of Profit or Loss – structure of management reports	OTP CORE (Hungary)	Foreign banks subtotal (without adjustments)	DSK Group including Expressbank AD (Bulgaria)	OTP banka Hrvatska d.d. (Croatia)	Vojvodjanska banka a.d. + OTP banka Srbija a.d. Beograd (Serbia)
	a	b	1=a+b 1= 2+3+14+18+19	2	3=4+…+13	4	5	6
Net profit for the year from continued and discontinued operations	**412,582**		**412,582**					
Net profit for the year from discontinued operations	**4,668**		**4,668**					
Net profit for the year from continued opearations	**417,250**		**417,250**					
Adjustments (total)		**(1,803)**	**(1,803)**					
Dividends and net cash transfers (after income tax)		505	505					
Goodwill/investment impairment (after income tax)		(8,427)	(8,427)					
Bank tax on financial institutions (after income tax)		(16,170)	(16,170)					
Effect of acquisition (after income tax)		23,933	23,933					
One-off impact of regulatory changes related to FX consumer contracts in Serbia (after income tax)		(1,644)	(1,644)					
Consolidated adjusted net profit for the year	**417,250**	**1,802**	**419,052**	**193,991**	**187,963**	**66,947**	**29,762**	**10,284**
Profit before income tax	**467,152**	**(1,179)**	**465,973**	**206,659**	**218,147**	**74,043**	**36,218**	**9,797**
Adjusted operating profit	**523,978**	**(13,932)**	**510,046**	**177,030**	**288,858**	**82,482**	**40,443**	**12,534**
Adjusted total income	1,165,195	(87,467)	1,077,728	435,048	556,694	153,935	80,259	42,211
Adjusted net interest income	697,049	9,249	706,298	261,754	401,259	107,709	52,393	29,936
Adjusted net profit from fees and commissions	340,445	(57,941)	282,504	126,911	122,471	41,609	16,491	9,439
Adjusted other net non-interest income	127,701	(38,775)	88,926	46,383	32,964	4,617	11,375	2,836
Adjusted other administrative expenses	(641,217)	73,535	(567,682)	(258,018)	(267,836)	(71,453)	(39,816)	(29,677)
Total risk costs	**(56,826)**	**9,719**	**(47,107)**	**26,595**	**(70,711)**	**(8,439)**	**(4,225)**	**(2,737)**
Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX)	(56,826)	27,352	(29,474)	30,332	(57,433)	(5,338)	(1,371)	(1,214)
Other provision (adjustment)	0	(17,633)	(17,633)	(3,737)	(13,278)	(3,101)	(2,854)	(1,523)
Total other adjustments (one-off items)*	**0**	**3,034**	**3,034**	**3,034**	**0**	**0**	**0**	**0**
Income tax	**(49,902)**	**2,981**	**(46,921)**	**(12,668)**	**(30,184)**	**(7,096)**	**(6,456)**	**487**
Total Assets**	**19,659,696**	**0**	**19,659,696**	**9,641,692**	**11,740,479**	**3,640,049**	**1,963,296**	**1,628,831**
Total Liabilities***	**17,467,983**	**0**	**17,467,983**	**7,920,820**	**9,996,766**	**3,115,437**	**1,677,532**	**1,381,651**

( ) used at: provisions, impairment and expenses.
* One-off item in the total amount consists the result of the treasury share swap agreement at OTP Core.
** Relating to the discontinued operations the assets were HUF 462,071 million.
*** Relating to the discontinued operations the liabilities were HUF 362,496 million.

SKB Banka (Slovenia)	OTP Bank Romania S.A. (Romania)	OTP Bank JSC (Ukraine)	JSC "OTP Bank" (Russia) and Touch Bank	Crnogorska komercijalna banka a.d. + Podgorička banka AD (Montenegro)	Banka OTP Albania SHA (Albania)	Mobiasbanca – OTP Group S.A. (Moldova)	**Non-banking subsidiaries subtotal**	**Leasing subsidiaries**	**Asset Management subsidiaries**	**Other subsidiaries**	**Corporate Centre**	**Eliminations and adjustments**
7	8	9	10	11	12	13	14=15+16+17	15	16	17	18	19
0	**6,694**	**35,222**	**28,127**	**6,377**	**2,615**	**1,935**	**33,703**	**8,763**	**15,209**	**9,731**	**3,478**	**(83)**
0	**7,292**	**42,159**	**36,399**	**7,056**	**3,074**	**2,109**	**36,706**	**9,751**	**16,656**	**10,299**	**3,906**	**555**
0	**11,778**	**44,353**	**84,946**	**5,692**	**3,702**	**2,928**	**39,395**	**12,014**	**16,642**	**10,739**	**3,906**	**857**
0	36,282	67,451	146,582	16,120	7,952	5,902	76,834	23,125	21,186	32,523	4,490	4,662
0	27,401	48,128	113,572	11,464	6,697	3,959	26,273	21,479	3	4,791	4,490	12,522
0	2,930	14,877	31,012	4,215	1,007	891	30,386	1,164	20,475	8,747	0	2,736
0	5,951	4,446	1,998	441	248	1,052	20,175	482	708	18,985	0	(10,596)
0	(24,504)	(23,098)	(61,636)	(10,428)	(4,250)	(2,974)	(37,439)	(11,111)	(4,544)	(21,784)	(584)	(3,805)
0	**(4,486)**	**(2,194)**	**(48,547)**	**1,364**	**(628)**	**(819)**	**(2,689)**	**(2,263)**	**14**	**(440)**	**0**	**(302)**
0	(2,261)	(1,433)	(46,123)	1,293	(249)	(737)	(2,468)	(2,377)	0	(91)	0	95
0	(2,225)	(761)	(2,424)	71	(379)	(82)	(221)	114	14	(349)	0	(397)
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
0	**(598)**	**(6,937)**	**(8,272)**	**(679)**	**(459)**	**(174)**	**(3,003)**	**(988)**	**(1,447)**	**(568)**	**(428)**	**(638)**
1,130,871	**923,873**	**646,295**	**908,388**	**439,836**	**247,997**	**211,043**	**1,134,626**	**716,897**	**35,846**	**381,883**	**2,946,936**	**(5,804,037)**
998,204	**808,582**	**537,167**	**705,628**	**373,648**	**222,393**	**176,524**	**864,562**	**657,999**	**9,123**	**197,440**	**1,599,877**	**(2,914,042)**

As at 31 December 2018:

Main components of the Consolidated Statement of Profit or Loss in HUF million	OTP Group – consolidated – in the Consolidated Statement of Profit or Loss – structure of accounting reports	Adjustments on the accounting in Recognized Income	OTP Group – consolidated – in the Consolidated Statement of Profit or Loss – structure of management reports	OTP CORE (Hungary)	Foreign banks subtotal (without adjustments)	DSK Bank EAD (Bulgaria)	OTP banka Hrvatska d.d. (Croatia)
	a	b	1=a+b 1=2+3+11+15+16	2	3=4+…+10	4	5
Net profit for the year	**318,322**		**318,322**				
Net profit for the year from discontinued operations	**586**		**586**				
Net profit for the year from continued opearations	**318,908**		**318,908**				
Adjustments (total)		**(7,014)**	**(7,014)**				
Dividends and net cash transfers (after income tax)		457	457				
Goodwill/investment impairment (after income tax)		(4,729)	(4,729)				
Bank tax on financial institutions (after income tax)		(15,286)	(15,286)				
Effect of acquisition (after income tax)		(6,844)	(6,844)				
Impact of fines imposed by the Hungarian Competition Authority (after income tax)		565	565				
Initial NPV gain on the monetary policy interest rate swap (MIRS) deals (after income tax)		18,823	18,823				
Consolidated adjusted net profit for the year	**318,908**	**6,425**	**325,333**	**184,439**	**120,800**	**47,295**	**23,607**
Profit before income tax	**352,908**	**9,825**	**362,733**	**199,156**	**141,349**	**51,603**	**28,959**
Adjusted operating profit	**381,724**	**3,184**	**384,908**	**148,572**	**208,986**	**57,097**	**33,499**
Adjusted total income	942,247	(60,521)	881,726	382,528	431,062	107,817	74,406
Adjusted net interest income	613,385	(13,553)	599,832	245,934	307,443	69,979	50,482
Adjusted net profit from fees and commissions	274,136	(53,405)	220,731	107,010	98,297	30,435	15,576
Adjusted other net non-interest income	54,726	6,437	61,163	29,584	25,322	7,403	8,348
Adjusted other administrative expenses	(560,523)	63,705	(496,818)	(233,956)	(222,076)	(50,720)	(40,907)
Total risk costs	**(28,816)**	**2,648**	**(26,168)**	**46,591**	**(67,637)**	**(5,494)**	**(4,540)**
Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX)	(28,816)	9,533	(19,283)	48,192	(64,205)	(9,532)	(2,803)
Other provision (adjustment)	0	(6,885)	(6,885)	(1,601)	(3,432)	4,038	(1,737)
Total other adjustments (one-off items)*	**0**	**3,993**	**3,993**	**3,993**	**0**	**0**	**0**
Income tax	**(34,000)**	**(3,400)**	**(37,400)**	**(14,717)**	**(20,549)**	**(4,308)**	**(5,352)**
Total Assets**	**14,142,248**	**0**	**14,142,248**	**8,563,425**	**6,786,756**	**2,381,275**	**1,719,622**
Total Liabilities***	**12,395,247**	**0**	**12,395,247**	**7,001,737**	**5,680,188**	**1,927,384**	**1,456,294**

( ) used at: provisions, impairment and expenses.
* One-off item in the total amount consists the result of the treasury share swap agreement at OTP Core.
** Relating to the discontinued operations the assets were HUF 448,040 million.
*** Relating to the discontinued operations the liabilities were HUF 368,384 million.

	OTP banka Srbija a.d. and Vojvodjanska banka a.d. (Serbia)	OTP Bank Romania S.A. (Romania)	OTP Bank JSC (Ukraine)	JSC "OTP Bank" (Russia) and Touch Bank	Crnogorska komercijalna banka a.d. (Montenegro)	**Non-banking subsidiaries subtotal**	**Leasing subsidiaries**	**Asset Management subsidiaries**	**Other subsidiaries**	**Corporate Centre**	**Eliminations and adjustments**
	6	7	8	9	10	11=12+13+14	12	13	14	15	16
	3,000	**3,850**	**24,415**	**16,420**	**2,213**	**15,989**	**9,828**	**4,160**	**2,001**	**6,189**	**(2,084)**
	3,138	**4,901**	**29,175**	**21,034**	**2,539**	**16,855**	**9,780**	**4,573**	**2,502**	**6,924**	**(1,551)**
	6,228	**10,585**	**30,095**	**68,878**	**2,604**	**18,917**	**10,180**	**4,448**	**4,289**	**6,924**	**1,509**
	30,307	30,759	47,145	129,899	10,729	53,379	20,261	7,654	25,464	7,350	7,407
	20,514	23,410	33,040	102,489	7,529	23,269	19,043	31	4,195	7,350	15,836
	7,286	3,563	11,444	26,766	3,227	12,655	879	7,844	3,932	0	2,769
	2,507	3,786	2,661	644	(27	17,455	339	(221)	17,337	0	(11,198)
	(24,079)	(20,174)	(17,050)	(61,021)	(8,125)	(34,462)	(10,081)	(3,206)	(21,175)	(426)	(5,898)
	(3,090)	**(5,684)**	**(920)**	**(47,844)**	**(65)**	**(2,062)**	**(400)**	**125**	**(1,787)**	**0**	**(3,060)**
	(3,146)	(4,794)	(1,680)	(42,204)	(46)	(145)	(174)	0	29	0	(3,125)
	56	(890)	760	(5,640)	(19)	(1,917)	(226)	125	(1,816)	0	65
	0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
	(138)	**(1,051)**	**(4,760)**	**(4,614)**	**(326)**	**(866)**	**48**	**(413)**	**(501)**	**(735)**	**(533)**
	590,166	**771,968**	**391,240**	**707,593**	**224,892**	**919,148**	**605,279**	**19,461**	**294,408**	**2,147,905**	**(4,274,986)**
	505,318	**711,922**	**333,419**	**559,595**	**186,256**	**686,953**	**555,596**	**2,690**	**128,667**	**1,065,755**	**(2,039,386)**

NOTE 46: DISCONTINUED OPERATIONS (in HUF mn)

On 31 December 2019, the Group classified the operations of its Slovak subsidiary, OTP Banka Slovensko a.s. as discontinued operations. The classification was needed because there is intention for the sale.

The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

	2019
Cash, amounts due from banks and balances with the National Banks	57,586
Placements with other banks, net of loss allowance for placements	354
Securities at fair value through other comprehensive income	759
Loans at amortized cost	368,456
Securities at amortized cost	27,555
Tangible assets and other asset on net value	7,361
Non-current assets and disposal group classified as held-for-sale	**462,071**
Amounts due to banks, the National Governments, deposits from the National Banks and other banks	1,898
Deposits from customers	351,344
Leasing liabilities	940
Other liabilities	8,314
Disposal group liabilities classified as held-for-sale	**362,496**

The results of the discontinued operations, which have been included in the profit for the year, were as follows:

	2019
Incomes	16,942
Expenses	15,522
Profit before income tax	**1,420**
Income tax	56
Expected loss of the sale of OTP Banka Slovensko a.s.	6,032
Loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	**(4,668)**

During the year 2019, the Slovak subsidiary bank contributed to the Group's operating activity with HUF (48,377) million, to the Group's investing activity with HUF (1,197) million, and in respect of the Group's financing activity with HUF (1,086) million which were modified by the eliminations during the consolidation by HUF 23,788 million.

The Group intends to increase its market share with new acquisitions and organic increase in the Middle East European Region and although during the near 20 years attendance on the Slovak market followed this strategy, the Group hasn't managed to reach the optimal share market, the management decided to sell this member of the Group. As a result this allows of the Group to focus on those markets where it can reach significant market share and to strengthen its position in those countries where it has already operated.

HUF 6,032 million expected impairment loss was recognized on OTP Banka Slovensko a.s. classified as discontinued operations which is calculated as the difference between the proceeds of disposal and the related net assets of the Slovak bank held-for-sale. These operations, which are expected to be sold within 12 months, have been classified as a discontinued operations, so the assets, liabilities of these discontinued operations and their losses are presented separately in both the statement of financial position and statement of profit or loss.

NOTE 47: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2019

1) Term Note Program

See details in Note 18.

2) Financial closure of the acquisition in Albania

See details in Note 38.

3) Financial closure of the acquisition in Montenegro

See details in Note 38.

4) Financial closure of the acquisition in Moldova

See details in Note 38.

5) Financial closure of the acquisition in Serbia

See details in Note 38.

6) Financial closure of the acquisition in Slovenia

See details in Note 38.

7) Closing of the sale of Express Life Bulgaria

On 31 October 2019 the Express Life Bulgaria transaction was financially closed, as a result of which Groupama Zhivotozastrahovane EAD, a Bulgarian subsidiary of the Groupama Group has acquired 100% ownership of the insurance company from DSK Bank EAD and Expressbank AD, the Bulgarian subsidiaries of OTP Bank.

8) Issued securities

Notes have been issued at 99.738% of the face value on 15 July 2019 as value date, in the nominal amount of EUR 500 million. The 10 Non-Call 5 years Tier2 Notes carry a fix coupon of 2.875% p.a., paid annually in the first five years. Starting from year 6 until maturity, the yearly fix coupon is calculated as the sum of the initial margin (320 bps) and the 5 year mid-swap rate prevailing at the end of year 5. The notes are rated 'Ba1' by Moody's Investors Service Cyprus Limited. The Notes are listed on the Luxembourg Stock Exchange.

NOTE 48: POST BALANCE SHEET EVENTS

1) Closing of the strategic open position

At the end of 2019 the Management has decided to close during 2020 the strategic open EUR 310 million (short) position, which is kept to hedge the currency risk of the expected FX-denominated net earnings of the main foreign subsidiaries.

2) Supreme Court ruling in Croatia

In September 2019 the Supreme Court of the Republic of Croatia made a ruling, which to a large extent confirms the earlier ruling of the High Commercial Court of the Republic of Croatia dated June 2018 in the case of protection of collective interest and rights of the consumers who had taken loans with principals indexed to Swiss franc (Ruling No. Rev-2221/2018-11 of the Supreme Court of the Republic of Croatia, hereinafter referred to as "the Ruling"). The Civil Division of the Supreme Court announced their opinion about the statute of limitations in January 2020, and a further ruling is anticipated from the Supreme Court (due by 17 March 2020) with regard to the extent of the loan contracts to which it applies. Borrowers may, individually, sue the banks for reimbursement. The final verdict of the Supreme Court can be contested at the Constitutional Court of Republic of Croatia. At this point, it is not yet possible to ascertain the financial impact of this matter. As permitted by IAS 37.92, in order not to prejudice the outcomes of the proceedings and the interests of the Bank, no further disclosures are made about the possible outcomes in connection with the Ruling.

3) Sale of the stake in the Slovakian OTP Banka Slovensko a.s.

An agreement to sell its 99.44% stake in OTP Banka Slovensko a.s., the Slovakian subsidiary of OTP Bank has been signed with KBC Bank NV. The financial closing of the transaction is expected to take place in the coming months, subject to obtaining the necessary supervisory approvals.

4) Potential impact of COVID-19 virus

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

Deloitte.

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

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

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of OTP Bank Plc.

Report on the Audit of the Separate Financial Statements

Opinion

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

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

Basis for Opinion

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

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

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

Key Audit Matters

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

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

2/5

Other Information

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

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

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

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

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

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

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

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

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

In preparing the separate financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the

3/5

going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

We also:

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

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

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

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

Budapest, March 16, 2020

....
Andrew Weekes
Deloitte Auditing and Consulting Ltd.
1068 Budapest, Dózsa György út 84/C.
Registration number: 000083

....
dr. Hruby Attila
Statutory registered auditor
Registration number: 007118

5/5

Statement of Financial Position

(separate, in accordance with IFRS, as at 31 December 2019, in HUF mn)

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

Budapest, 16 March 2020

The accompanying notes to separate financial statements on pages 222 to 311 form an integral part of these separate financial statements.

Statement of Profit or Loss

(separate, in accordance with IFRS, for the year ended 31 December 2019, in HUF mn)

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

Statement of Comprehensive Income

(separate, in accordance with IFRS, for the year ended 31 December 2019, in HUF mn)

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

The accompanying notes to separate financial statements on pages 222 to 311 form an integral part of these separate financial statements.

Statement of Changes in Equity

(separate, in accordance with IFRS, for the year ended 31 December 2019, in HUF mn)

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

The accompanying notes to separate financial statements on pages 222 to 311 form an integral part of these separate financial statements.

Statement of Cash-flows

(separate, in accordance with IFRS, for the year ended 31 December 2019, in HUF mn)

	Note	2019	2018
OPERATING ACTIVITIES			
Profit before income tax		**203,194**	**184,633**
Net accrued interest		6,760	1,586
Depreciation and amortization	12	29,925	21,232
Loss allowance on loan and placement losses	9	33,728	7,822
Release of loss allowance on securities at fair value through other comprehensive income	29	(176)	(553)
(Reversal of impairment loss)/Impairment loss on investments in subsidiaries	10	(38,807)	4,436
(Release of loss allowance)/Loss allowance on securities at amortised cost	11	(225)	191
Release of loss allowance on other assets	15	(186)	(10,078)
Provision/(Release of provision) on off-balance sheet commitments and contingent liabilities	23	5,411	(4,343)
Share-based payment	37	3,547	3,797
Unrealised gains on fair value adjustment of financial instruments mandatorily measured at fair value through profit or loss or held for trading financial instruments		(1,379)	(13,528)
Unrealised losses on fair value adjustment of derivative financial instruments		6,777	16,903
Interest expense from leasing liabilities	33, 42	(244)	–
Net changes in assets and liabilities in operating activities			
Change in held for trading securities	7	(23,247)	51,078
Change in financial instruments mandatorily measured at fair value through profit or loss	7	(984)	(20,658)
Changes in derivative financial instruments at fair value through profit or loss	7	483	6,503
Net increase in loans	9	(743,665)	(487,561)
Increase in other assets, excluding advances for investments and before provisions for losses	15	(7,312)	(11,468)
Net increase in deposits from customers	18	832,785	548,626
Increase in other liabilities	23	495	46,090
Net increase in the compulsory reserve established by the National Bank of Hungary	4	(7,558)	(6,227)
Dividend income	10	(72,972)	(63,198)
Income tax paid		(628)	–
Net cash provided by operating activities		**225,722**	**275,283**
INVESTING ACTIVITIES			
Net increase in placements with other banks before allowance for placement losses	5	(518,327)	(95,933)
Purchase of securities at fair value through other comprehensive income	8	(1,078,031)	(848,937)
Proceeds from sale of securities at fair value through other comprehensive income	8	1,068,081	1,194,838
Change in derivative financial instruments designated as hedge accounting		–	1,180
Increase in investments in subsidiaries	10	(326,158)	(214,595)
Dividend income	10	72,972	65,570
Increase in securities at amortised cost	11	(146,771)	(455,497)
Redemption of securities at amortised cost	11	127,671	70,422
Additions to property, equipment and intangible assets	12	(48,381)	(36,836)
Proceeds from disposal of property, equipment and intangible assets	12	1,969	3,442
Net (increase)/decrease in investment properties	13	(48)	41
Net increase in advances for investments included in other assets	15	–	37
Net cash used in investing activities		**(847,023)**	**(316,268)**
FINANCING ACTIVITIES			
Net increase in amounts due to banks and deposits from the National Bank of Hungary and other banks	16	461,774	57,729
(Decrease)/increase in financial liabilities designated as fair value through profit or loss	20	(3,331)	12,177
Leasing payments		(3,927)	–
Cash received from issuance of securities	19	10,201	8,537
Cash used for redemption of issued securities	19	(13,584)	(22,144)
Increase in subordinated bonds and loans	24	166,704	1,620
Payments to ICES holders	26	(1,334)	(1,256)
Increase of Treasury shares	27	(34,185)	(14,238)
Decrease of Treasury shares	27	21,563	15,383
Dividend paid	26	(61,307)	(61,319)
Net cash provided by/(used in) financing activities		**542,574**	**(3,511)**
Net decrease in cash and cash equivalents		**(78,727)**	**(44,496)**
Cash and cash equivalents at the beginning of the period		**303,358**	**347,854**
Cash and cash equivalents at the end of the period	**4**	**224,631**	**303,358**

The accompanying notes to separate financial statements on pages 222 to 311 form an integral part of these separate financial statements.

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 H-1051.
Internet homepage: www.otpbank.hu

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

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

Due to Hungarian legislation audit services are statutory for OTP Bank. Disclosure information about the auditor:

Deloitte Auditing and Consulting Ltd. (000083), 84/C Dózsa György Street, Budapest H-1068. Registered under 01-09-071057 by Budapest-Capital Regional Court, as registry court. Statutory registered auditor: dr. Attila Hruby, registration number: 007118.

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

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

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

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

The structure of the Share capital by shareholders:

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

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

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

Number of the employees of the Bank:

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

1.2 Basis of accounting

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

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

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

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

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

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

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

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

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

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

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

IFRS 7 "Financial Instruments: Disclosures" – Interest rate Benchmark Reform – adopted by EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020),

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

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

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of presentation

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

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

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

2.2 Foreign currency translation

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

2.3 Consolidated financial statements

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

2.4 Investments in subsidiaries, associated companies and other investments

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

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

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

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

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

2.5 Securities at amortised cost

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

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

2.6 Financial assets at fair value through profit or loss

2.6.1 Securities held for trading

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

2.6.2 Derivative financial instruments

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

Derivative financial instruments are accounted for on a trade date basis and are initially measured at fair value and at subsequent reporting dates also at fair value. Fair values are obtained from quoted market prices, discounted cash-flow models and option pricing models as appropriate. OTP Bank adopts multi curve valuation approach for calculating the net present value of future cash-flows – based on different curves used for determining forward rates and used for discounting purposes. It shows the best estimation of such derivative deals that are collateralised as OTP Bank has almost

[1] First In First Out

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.

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 counterparties. The Bank's forward rate agreements were transacted for management of interest rate exposures.

Foreign exchange options

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

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

Changes in the fair value of derivatives that are designated and qualify as hedging instruments fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the separate statement of profit or loss along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. Changes in the fair value of the hedging instrument in fair value hedges are charged directly to the separate statement of profit or loss. The conditions of hedge accounting applied by the Bank are the following: formally designated as hedging relationship, proper hedge documentation is prepared, effectiveness test is performed and based on it the hedge is qualified as effective. Changes in fair value of derivatives that are designated and qualify as hedging instrument in cash-flow hedges and that prove to be highly effective in relation to hedged risk are recognized as reserve in other comprehensive income. Amounts deferred in other comprehensive income are transferred to the separate statement of profit or loss and classified as revenue or expense in the periods during which the hedged assets and liabilities effect the separate statement of recognized and comprehensive income for the period. The ineffective element of the hedge is charged directly to the separate statement of profit or loss. The Bank terminates the hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting. In case of cash-flow hedges – in line with the standard – hedge accounting is still applied as long as the underlying asset is derecognised.

2.8 Offsetting

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

2.9 Embedded derivatives

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

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- A separate financial instrument with the same terms as the embedded derivative would meet the definition of a derivative as a stand-alone instrument; and

- The host instrument is not measured at fair or is measured at fair value but changes in fair value are recognised in other comprehensive income.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

OTP Bank applies partial or full write-off for loans based on the definitions and prescriptions of financial instruments in accordance with IFRS 9. If OTP Bank has no reasonable expectations regarding a financial asset (loan) to be recovered, it will be written off partially or fully at the time of emergence.
The gross carrying amount and loss allowance of the loans shall be written off in the same amount to the estimated maximum recovery amount while the net carrying value remains unchanged.

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

Modification of contractual cash-flows

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

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

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

2.12 Loss allowance

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

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

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

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

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

Classification into risk classes

According to the requirements of the IFRS 9 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 IFRS 9:

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

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

- for the past 3 years the average annual balance of receivables under simplified approach is calculated,
- the written-off receivables under simplified approach are determined in the past 3 years,
- the loss allowance ratio will be the sum of the written-off amounts divided by the sum of the average balances,

- the loss allowance is multiplied by the end-of-year balance and it will be the actual loss allowance on these receivables,
- loss allowance should be recalculated annually.

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

2.15 Property, equipment and intangible assets

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

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

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

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

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

2.16 Investment properties

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

2.17 Financial liabilities

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

2.18 Leases

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

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

Recognition of lease liabilities

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

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

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

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

Recognition of right-of-use assets

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

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

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

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

2.19 Share capital

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

2.20 Treasury shares

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

2.21 Interest income and interest expense

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

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

2.22 Fees and Commissions

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

2.23 Dividend income

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

2.24 Income tax

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

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

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

2.25 Off-balance sheet commitments and contingent liabilities

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

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

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

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

2.26 Share-based payment and employee benefit

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

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

2.27 Separate statement of cash-flows

For the purposes of reporting cash-flows, cash and cash equivalents include cash, due from banks and balances with the NBH excluding compulsory reserve. Cash-flows from hedging activities are classified in the same category as the item being hedged.

The unrealised gains and losses from the translation of monetary items to the closing foreign exchange rates and the unrealised gains and losses from derivative financial instruments are presented net in the statement of cash-flows for the monetary items which have been revalued.

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

2.28 Segment reporting

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

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

2.29 Comparative figures

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

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

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

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

3.1 Loss allowance on financial instruments

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

3.2 Valuation of instruments without direct quotations

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

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

3.3 Provisions

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

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

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

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

3.4 Business models

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

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

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

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

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

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

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

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

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

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

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

Interest conditions of placements with other banks:

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

NOTE 6: REPO RECEIVABLES (in HUF mn)

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

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

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

Interest conditions of repo receivables:

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

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

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

* CCIRS: Cross Currency Interest Rate Swap (see Note 2.6.2).
** Incl. FX, equity, commodity and index futures; FX forward; commodity and equity swap; FRA; FX option (see Note 2.6.2).

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

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

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

	2019	2018
Within one year:		
variable interest	25	25
Over one year:		
variable interest	5,155	4,753
Subtotal	**5,180**	**4,778**
Non-interest bearing securities	17,100	15,880
Total	**22,280**	**20,658**
Securities mandatorily measured at fair value through profit or loss denominated in HUF	77%	77%
Securities mandatorily measured at fair value through profit or loss denominated in foreign currency	23%	23%
Securities mandatorily measured at fair value through profit or loss total	**100%**	**100%**
Interest rates on securities mandatorily measured at fair value through profit or loss	2.60%	2.68%
Average interest on securities mandatorily measured at fair value through profit or loss	2.60%	2.68%

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

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

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

	2019	2018
Within one year:		
variable interest	6,709	16,587
fixed interest	609,207	464,830
	615,916	**481,417**
Over one year:		
variable interest	84,935	143,458
fixed interest	762,806	807,656
	847,741	**951,114**
Non-interest bearing securities	22,320	19,374
Total	**1,485,977**	**1,451,905**
FVOCI securities denominated in HUF	83%	81%
FVOCI securities denominated in foreign currency	17%	19%
FVOCI securities total	**100%**	**100%**
Interest rates on FVOCI securities denominated in HUF	0.16%–11%	0.5%–11%
Interest rates on FVOCI securities denominated in foreign currency	0.49%–7.25%	(0.14%)–7.25%
Average interest on FVOCI securities	2.32%	2.26%

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

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

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

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

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

NOTE 9: LOANS (in HUF mn)

Loans measured at fair value through profit or loss:

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

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

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

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

An analysis of the loan portfolio by currency:

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

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

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

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

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

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

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

* Incl. housing loans.

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

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

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

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

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

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

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

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

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

Significant subsidiaries

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

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

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

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

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

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

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

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

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

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

Significant associates and joint ventures

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

As at 31 December 2019:

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

As at 31 December 2018:

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

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

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

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

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

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

On 25 July 2019 the financial closure of the Moldovan transaction has been completed. As a result, OTP Bank has become 96.69% owner of Mobiasbanca – Groupe Société Générale S.A. ("MBSG"), the Moldovan subsidiary of Société Générale Group. With a market share of 13.8%, SGMB is the 4th largest bank on the Moldovan banking market and as a universal bank is active in the retail and corporate segment.
24 September 2019 the financial closure of the Serbian transaction has been completed. As a result, OTP Bank has become 100% owner of Société Générale banka Srbija a.d. Beograd ("SGS"), the Serbian subsidiary of Société Générale Group and other local subsidiaries held by SGS. As at the end of June 2019, with a market share of 8.3%, SGS is the 4th largest bank on the Serbian banking market and as a universal bank is active in the retail and corporate segment.

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

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

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

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

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

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

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

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

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

The distribution of the securities at amortised cost by currency:

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

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

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

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

For the year ended 31 December 2019:

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

For the year ended 31 December 2018:

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

The Bank has no intangible assets with indefinite useful life.

NOTE 13: INVESTMENT PROPERTIES (in HUF mn)

For the year ended 31 December 2019 and 2018:

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

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

Incomes and expenses:

	2019	2018
Rental income	6	1
Depreciation	48	43

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

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

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

NOTE 15: OTHER ASSETS* (in HUF mn)

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

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

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

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

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

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

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

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

NOTE 17: REPO LIABILITIES (in HUF mn)

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

Interest rates on repo liabilities are as follows:

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

* It contains the loans lent among the frame of Funding for Growth Scheme.

NOTE 18: DEPOSITS FROM CUSTOMERS (in HUF mn)

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

Interest rates on deposits from customers are as follows:

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

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

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

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

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

Interest rates on liabilities from issued securities are as follows:

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

Issued securities denominated in foreign currency as at 31 December 2019:

	Name	Date of issuance	Maturity	Currency	Nominal value in FX million	Nominal value in HUF million	Amortised cost FX million	Amortised cost HUF million	Interest conditions (in % actual)	
1	OTP_VK1_20/2	04/04/2019	04/04/2020	USD	2.47	727	2.48	731	1.42	variable
2	OTP_VK1_20/5	15/08/2019	15/08/2020	USD	2.00	589	2.01	591	1.20	variable
3	OTP_VK1_20/4	27/06/2019	27/06/2020	USD	1.87	552	1.87	552	1.32	variable
4	OTP_VK1_20/7	07/11/2019	07/11/2020	USD	1.68	494	1.68	495	1.10	variable
5	OTP_VK1_20/1	21/02/2019	21/02/2020	USD	1.53	450	1.54	452	1.48	variable
6	OTP_VK1_20/8	19/12/2019	19/12/2020	USD	1.52	448	1.52	448	1.10	variable
7	OTP_VK1_20/3	16/05/2019	16/05/2020	USD	0.89	263	0.89	263	1.32	variable
8	OTP_VK1_20/6	26/09/2019	26/09/2020	USD	0.75	220	0.75	221	1.20	variable
	Total issued securities				**12,71**	**3,743**	**12,74**	**3,753**		

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

On 25 June 2019 the Bank initiated term note program in the value of HUF 200 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 28 June 2019 the prospectus of Term Note Program and the disclosure as at 16 August 2019. The prospectus is valid for 12 months following the disclosure. The Issuer can initiate to introduce the bonds issued under the program to the Hungarian, Slovakian, Romanian, Bulgarian and Croatian Stock Exchange without any obligations.

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

On 19 July 2018 the Bank initiated term note program in the value of HUF 200 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 13 August 2018 the prospectus of Term Note Program and the disclosure as at 16 August 2018. The prospectus is valid for 12 months following the disclosure. The Issuer can initiate to introduce the bonds issued under the program to the Hungarian, Slovakian, Romanian, Bulgarian and Croatian Stock Exchange without any obligations.

Hedge accounting

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

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

Issued securities denominated in HUF as at 31 December:

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

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

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

Interest rates on financial liabilities designated as fair value through profit or loss are as:

	2019	2018
Within one year:		
In HUF	0.01%-2.59%	0.01%-2.68%
Over one year:		
In HUF	0.01%-2.59%	0.01%-2.68%
Average interest on amounts due to banks in HUF	1.34%	1.10%

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

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

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

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

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

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

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

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

* Incl. FX, equity, commodity and index futures; FX forward; commodity and equity swap; FRA; FX option.

NOTE 23: OTHER LIABILITIES* (in HUF mn)

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

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

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

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

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

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

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

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

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

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

Interest rates on subordinated bonds and loans are as follows:

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

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

Type	Nominal value	Date of issuance	Date of maturity	Issue price	Interest conditions	Interest rate
Subordinated bond	EUR 339.9 million	07/11/2006	Perpetual	99.375%	Three-month EURIBOR + 3%, variable after year 10 (payable quarterly)	2.60%
Subordinated bond	EUR 500 million	15/07/2019	15/07/2029	99.738%	Fixed 2.875% annual in the first 5 years and callable after 5 years, variable after year 5 (payable annually) calculated as a sum of the initial margin (320 basis point) and the 5 year mid-swap rate prevailing at the end of the 5 year	2.875%

NOTE 25: SHARE CAPITAL (in HUF mn)

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

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

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

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

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

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

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

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

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

Share capital

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

Share-based payment reserve

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

Retained earnings

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

Put option reserve

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

Other comprehensive income

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

General reserve

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

Tied-up reserve

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

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

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

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

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

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

NOTE 27: TREASURY SHARES (in HUF mn)

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

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

Change in number of shares:

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

Change in carrying value:

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

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

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

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

NOTE 29: RISK COST (in HUF mn)

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

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

Income from fees and commissions:

	2019	2018
Fees and commissions related to lending	**5,999**	**4,768**
Deposit and account maintenance fees and commissions	104,123	94,300
Fees and commission related to the issued bank cards	76,296	65,447
Fees and commissions related to security trading	27,332	22,713
Fees and commissions paid by OTP Mortgage Bank Ltd.	11,836	12,791
Net insurance fee income	6,013	8,599
Other	7,396	3,938
Fees and commissions from contracts with customers	**232,996**	**207,788**
Total Income from fees and commissions	**238,995**	**212,556**
Contract balances		
Receivables, which are included in 'other assets'	6,228	6,178
Loss allowance	(88)	(49)
Liabilities which are included in 'other liabilities'	–	(103)

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. OTPdirect 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.
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.

Expenses from fees and commissions:

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

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

	2019	2018
Other operating income		
Other operating income from OTP Employee Stock Ownership Program (OTP ESOP)	2,244	312
Intermediary and other services	1,921	1,803
Income from lease of tangible assets	590	599
Gains on derecognition of deposits	486	159
Collateral valuation service fee received from OTP Building Society Ltd.	396	–
Gains on sale of tangible assets	271	195
Non-repayable assets received	264	528
Income from written off receivables	257	281
Gains on transactions related to property activities	203	219
Gains on discount from advertising agency fees	170	258
Gains on sale of receivables	163	290
Other	540	535
Total	**7,505**	**5,179**
Net other operating income/(expenses)		
Release of loss allowance/(Loss allowance) on investments in subsidiaries	38,807	(4,436)
Release of provision for off-balance sheet commitments and contingent liabilities	383	6,861
Release of loss allowance on other assets	186	10,078
Fine imposed by Competition Authority	(143)	(1,441)
Losses on other assets	(1,095)	(2,949)
Financial support for sport association and organization of public utility	(4,069)	(3,979)
Non-repayable assets contributed	(4,187)	(4,397)
Other	(3,367)	(2,604)
Total other operating income/(expenses)	**26,515**	**(2,867)**
Other administrative expenses		
Personnel expenses		
Wages	84,122	76,164
Taxes related to personnel expenses	17,861	17,254
Other personnel expenses	13,052	11,401
Subtotal	**115,035**	**104,819**
Depreciation and amortization	**29,925**	**21,232**
Other administrative expenses		
Taxes, other than income tax*	81,178	72,084
Services	43,369	31,158
Administration expenses, including rental fees	15,943	27,286
Professional fees	11,091	12,313
Advertising	8,617	8,263
Subtotal	**160,198**	**151,104**
Total	**305,158**	**277,155**

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

NOTE 32: INCOME TAX (in HUF mn)

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

A breakdown of the income tax expense is:

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

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

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

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

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

A reconciliation of the income tax expense is as follows:

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

NOTE 33: LEASE (in HUF mn)

The Bank as a lessee

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

Amounts recognised at initial application:

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

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

Amounts recognised in profit and loss:

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

Leasing liabilities by maturities:

	2019
Within one year	3,826
Over one year	9,834
Total	**13,660**

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

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

NOTE 34: FINANCIAL RISK MANAGEMENT (in HUF mn)

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
Financial instruments may result in certain risks to the Bank. The most significant risks the Bank faces include:

34.1 Credit risk

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

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

34.1.1 Analysis by loan types

Defining the expected credit loss on individual and collective basis

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

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

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

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

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

On collective basis:
The following exposures are subject to collective assessment:

- retail exposure irrespective of the amount,

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

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

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

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

The impairment parameters should be backtested at least annually.

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

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

As at 31 December 2019:

	Carrying amount/Exposure	Gross carrying amount/ Stage 1	Stage 2	Stage 3
Cash, amounts due from banks and balances with the National Bank of Hungary	289,686	289,686	–	–
Placements with other banks, net of allowance for placement losses	1,560,142	1,563,732	2	–
Repo receivables	45,539	45,545	–	–
Retail consumer loans	701,733	698,440	16,402	5,623
Mortgage loans	118,291	96,161	12,905	8,817
Municipal loans	86,907	83,136	122	5,332
Corporate loans	2,378,407	2,294,436	92,411	36,020
Loans at amortised cost	3,285,338	3,172,173	121,840	55,792
FVOCI securities*	1,485,977	1,485,977	–	–
Securities at amortised cost	1,447,224	1,448,667	–	–
Other financial assets	89,482	56,577	37,499	1,015
Total as at 31 December 2019	**8,203,388**	**8,062,357**	**159,341**	**56,807**
Loan commitments	1,487,112	1,485,861	8,136	511
Financial guarantees	1,079,896	1,080,423	4,276	1,813
Factoring loan commitments	227,871	225,703	589	1,853
Bill of credit	747	749	–	–
Loan commitments and financial guarantees total	**2,795,626**	**2,792,736**	**13,001**	**4,177**

As at 31 December 2018:

	Carrying amount/Exposure	Gross carrying amount/ Stage 1	Stage 2	Stage 3
Cash, amounts due from banks and balances with the National Bank of Hungary	360,855	360,855	–	–
Placements with other banks, net of allowance for placement losses	1,074,840	1,075,281	1,606	–
Repo receivables	14,139	14,151	–	–
Retail consumer loans	388,276	384,300	11,242	5,835
Mortgage loans	143,806	110,012	22,874	10,639
Municipal loans	97,005	91,754	1,622	5,388
Corporate loans	1,942,892	1,848,116	88,900	41,110
Loans at amortised cost	2,571,979	2,434,182	124,638	62,972
FVOCI securities*	1,451,905	1,451,905	–	–
Securities at amortised cost	1,431,789	1,433,457	–	–
Other financial assets	96,958	43,925	59,867	528
Total as at 31 December 2019	**7,002,465**	**6,813,756**	**186,111**	**63,500**
Loan commitments	1,308,026	1,293,192	20,182	341
Financial guarantees	825,357	818,209	9,641	150
Factoring loan commitments	179,285	170,318	8,974	155
Bill of credit	96	96	–	–
Loan commitments and financial guarantees total	**2,312,764**	**2,281,815**	**38,797**	**646**

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

Notional amount		Loss allowance/Provision					Write-off
Purchased or originated credit impaired	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	Total	
–	289,686	–	–	–	–	–	–
–	1,563,734	3,590	2	–	–	3,592	–
–	45,545	6	–	–	–	6	–
6	720,471	9,666	5,690	3,379	3	18,738	–
5,231	123,114	33	248	3,732	810	4,823	–
–	88,590	435	8	1,240	–	1,683	–
10,213	2,433,080	21,188	12,894	19,939	652	54,673	30,976
15,450	3,365,255	31,322	18,840	28,290	1,465	79,917	30,976
–	1,485,977	1,702	–	–	–	1,702	–
–	1,448,667	1,443	–	–	–	1,443	–
37	95,128	583	4,291	754	18	5,646	–
15,487	**8,293,992**	**38,646**	**23,133**	**29,044**	**1,483**	**92,306**	**30,976**
–	1,494,508	6,577	620	199	–	7,396	–
–	1,086,512	4,784	456	1,376	–	6,616	–
–	228,145	201	1	72	–	274	–
–	749	2	–	–	–	2	–
–	**2,809,914**	**11,564**	**1,077**	**1,647**	**–**	**14,288**	**–**

Notional amount		Loss allowance/Provision					Write-off
Purchased or originated credit impaired	Total	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired	Total	
–	360,855	–	–	–	–	–	–
–	1,076,887	2,035	12	–	–	2,047	–
–	14,151	12	–	–	–	12	–
34	401,411	4,856	3,808	4,461	10	13,135	–
5,968	149,493	86	766	4,057	778	5,687	–
–	98,764	560	35	1,164	–	1,759	–
10,426	1,988,552	11,027	9,287	24,465	881	45,660	34,770
16,428	2,638,220	16,529	13,896	34,147	1,669	66,241	34,770
–	1,451,905	1,859	–	–	–	1,859	–
–	1,433,457	1,668	–	–	–	1,668	–
–	104,320	971	6,042	349	–	7,362	–
16,428	**7,079,795**	**23,074**	**19,950**	**34,496**	**1,669**	**79,189**	**34,770**
–	1,313,715	4,276	1,249	164	–	5,689	–
–	828,000	1,909	671	63	–	2,643	–
–	179,447	146	8	8	–	162	–
–	96	–	–	–	–	–	–
–	**2,321,258**	**6,331**	**1,928**	**235**	**–**	**8,494**	**–**

Changes in the Loss allowance of financial assets at amortised cost and fair value through other comprehensive income by IFRS 9 stages (for the years ended 31 December 2019 and 2018):

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

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

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

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

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

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

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

Loan portfolio by countries

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

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

34.1.2 Collaterals

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

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

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

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

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

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

For the year ended 31 December 2019:

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

For the year ended 31 December 2018:

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

34.1.3 Restructured loans

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

Restructured portfolio definition

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

Financial instruments by rating categories**

Held-for-trading securities as at 31 December 2019:

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

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

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

FVOCI securities as at 31 December 2019:

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

Securities at amortised cost as at 31 December 2019:

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

* Incl. project and syndicated loans.
** Moody's ratings.

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

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

34.2 Maturity analysis of assets and liabilities and liquidity risk

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

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

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

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

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

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

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

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

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

As at 31 December 2019:

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

* 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.

As at 31 December 2018:

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

* 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.

34.3 Net foreign currency position and foreign currency risk

As at 31 December 2019:

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

As at 31 December 2018:

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

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

34.4 Interest rate risk management

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

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

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

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

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

As at 31 December 2019:

	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest-bearing		Total		Total
	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	
ASSETS															
Cash, amounts due from banks and balances with the National Bank of Hungary	**3,997**	**44,924**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**216,133**	**24,632**	**220,130**	**69,556**	**289,686**
fixed interest	3,997	44,924	–	–	–	–	–	–	–	–	–	–	3,997	44,924	48,921
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	216,133	24,632	216,133	24,632	240,765
Placements with other banks, net of allowance for placement losses	**279,847**	**102,963**	**409,557**	**192,520**	**182,348**	**172,320**	**27,926**	**–**	**137,228**	**30,155**	**18,324**	**6,954**	**1,055,230**	**504,912**	**1,560,142**
fixed interest	1,041	39,292	33,137	151,361	637	168,730	27,926	–	137,228	30,155	–	–	199,969	389,538	589,507
variable interest	278,806	63,671	376,420	41,159	181,711	3,590	–	–	–	–	–	–	836,937	108,420	945,357
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	18,324	6,954	18,324	6,954	25,278
Repo receivables	**45,539**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**45,539**	**–**	**45,539**
fixed interest	45,539	–	–	–	–	–	–	–	–	–	–	–	45,539	–	45,539
Securities held for trading	**632**	**458**	**1**	**5,929**	**2,124**	**3,908**	**4,400**	**9,166**	**10,571**	**1,181**	**7,541**	**344**	**25,269**	**20,986**	**46,255**
fixed interest	–	458	1	5,529	2,124	3,908	4,400	9,166	10,571	1,181	–	–	17,096	20,242	37,338
variable interest	632	–	–	400	–	–	–	–	–	–	–	–	632	400	1,032
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	7,541	344	7,541	344	7,885
Securities mandatorily measured at fair value through profit or loss	**–**	**–**	**–**	**5,180**	**–**	**–**	**–**	**–**	**–**	**–**	**17,100**	**–**	**17,100**	**5,180**	**22,280**
variable interest	–	–	–	5,180	–	–	–	–	–	–	–	–	–	5,180	5,180
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	17,100	–	17,100	–	17,100
Securities at fair value through other comprehensive income	**110,186**	**9,073**	**138,245**	**6,845**	**425,639**	**2,443**	**108,947**	**93,663**	**445,303**	**123,313**	**528**	**21,792**	**1,228,848**	**257,129**	**1,485,977**
fixed interest	47,975	9,073	123,562	6,845	410,889	2,443	108,947	93,663	445,303	123,313	–	–	1,136,676	235,337	1,372,013
variable interest	62,211	–	14,683	–	14,750	–	–	–	–	–	–	–	91,644	–	91,644
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	528	21,792	528	21,792	22,320
Loans measured at amortised cost	**364,375**	**50,168**	**359,263**	**273,935**	**340,900**	**1,023,840**	**30,040**	**6,595**	**646,948**	**55,290**	**113,446**	**20,538**	**1,854,972**	**1,430,366**	**3,285,338**
fixed interest	152	28,661	814	107,804	10,851	7,685	25,644	6,595	433,294	55,290	–	–	470,755	206,035	676,790
variable interest	364,223	21,507	358,449	166,131	330,049	1,016,155	4,396	–	213,654	–	–	–	1,270,771	1,203,793	2,474,564
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	113,446	20,538	113,446	20,538	133,984
Loans mandatorily measured at fair value through profit or loss	**29,731**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**29,731**	**–**	**29,731**
variable interest	29,731	–	–	–	–	–	–	–	–	–	–	–	29,731	–	29,731
Securities at amortised cost	**–**	**–**	**–**	**–**	**86,578**	**–**	**38,125**	**–**	**1,322,521**	**–**	**–**	**–**	**1,447,224**	**–**	**1,447,224**
fixed interest	–	–	–	–	86,578	–	38,125	–	1,322,521	–	–	–	1,447,224	–	1,447,224
Other financial assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**80,862**	**8,620**	**80,862**	**8,620**	**89,482**
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	80,862	8,620	80,862	8,620	89,482
Derivative financial assets	**963,211**	**434,210**	**847,077**	**359,966**	**765,879**	**460,639**	**15,461**	**273,268**	**20,355**	**85,686**	**326,585**	**206,753**	**2,938,568**	**1,820,522**	**4,759,090**
fixed interest	927,322	424,177	697,547	335,776	766,569	424,851	15,461	273,268	20,355	85,686	–	–	2,427,254	1,543,758	3,971,012
variable interest	35,889	10,033	149,530	24,190	-690	35,788	–	–	–	–	–	–	184,729	70,011	254,740
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	326,585	206,753	326,585	206,753	533,338
LIABILITIES															
Amounts due to banks and deposits from the National Bank of Hungary and other banks	**285,808**	**189,729**	**65,914**	**76,986**	**4,820**	**17,091**	**1,102**	**–**	**94,949**	**–**	**8**	**1,647**	**452,601**	**285,453**	**738,054**
fixed interest	231,909	83,070	65,914	3,430	4,820	5,053	1,102	–	94,949	–	–	–	398,694	91,553	490,247
variable interest	53,899	106,659	–	73,556	–	12,038	–	–	–	–	–	–	53,899	192,253	246,152
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	8	1,647	8	1,647	1,655
Repo liabilities	**20,574**	**–**	**–**	**–**	**–**	**–**	**263,554**	**178,493**	**–**	**–**	**–**	**–**	**284,128**	**178,493**	**462,621**
fixed interest	20,574	–	–	–	–	–	263,554	178,493	–	–	–	–	284,128	178,493	462,621
Financial liabilities designated to measure at fair value through profit or loss	**28,861**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**28,861**	**–**	**28,861**
fixed interest	102	–	–	–	–	–	–	–	–	–	–	–	102	–	102
variable interest	28,759	–	–	–	–	–	–	–	–	–	–	–	28,759	–	28,759
Deposits from customers	**5,210,837**	**1,059,229**	**170,649**	**19,293**	**92,329**	**10,290**	**215**	**–**	**–**	**–**	**7,192**	**3,516**	**5,481,222**	**1,092,328**	**6,573,550**
fixed interest	392,749	124,384	170,649	19,293	92,329	10,290	215	–	–	–	–	–	655,942	153,967	809,909
variable interest	4,818,088	934,845	–	–	–	–	–	–	–	–	–	–	4,818,088	934,845	5,752,933
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	7,192	3,516	7,192	3,516	10,708
Liabilities from issued securities	**16,708**	**552**	**12,565**	**1,265**	**4,728**	**1,936**	**3,451**	**–**	**2,079**	**–**	**–**	**–**	**39,531**	**3,753**	**43,284**
fixed interest	218	–	–	–	3,282	–	3,451	–	2,079	–	–	–	9,030	–	9,030
variable interest	16,490	552	12,565	1,265	1,446	1,936	–	–	–	–	–	–	30,501	3,753	34,254
Subordinated bonds and loans	**–**	**–**	**–**	**112,792**	**–**	**166,602**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**279,394**	**279,394**
variable interest	–	–	–	112,792	–	166,602	–	–	–	–	–	–	–	279,394	279,394
Leasing liabilities	**62**	**136**	**123**	**272**	**1,107**	**2,126**	**1,147**	**1,702**	**4,399**	**2,586**	**–**	**–**	**6,838**	**6,822**	**13,660**
fix kamatozó	62	136	123	272	1,107	2,126	1,147	1,702	4,399	2,586	–	–	6,838	6,822	13,660
Other financial liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**139,657**	**51,434**	**139,657**	**51,434**	**191,091**
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	139,657	51,434	139,657	51,434	191,091
Derivative financial liabilities	**1,272,904**	**127,050**	**829,127**	**357,480**	**623,979**	**588,255**	**281,358**	**8,783**	**36,475**	**72,359**	**278,557**	**255,503**	**3,322,400**	**1,409,430**	**4,731,830**
fixed interest	1,222,356	121,202	688,335	341,669	624,021	567,255	281,358	8,783	36,475	72,148	–	–	2,852,545	1,111,057	3,963,602
variable interest	50,548	5,848	140,792	15,811	-42	21,000	–	–	–	211	–	–	191,298	42,870	234,168
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	278,557	255,503	278,557	255,503	534,060
NET POSITION	**(5,063,201)**	**(734,900)**	**675,765**	**276,287**	**1,076,505**	**876,850**	**(62,374)**	**372,207**	**2,445,024**	**220,680**	**355,105**	**(22,467)**	**(573,176)**	**988,657**	**415,481**

As at 31 December 2018:

	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest-bearing		Total		Total
	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	
ASSETS															
Cash, amounts due from banks and balances with the National Bank of Hungary	**26,894**	**117,623**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**197,766**	**18,572**	**224,660**	**136,195**	**360,855**
fixed interest	26,894	117,623	–	–	–	–	–	–	–	–	–	–	26,894	117,623	144,517
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	197,766	18,572	197,766	18,572	216,338
Placements with other banks, net of allowance for placement losses	**130,405**	**60,039**	**487,764**	**65,592**	**51,692**	**75,304**	**1,151**	**3,208**	**131,682**	**25,597**	**31,174**	**11,232**	**833,868**	**240,972**	**1,074,840**
fixed interest	4,401	12,062	27,509	46,364	22,371	73,711	1,151	3,208	131,682	25,597	–	–	187,114	160,942	348,056
variable interest	126,004	47,977	460,255	19,228	29,321	1,593	–	–	–	–	–	–	615,580	68,798	684,378
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	31,174	11,232	31,174	11,232	42,406
Repo receivables	**14,139**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**14,139**	**–**	**14,139**
fixed interest	14,139	–	–	–	–	–	–	–	–	–	–	–	14,139	–	14,139
Securities held for trading	**197**	**564**	**1,510**	**112**	**6,879**	**5,521**	**–**	**–**	**–**	**–**	**7,244**	**295**	**15,830**	**6,492**	**22,322**
fixed interest	2	–	67	112	4,910	5,521	–	–	–	–	–	–	4,979	5,633	10,612
variable interest	195	564	1,443	–	1,969	–	–	–	–	–	–	–	3,607	564	4,171
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	7,244	295	7,244	295	7,539
Securities mandatorily measured at fair value through profit or loss	**–**	**4,778**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**15,880**	**–**	**15,880**	**4,778**	**20,658**
variable interest	–	4,778	–	–	–	–	–	–	–	–	–	–	–	4,778	4,778
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	15,880	–	15,880	–	15,880
Securities at fair value through other comprehensive income	**68,525**	**5,464**	**141,848**	**30,405**	**366,647**	**1,930**	**242,827**	**18,083**	**355,750**	**201,051**	**566**	**18,809**	**1,176,163**	**275,742**	**1,451,905**
fixed interest	48,869	5,464	60,908	17,549	320,053	1,930	242,827	18,083	355,750	201,051	–	–	1,028,407	244,077	1,272,484
variable interest	19,656	–	80,940	12,856	46,594	–	–	–	–	–	–	–	147,190	12,856	160,046
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	566	18,809	566	18,809	19,375
Loans at amortised cost	**86,826**	**131,383**	**557,742**	**865,556**	**45,658**	**61,812**	**22,359**	**1,752**	**635,415**	**45,254**	**98,355**	**19,867**	**1,446,355**	**1,125,624**	**2,571,979**
fixed interest	2,588	125,609	628	1,268	14,922	10,847	20,092	1,752	627,631	45,254	–	–	665,861	184,730	850,591
variable interest	84,238	5,774	557,114	864,288	30,736	50,965	2,267	–	7,784	–	–	–	682,139	921,027	1,603,166
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	98,355	19,867	98,355	19,867	118,222
Loans mandatorily measured at fair value through profit or loss	**32,741**	**–**	**4**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**32,745**	**–**	**32,745**
variable interest	32,741	–	4	–	–	–	–	–	–	–	–	–	32,745	–	32,745
Securities at amortised cost	**–**	**–**	**5,063**	**–**	**114,843**	**–**	**87,284**	**–**	**1,224,599**	**–**	**–**	**–**	**1,431,789**	**–**	**1,431,789**
fixed interest	–	–	5,063	–	114,843	–	87,284	–	1,224,599	–	–	–	1,431,789	–	1,431,789
Other financial assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**36,245**	**4,120**	**36,245**	**4,120**	**40,365**
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	36,245	4,120	36,245	4,120	40,365
Derivative financial assets	**842,720**	**477,551**	**906,538**	**442,944**	**645,964**	**447,835**	**19,192**	**264,144**	**21,335**	**86,116**	**234,159**	**126,585**	**2,669,908**	**1,845,175**	**4,515,083**
fixed interest	814,446	475,487	756,961	409,011	643,141	409,508	19,192	264,144	21,335	86,116	–	–	2,255,075	1,644,266	3,899,341
variable interest	28,274	2,064	149,577	33,933	2,823	38,327	–	–	–	–	–	–	180,674	74,324	254,998
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	234,159	126,585	234,159	126,585	360,744
LIABILITIES															
Amounts due to banks and deposits from the National Bank of Hungary and other banks	**142,166**	**122,668**	**4,153**	**55,330**	**1,152**	**22,846**	**1,514**	**–**	**98,302**	**280**	**8,593**	**1,178**	**255,880**	**202,302**	**458,182**
fixed interest	115,278	27,499	4,153	16,450	1,152	2,798	1,514	–	98,302	280	–	–	220,399	47,027	267,426
variable interest	26,521	95,026	–	38,880	–	20,048	–	–	–	–	–	–	26,521	153,954	180,475
non-interest-bearing	367	143	–	–	–	–	–	–	–	–	8,593	1,178	8,960	1,321	10,281
Repo liabilities	**1,804**	**19,289**	**–**	**–**	**–**	**–**	**258,761**	**–**	**–**	**–**	**–**	**–**	**260,565**	**19,289**	**279,854**
fixed interest	1,804	19,289	–	–	–	–	258,761	–	–	–	–	–	260,565	19,289	279,854
Financial liabilities at fair value through profit or loss	**32,231**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**32,231**	**–**	**32,231**
fixed interest	127	–	–	–	–	–	–	–	–	–	–	–	127	–	127
variable interest	32,104	–	–	–	–	–	–	–	–	–	–	–	32,104	–	32,104
Deposits from customers	**776,851**	**186,738**	**137,071**	**66,001**	**43,433**	**21,122**	**316**	**–**	**3,878,011**	**628,739**	**1,026**	**2,190**	**4,836,708**	**904,790**	**5,741,498**
fixed interest	409,363	121,045	137,071	66,001	43,433	21,122	316	–	3,878,011	628,739	–	–	4,468,194	836,907	5,305,101
variable interest	367,488	65,693	–	–	–	–	–	–	–	–	–	–	367,488	65,693	433,181
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	1,026	2,190	1,026	2,190	3,216
Liabilities from issued securities	**23,609**	**838**	**12,114**	**1,903**	**4,211**	**2,094**	**780**	**–**	**1,145**	**–**	**–**	**–**	**41,859**	**4,835**	**46,694**
fixed interest	–	–	–	–	2,156	–	780	–	1,145	–	–	–	4,081	–	4,081
variable interest	23,609	838	12,114	1,903	2,055	2,094	–	–	–	–	–	–	37,778	4,835	42,613
Subordinated bonds and loans	**–**	**–**	**–**	**110,454**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**110,454**	**110,454**
variable interest	–	–	–	110,454	–	–	–	–	–	–	–	–	–	110,454	110,454
Other financial liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**88,899**	**11,043**	**88,899**	**11,043**	**99,942**
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	88,899	11,043	88,899	11,043	99,942
Derivative financial liabilities	**1,100,223**	**222,002**	**963,409**	**364,545**	**615,478**	**473,561**	**273,251**	**14,581**	**39,921**	**60,613**	**219,675**	**133,304**	**3,211,957**	**1,268,606**	**4,480,563**
fixed interest	1,072,047	212,543	823,305	341,397	613,026	441,110	273,251	14,581	39,921	60,613	–	–	2,821,550	1,070,244	3,891,794
variable interest	28,176	9,459	140,104	23,148	2,452	32,451	–	–	–	–	–	–	170,732	65,058	235,790
non-interest-bearing	–	–	–	–	–	–	–	–	–	–	219,675	133,304	219,675	133,304	352,979
NET POSITION	**(886,772)**	**265,156**	**983,722**	**806,376**	**567,409**	**72,779**	**96,952**	**272,606**	**(1,648,598)**	**(331,614)**	**303,196**	**51,765**	**(584,091)**	**1,137,068**	**552,977**

34.5 Market risk

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

34.5.1 Market risk sensitivity analysis

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

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

The VaR of the trading portfolio can be summarized as follows:

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

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

34.5.2 Foreign currency sensitivity analysis

The following table details the OTP's sensitivity to an increase and decrease in the HUF exchange rate against the EUR and USD, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign activities. The strategic open position related to the foreign operations was EUR (310) million as of 31 December 2019. The strategic EUR open FX position kept to hedge the currency risk of the expected FX-denominated net earnings of the main foreign subsidiaries. High portion of strategic positions are considered as effective hedge of future profit inflows of foreign subsidiaries, and so FX risk alters the bank's capital and not its earnings.[2] A positive number below indicates an increase in profit where the HUF strengthens against the EUR. For a weakening of the HUF against the EUR, there would be an equal and opposite impact on the profit, and the balances below would be negative.

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

Notes:

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

34.5.3 Interest rate sensitivity analysis

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

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

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

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

The net interest income in a one year period after 1 January 2020 would be decreased by HUF 1,261 million (scenario 1) and HUF 3,256 million (scenario 2) as a result of these simulation. This effect is counterbalanced by capital gains (HUF 223 million for scenario 1, HUF 3,670 million for scenario 2) on the government bond portfolio held for hedging.
Furthermore, the effects of an instant 10 bps parallel shift of the HUF, EUR and USD yield-curves on net interest income over a one-year period and on the market value of the hedge government bond portfolio booked against capital was analysed.

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

The results can be summarized as follows:

Description	2019		2018	
	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	(1,793)	558	(1,662)	671
EUR (0.1%) parallel shift	(673)	–	(93)	–
USD (0.1%) parallel shift	(104)	–	(40)	–
Total	**(2,570)**	**558**	**(1,795)**	**671**

34.5.4 Equity price sensitivity analysis

The following table shows the effect of the equity price sensitivity. The Group uses VaR calculation with 1 day holding period and 99% confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. The daily loss will not exceed the reported VaR number with 99% of probability.
The stress test assumes the largest price movement of the last year and calculates with it as the adverse direction. These scenario shows the loss of the portfolio when all prices change with the maximum amount of the last year.

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

34.6 Capital management

Capital management

The primary objective of the capital management of the Bank is to ensure the prudent operation, the entire compliance with the prescriptions of the regulator for a persistent business operation and maximising the shareholder value, accompanied by an optimal financing structure.
The capital management of the Bank includes the management and evaluation of the shareholders' equity available for hedging risks, other types of funds to be recorded in the equity and all material risks to be covered by the capital.
The basis of the capital management of the Bank in the short run is the continuous monitoring of its capital position, in the long run the strategic and the business planning, which includes the monitoring and forecast of the capital position of the Bank.
The Bank maintains the capital adequacy required by the regulatory bodies and the planned risk taking mainly by means of ensuring and developing its profitability.
In case the planned risk level of the Bank exceeded its Core and Supplementary capital, the Bank ensures the prudent operation by occasional measures. A further tool in the capital management of the Bank is the dividend policy, and the transactions performed with the treasury shares.

Capital adequacy

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

The Bank has entirely complied with the regulatory capital requirements in 2019 as well as in 2018.
The Bank's capital adequacy calculation is in line with IFRS and based on Basel III as at 31 December 2019 and 2018.

The Bank uses the standard method for determining the regulatory capital requirements of the credit risk and market risk while in case of the operational risk the Advanced Measurement Approach (AMA).

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

	Basel III	
	2019	2018
Tier1 capital	1,559,656	1,433,839
Common equity Tier1 capital (CET1)	1,559,656	1,433,839
Additional Tier1 capital (AT1)	–	–
Tier2 capital	276,699	109,994
Regulatory capital	**1,836,355**	**1,543,833**
Credit risk capital requirement	511,588	401,989
Market risk capital requirement	9,628	9,263
Operational risk capital requirement	31,569	26,466
Total requirement regulatory capital	**552,785**	**437,718**
Surplus capital	**1,283,570**	**1,106,115**
CET1 ratio	22.57%	26.21%
Capital adequacy ratio	**26.58%**	**28.22%**

Basel III

Common equity Tier1 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

Tier2 capital:
Subsidiary loan capital, Subordinated loan capital, deductions due to repurchased loan capital and Subordinated loan capital issued by the OTP Bank, adjustments due to temporary disposals.

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

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

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

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

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

Derecognition

Financial assets transferred but not derecognised:

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

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

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

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

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

Legal disputes

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

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

Commitments to extend credit, guarantees and letter of credit

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

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

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

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

Guarantees, payment undertakings arising from banking activities

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

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

Contingent liabilities related to OTP Mortgage Bank Ltd.

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

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

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

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

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

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

The quantity of usable shares for individuals calculated for settlement of share-based payment shall be determined as the ratio of the amount of share-based payment and share price determined by Supervisory Board[3].

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

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

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

Short-term employee benefits are employee benefits (other than termination benefits)

[3] Until the end of 2014 Board of Directors.

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, post-employment benefits and termination benefits.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 38: RELATED PARTY TRANSACTIONS (in HUF mn)

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

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

38.1 Loans provided to related parties

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

38.2 Deposits from related parties

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

38.3 Interests received by the Bank*

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

* Derivatives and interest on securities are not included.

38.4 Interests paid by the Bank*

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

38.5 Commissions received by the Bank

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

38.6 Commissions paid by the Bank

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

38.7 Transactions related to OTP Mortgage Bank Ltd.

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

38.8 Transactions related to OTP Factoring Ltd.

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

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

* Derivatives and interest on securities are not included.

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

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

38.10 Related party transactions with key management

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

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

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

An analysis of Credit lines "A" is as follows:

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

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

An analysis of credit limit related to Mastercard Gold is as follows:

	2019	2018
Members of Board of Directors and their close family members	11	14
Executive	1	5
Total	**12**	**19**

Interest	floating, monthly 2.19%	floating, monthly 2.18%
Annual fee	15,834 HUF/year	15,044 HUF/year
Collateral	income received to bank account	income received to bank account

An analysis of loans related related to Mastercard Bonus is as follows:

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

An analysis of credit limit related to Amex Gold/Mastercard Bonus Gold is as follows:

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

An analysis of Amex Platinum/Visa Infinite is as follows:

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

An analysis of Lombard loans is as follows:

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

An analysis of Personal loans is as follows:

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

An analysis of Loans distributed by OTP Bank in its capacity of employee is as follows:

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

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

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

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

NOTE 39: TRUST ACTIVITIES (in HUF mn)

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

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

NOTE 40: CONCENTRATION OF ASSETS AND LIABILITIES

In the percentage of the total assets	2019	2015
Receivables from, or securities issued by the Hungarian Government or the NBH	23.18%	26.19%
Securities issued by the OTP Mortgage Bank Ltd.	1.76%	1.80%

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

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

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

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

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

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

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

NOTE 41: EARNINGS PER SHARE

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

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

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

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

* In 2019 and 2018 dilutive effect is in connection with the Remuneration Policy.

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

For the year ended 31 December 2019:

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

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

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

For the year ended 31 December 2018:

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

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

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

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

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

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

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

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

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

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

a) Fair value of financial assets and liabilities

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

b) Derivative financial instruments

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

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

* Fair value of loans increased due to decrease of short-term and long-term interests.

Fair value of derivative financial instruments

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

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

c) Hedge accounting

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

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

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

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

Derivative financial instruments designated as hedge accounting as follows:

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

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

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

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

As at 31 December 2019:

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

As at 31 December 2018:

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

d) Fair value classes

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Fair value measurements – in relation with instruments measured not at fair value – are categorized in level 2.

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

As at 31 December 2019:

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

As at 31 December 2018:

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

Valuation techniques and sensitivity analysis on Level 3 instruments

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

Unobservable inputs used in measuring fair value:

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

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.

As at 31 December 2019:

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

As at 31 December 2018:

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

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

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

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

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

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

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

See details about the events in Note 10.

12) Issued securities

Notes have been issued at 99.738% of the face value on 15 July 2019 as value date, in the nominal amount of EUR 500 million. The 10 Non-Call 5 years Tier2 Notes carry a fix coupon of 2.875% p.a., paid annually in the first five years. Starting from year 6 until maturity, the yearly fix coupon is calculated as the sum of the initial margin (320 bps) and the 5 year mid-swap rate prevailing at the end of year 5. The notes are rated 'Ba1' by Moody's Investors Service Cyprus Limited. The Notes are listed on the Luxembourg Stock Exchange.

NOTE 45: SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

Sale of the Slovakian subsidiary

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

Closing of the strategic open position

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

Potential impact of COVID-19 virus

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