OTP BANK PLC.

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

FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2020

OTP BANK PLC.
CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

OTP BANK PLC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS AT 30 JUNE 2020
(in HUF mn)

	Note	30 June 2020	31 December 2019	30 June 2019
Cash, amounts due from banks and balances with the National Banks	*4.*	2,129,281	1,784,378	1,504,941
Placements with other banks, net of loss allowance for placements and net of repo receivables	*5., 6.*	982,392	410,079	494,745
Financial assets at fair value through profit or loss	*7.*	275,426	251,990	190,504
Securities at fair value through other comprehensive income	*8.*	1,906,502	2,426,779	2,145,586
Loans at amortized cost	*9.*	12,630,945	11,846,260	9,442,357
Loans mandatorily at fair value through profit or loss	*9.*	31,628	32,802	31,943
Associates and other investments	*10.*	26,881	20,822	17,422
Securities at amortized cost	*11.*	2,369,970	1,968,072	1,792,912
Property and equipment	*12.*	320,757	320,430	288,426
Intangible assets and goodwill	*12.*	242,170	242,219	198,652
Right-of-use assets	*34.*	47,987	52,950	49,831
Investment properties	*13.*	36,835	41,560	40,623
Derivative financial assets designated as hedge accounting	*14.*	12,389	7,463	5,952
Deferred tax assets	*15.*	29,869	26,543	22,693
Current income tax receivables	*15.*	36,938	12,769	12,565
Other assets	*15.*	243,743	214,580	219,226
Assets classified as held-for-sale	*48.*	466,441	462,071	-
TOTAL ASSETS		**21,790,154**	**20,121,767**	**16,458,378**
Amounts due to banks, the National Governments, deposits from the National Banks and other banks, and repo liabilities	*16., 17.*	1,122,671	813,399	492,447
Financial liabilities designated at fair value through profit or loss	*18.*	29,265	30,862	29,924
Deposits from customers	*19.*	16,231,927	15,171,308	12,699,826
Liabilities from issued securities	*20.*	401,829	393,167	385,397
Derivative financial liabilities held for trading	*21.*	159,339	86,743	73,576
Derivative financial liabilities designated as hedge accounting	*22.*	14,080	10,709	11,425
Leasing liabilities	*34.*	50,038	54,194	50,093
Deferred tax liabilities	*23.*	26,825	29,195	10,837
Current income tax payable	*23.*	50,304	35,928	31,355
Other liabilities	*23.*	683,298	592,540	599,122
Subordinated bonds and loans	*24.*	271,478	249,938	81,532
Liabilities directly associated with assets classified as held-for-sale	*48.*	368,837	362,496	-
TOTAL LIABILITIES		**19,409,891**	**17,830,479**	**14,465,534**
Share capital	*25.*	28,000	28,000	28,000
Retained earnings and reserves	*26.*	2,449,135	2,319,263	2,026,878
Treasury shares	*27.*	(101,305)	(60,931)	(65,715)
Non-controlling interest	*28.*	4,433	4,956	3,681
TOTAL SHAREHOLDERS' EQUITY		**2,380,263**	**2,291,288**	**1,992,844**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**21,790,154**	**20,121,767**	**16,458,378**

OTP BANK PLC.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2020
(in HUF mn)

	Note	Six month period ended 30 June 2020	Six month period ended 30 June 2019	Year ended 31 December 2019
CONTINUING OPERATIONS				
Interest income calculated using the effective interest method	*29.*	438,017	364,411	777,502
Income similar to interest income	*29.*	60,558	57,267	116,642
Interest income and incomes similar to interest income		**498,575**	**421,678**	**894,144**
Interest expenses		**(107,171)**	**(92,698)**	**(197,095)**
NET INTEREST INCOME		**391,404**	**328,980**	**697,049**
Loss allowance on loans, placements and on repo receivables	*30.*	(124,717)	(17,861)	(49,120)
(Loss allowance) / Release of loss allowance on securities at fair value through other comprehensive income and on securities at amortized cost	*30.*	(1,711)	45	9
Provision for commitments and guarantees given	*30.*	(10,420)	(1,891)	(7,995)
Release of impairment / (Impairment) of assets subject to operating lease and of investment properties	*30.*	894	(116)	280
NET INTEREST INCOME AFTER LOSS ALLOWANCE, IMPAIRMENT AND PROVISIONS		**255,450**	**309,157**	**640,223**
Income from fees and commissions	*31.*	227,366	196,950	447,084
Expense from fees and commissions	*31.*	(39,845)	(30,255)	(72,903)
Net profit from fees and commissions		**187,521**	**166,695**	**374,181**
Foreign exchange gains, net		8,989	4,091	6,782
Gains on securities, net		5,978	6,187	11,611
Gains on financial assets /liabilities measured at fair value through profit or loss		54	918	1,282
Dividend income	*26.*	(44)	5,385	7,955
Other operating income	*32.*	19,322	26,239	111,093
Other operating expense	*32.*	(33,732)	(14,054)	(44,758)
Net operating income		**567**	**28,766**	**93,965**
Personnel expenses	*32.*	(154,225)	(128,041)	(276,754)
Depreciation and amortization	*12.*	(44,510)	(35,311)	(77,048)
Goodwill impairment	*12.*	-	(4,887)	(4,887)
Other administrative expenses	*32.*	(156,416)	(139,874)	(282,528)
Other administrative expenses		**(355,151)**	**(308,113)**	**(641,217)**
PROFIT BEFORE INCOME TAX		**88,387**	**196,505**	**467,152**
Income tax expense	*33.*	(11,156)	(18,588)	(49,902)
NET PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		**77,231**	**177,917**	**417,250**
From this, attributable to:				
Non-controlling interest		**1**	**173**	**341**
Owners of the company		**77,230**	**177,744**	**416,909**
DISCONTINUED OPERATIONS				
(LOSS) / GAIN FROM DISCONTINUED OPERATION	*48.*	**(2,632)**	**42**	**(4,668)**
PROFIT FROM CONTINUING AND DISCOUNTINUED OPERATION		**74,599**	**177,959**	**412,582**
Earnings per share (in HUF)				
From continuing operations				
Basic	*44.*	**295**	**678**	**1,594**
Diluted	*44.*	**295**	**678**	**1,593**
From continuing and discontinued operations				
Basic	*44.*	**285**	**678**	**1,576**
Diluted	*44.*	**285**	**678**	**1,575**

OTP BANK PLC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2020
(in HUF mn)

	Note	Six month period ended 30 June 2020	Six month period ended 30 June 2019	Year ended 31 December 2019
NET PROFIT FOR THE PERIOD		**74,599**	**177,959**	**412,582**
Items that may be reclassified subsequently to profit or loss:				
Fair value adjustment of securities at fair value through other comprehensive income		(24,348)	12,938	26,164
Derivative financial instruments designated as cash flow hedge		(2)	14	11
Net investment hedge in foreign operations		(7,288)	(573)	(2,526)
Foreign currency translation difference		92,960	32,099	79,440
Deferred tax related to items that may be reclassified subsequently to profit or loss	*33.*	2,557	(1,460)	(2,915)
Items that will not be reclassified subsequently to profit or loss:				
Fair value changes of equity instruments at fair value through other comprehensive income		(7,606)	6,233	7,619
Deferred tax related to equity instruments at fair value through other comprehensive income	*33.*	795	(628)	(644)
Change of actuarial costs related to employee benefits		-	-	(161)
Subtotal		**57,068**	**48,623**	**106,988**
NET COMPREHENSIVE INCOME		**131,667**	**226,582**	**519,570**
From this, attributable to:				
Non-controlling interest		(141)	419	768
Owners of the company		131,808	226,163	518,802

OTP BANK PLC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2020 (in HUF mn)

	Note	Share capital	Capital reserve	Share-based payment reserve	Retained earnings and other reserves[1]	Option reserve	Treasury shares	Total attributable to shareholders'	Non-controlling interest	Total
Balance as at 1 January 2019		**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		-	-	-	177,786	-	-	177,786	172	177,958
Other Comprehensive Income		-	-	-	48,377	-	-	48,377	247	48,624
Total comprehensive income		**-**	**-**	**-**	**226,163**	**-**	**-**	**226,163**	**419**	**226,582**
Increase due to business combinations		-	-	-	-	-	-	-	810	810
Share-based payment	*38.*	-	-	1,603	-	-	-	1,603	-	1,603
Dividend for the year 2018		-	-	-	(61,320)	-	-	(61,320)	-	(61,320)
Correction due to MRP[2]		-	-	-	376	-	-	376	-	376
Sale of Treasury shares	*27.*	-	-	-	-	-	10,153	10,153	-	10,153
Treasury shares – loss on sale	*27.*	-	-	-	(5,117)	-	-	(5,117)	-	(5,117)
Treasury shares – acquisition	*27.*	-	-	-	-	-	(7,869)	(7,869)	-	(7,869)
Payments to ICES holders	*26.*	-	-	-	969	-	-	969	-	969
Balance as at 30 June 2019		**28,000**	**52**	**37,235**	**2,045,059**	**(55,468)**	**(65,715)**	**1,989,163**	**3,681**	**1,992,844**
Balance as at 1 January 2020		**28,000**	**52**	**39,179**	**2,335,500**	**(55,468)**	**(60,931)**	**2,286,332**	**4,956**	**2,291,288**
Change due to revision in presentation of Visa C shares		-	-	-	1,842	-	-	1,842	-	1,842
Balance as at 1 January 2020 (revised)		**28,000**	**52**	**39,179**	**2,337,342**	**(55,468)**	**(60,931)**	**2,288,174**	**4,956**	**2,293,130**
Net profit for the period		-	-	-	74,598	-	-	74,598	1	74,599
Other Comprehensive Income		-	-	-	57,210	-	-	57,210	(142)	57,068
Total comprehensive income		**-**	**-**	**-**	**131,808**	**-**	**-**	**131,808**	**(141)**	**131,667**
Purchasing of non-controlling interest		-	-	-	-	-	-	-	(382)	(382)
Share-based payment	*38.*	-	-	1,744	-	-	-	1,744	-	1,744
Sale of Treasury shares	*27.*	-	-	-	-	-	16,501	16,501	-	16,501
Treasury shares - loss on sale	*27.*	-	-	-	(3,084)	-	-	(3,084)	-	(3,084)
Treasury shares - acquisition	*27.*	-	-	-	-	-	(56,875)	(56,875)	-	(56,875)
Payments to ICES holders	*26.*	-	-	-	(2,438)	-	-	(2,438)	-	(2,438)
Balance as at 30 June 2020		**28,000**	**52**	**40,923**	**2,463,628**	**(55,468)**	**(101,305)**	**2,375,830**	**4,433**	**2,380,263**

[1] See details in Note 26, where the Retained earnings and other reserves category contains the capital reserve, share-based payment reserve and option reserve which are presented here separately.
[2] Based on MRP's Articles of Association, dividend on members' shares paid back to the Founder i.e. OTP Bank.

OTP BANK PLC.
CONSOLIDATED STATEMENT OF CASH-FLOWS (UNAUDITED)
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2020
(in HUF mn)

OPERATING ACTIVITIES	**Note**	**Six month period ended 30 June 2020**	**Six month period ended 30 June 2019**	**Year ended 31 December 2019**
Net profit for the period (attributable to the owners of the company)		**74,598**	**177,786**	**412,241**
Net accrued interest		(6,194)	(3,859)	(6,590)
Dividend income		-	(5,387)	(7,958)
Depreciation and amortization	*12.*	45,471	36,177	78,864
Goodwill impairment	*12.*	-	4,887	4,887
Release of loss allowance on securities	*8.,11.*	-	(45)	(10)
Loss allowance on loans and placements and on repo receivables	*5.,9.*	127,586	25,898	57,058
Loss allowance on investments	*10.*	1,356	170	3,342
(Release of loss allowance) / Loss allowance on investment properties	*13.*	(852)	178	(123)
Impairment on tangible and intangible assets	*12.*	2,358	-	2,078
(Release of loss allowance) / Loss allowance on other assets	*15.*	(242)	2,278	6,258
Provision / (Release of provision) on off-balance sheet commitments and contingent liabilities	*23.*	21,313	(59)	3,767
Share-based payment	*2.,38.*	1,744	1,603	3,547
Unrealized (gains) / losses on fair value change of securities held for trading		(6,811)	5,605	6,975
Unrealized losses on fair value change of derivative financial instruments		5,605	25,433	14,232
Impairment on discontinued operations		-	-	6,032
Net changes in assets and liabilities in operating activities				
Net decrease / (increase) in financial assets at fair value through profit or loss	*7.*	39,762	(3,972)	(30,651)
Net decrease / (increase) in compulsory reserves at the National Banks	*4.*	47,504	156,131	(48,081)
Net increase in loans at amortized cost before loss allowance for loans and in loans at fair value	*9.*	(924,494)	(513,899)	(1,402,625)
Net (increase) / decrease in other assets before loss allowance	*15.*	(57,461)	(8,702)	7,037
Net increase in deposits from customers	*19.*	1,069,215	362,414	1,476,678
Cash payments for the interest portion of the lease liability	*34.*	(837)	(892)	(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	*34.*	(2,299)	(2,851)	(6,559)
Net increase in other liabilities	*23.*	96,552	128,824	175,849
Income tax paid	*33.*	(16,686)	(10,309)	(30,170)
Net Cash Provided by Operating Activities		**517,188**	**377,409**	**724,474**

OTP BANK PLC.
CONSOLIDATED STATEMENT OF CASH-FLOWS (UNAUDITED)
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2020
(in HUF mn)
[continued]

	Note	Six month period ended 30 June 2020	Six month period ended 30 June 2019	Year ended 31 December 2019
INVESTING ACTIVITIES				
(Increase) / Decrease in placement with other banks, before loss allowance for placements and net of repo receivables	*5.*	(572,287)	43,673	203,483
Purchase of securities at fair value through other comprehensive income	*8.*	(1,021,191)	(1,309,723)	(2,392,184)
Proceeds from sale of securities at fair value through other comprehensive income	*8.*	1,515,000	1,226,762	2,258,296
Net increase in investments	*10.*	(5,745)	(647)	(3,908)
Dividends received		-	6,033	6,096
Purchase of securities at amortized cost	*11.*	(3,324,434)	(2,723,371)	(4,749,976)
Redemption of securities at amortized cost	*11.*	2,930,489	2,676,738	4,600,424
Purchase of property, equipment and intangible assets	*12.*	(75,110)	(58,004)	(267,652)
Proceeds from disposals of property, equipment and intangible assets	*12.*	32,880	15,554	31,612
Net decrease / (increase) in investment properties before loss allowance	*13.*	5,577	(2,686)	(3,022)
Net cash paid for acquisition	*40.*	-	(34,866)	(38,410)
Net Cash Used in Investing Activities		**(514,821)**	**(160,537)**	**(355,241)**
FINANCING ACTIVITIES				
Net increase / (decrease) in amounts due to banks, the National Governments, deposits from the National Banks and other banks and repo liabilities	*16.*	309,302	(26,624)	(239,947)
Net decrease in financial liabilities designated at fair value through profit or loss	*18.*	(1,597)	(2,965)	(6,833)
Cash received from issuance of securities	*20.*	139,948	7,976	9,732
Cash used for redemption of issued securities	*20.*	(134,434)	(41,084)	(31,969)
Cash payments for the principal portion of the lease liability	*34.*	(3,354)	(5,669)	(12,440)
Increase / (Decrease) in subordinated bonds and loans	*24.*	21,540	(3,774)	140,387
Payments to ICES holders	*26.*	(2,438)	969	(1,334)
Sale of Treasury shares	*27.*	16,501	-	10,943
Purchase of Treasury shares	*27.*	(59,959)	(2,833)	(8,888)
Dividends paid	*26.*	(1)	(60,928)	(61,307)
Net Cash Provided by / (Used in) Financing Activities		**285,508**	**(134,932)**	**(201,656)**
Cash and cash equivalents at the beginning of the period		**1,049,737**	**819,979**	**819,979**
Foreign currency translation		93,078	31,860	79,034
Net increase in cash and cash equivalents		287,875	81,940	167,577
Adjustment due to discontinued operation		162	-	(16,853)
Cash and cash equivalents at the end of the period	*4.*	**1,430,852**	**933,779**	**1,049,737**

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, Nador Street, Budapest 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.

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

	30 June 2020	31 December 2019
Domestic and foreign private and institutional investors	98%	99%
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 1,656 branches in the following countries Hungary, Bulgaria, Serbia, Croatia, Russia, Romania, Ukraine, Slovakia, Albania, Montenegro, Moldova 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:

	30 June 2020	31 December 2019
The number of employees at the Group	38,491	39,971
The average number of employees at the Group	39,914	40,795

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 Bank's functional currency is the Hungarian Forint ("HUF"). It is also presentation currency for the Group.
The financial statements of the subsidiaries used during the preparation of Consolidated Financial Statements of the Group have the same reporting period – starting from 1 January ending as at 31 December – like the reporting period of the Group.
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.

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

1.2. Basis of Accounting [continued]

1.2.1. The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2020

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

- **Amendments to References to the Conceptual Framework in IFRS Standards –** adopted by EU on 29 November 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 29 November 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),
- **Amendments to IFRS 3 "Business Combinations"** – adopted by EU on 21 April 2020 (effective for annual periods beginning on or after 1 January 2020).

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.

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 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),
- **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 that the adoption of 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 Group does not offset assets and liabilities or income and expenses unless it is required or permitted by an IFRS standard.

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.

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

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 41. 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 2.15.).
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 cash-generating units that are expected to benefit from the synergies of the combinations.
The Group calculates the fair value of identified assets and liabilities assumed 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.

[1] First In First Out

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.6. Financial assets at fair value through profit or loss [continued]

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.

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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.6. Financial assets at fair value through profit or loss [continued]

2.6.3. Derivative financial instruments [continued]

Cross-currency interest rate swaps

The Group 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.8. Offsetting

Financial assets and liabilities are 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 are reported when realized in Consolidated Statement of Profit or Loss for the applicable period. The Group applies the FIFO[1] 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.

[1] First In First Out

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

The Group measures at amortised cost those Loans and placements with other banks and repo receivables, 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 or 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 and repo receivables 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 adjust the carrying amount at initial recognition and be included in effective interest calculation.
Loans and 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 a financial asset is derecognised the difference of the carrying amount and the consideration received is recognised in the profit or loss. When the contractual cash flows of a financial asset are modified and the modification does not result in the derecognition of the financial asset the Bank recalculate the gross carrying amount of the financial asset by discounting the expected future cash flows with the original effective interest rate of the asset. The difference between the carrying amount and the present value of the expected cash flows is recognised as a modification gain or loss in the profit or loss.

Interest and amortised cost are accounted using effective interest rate method.
Initially financial assets shall be recognized at fair value which is usually equal to transaction value in case of loans and placements. Initial fair value of loans 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 (only relevant for loans in Stage 3), 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 and repo receivables" 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 and repo receivables".

2.12. Modified assets

If the net present value of the contracted cash flows changes due to the modification of the contractual terms and it is not qualified as derecognition, modification gain or loss should be calculated and accounted for in the consolidated statement of profit or loss. These cases like restructuring prolongation, renewal with unchanged terms, renewal with shorter terms and prescribing capital repayment rate, if it doesn't exist or has not been existed 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 recognize a modification gain or loss in the consolidated statement of profit or loss, unless the modification indicates an insignificant change (the significance is assessed at the financial statements level of the Group members (and not at contract level)).

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.12. Modified assets [continued]

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 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.

2.13. Loss allowance

Loss allowance for loans and placements with other banks and repo receivables 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 in the Consolidated Statement of Profit or Loss 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 and repo receivables represent Management assessment for potential losses in relation to these activities.

The allowances for loan and placement losses and repo receivables 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 "Impairement gain on POCI loans" 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, for which previously there were no indicators of significant increase in credit risk (i.e. classified in Stage 1) is subsequently classified in Stage 2 or Stage 3 then loss allowance is adjusted to lifetime expected credit loss. If a financial asset, which previously was classified in Stage 2 or Stage 3 is subsequently classified in Stage 1 then loss allowance is adjusted to the level of 12 month expected credit loss.

Classification into risk classes

According to the requirements of the IFRS9 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 and contract assets 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 for which the events and conditions specified in respect of Stage 2 and Stage 3 do not exist on the reporting date.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.13. Loss allowance [continued]

Classification into risk classes [continued]

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

- The client delays more than 90 days. This is considered a hard trigger.
- There is reasonable probability that the client will not pay all of its obligation. This condition is examined on the basis of probability criteria 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 and it is allocated to Stage 3 when any of the following events or conditions exists on the reporting date:

- defaulted (based on the group level default definition),
- 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 (including but not limited to):
  - 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.13. Loss allowance [continued]

Classification into risk classes [continued]

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.

2.14. Sale and repurchase agreements, security lending

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on the 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.

2.15. 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.
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.
Gains and losses on the sale of investments are determined on the basis of the specific identification of the cost of each investment.

2.16. 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	3.33-52.63%
Property rights	1.25-50.0%
Property	0.1-33.3%
Office equipment and vehicles	1-50%

Depreciation and amortization on Property and equipment and Intangible assets commence on the day such assets are ready to use.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.16. Property and equipment, Intangible assets [continued]

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.

2.17. 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.

2.18. 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.18. Leases [continued]

The Group as a lessee [continued]

- 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 at 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.

2.19. 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.

2.20. Share capital

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

2.21. Treasury shares

Treasury shares are shares which are purchased on the stock exchange and the over-the-counter market by the Bank and 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.22. Interest income and income similar to 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, repo receivables, securities at fair value through other comprehensive income, securities at amortized cost and amounts due to banks, repo liabilities, deposits from customers, liabilities from issued securities, subordinated bonds and loans are presented under these lines of financial statements.

2.23. Fees and Commissions

Fees and commissions that are not involved in the 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 31). These fees are related to deposits, cash withdrawals, security trading, bank card etc.

2.24. 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.

2.25. 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.

2.26. 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.26. Off-balance sheet commitments and contingent liabilities [continued]

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 2.13.).

2.27. 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.

2.28. 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.

2.29. 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 Group, Asset Management subsidiaries, Other subsidiaries, Corporate Center.

2.30. 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 2019, 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 2019 and for the first half year of 2019 Risk cost elements classification has been changed, but this did not result in any change to Consolidated Net Profit for the Period.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.30. Comparative figures [continued]

Previous presentation	Revised presentation	30 June 2020	31 December 2019 Revised presentation	Reclassification	31 December 2019 As previously presented	30 June 2019 Revised presentation	IFRS 5[1]	Reclassification	30 June 2019 As previously presented
Interest incomes	**Interest incomes**	**498,575**	**894,144**	-	**894,144**	**421,678**	**(5,604)**	-	**427,282**
Interest expenses	**Interest expenses**	**(107,171)**	**(197,095)**	-	**(197,095)**	**(92,698)**	**269**	-	**(92,967)**
Loss allowance on loans and placement losses	Loss allowance on loan and placement losses	(124,717)	(49,120)	-	(49,120)	(17,861)	758	-	(18,619)
	Release of loss allowance on securities at fair value through other comprehensive income and on securities at amortized cost	(1,711)	9	-	9	45	-	45	-
	Provision for loan commitments and financial guarantees given	(10,420)	(7,995)	-	(7,995)	(1,891)	2	(1,893)	-
	Release of impairment / (Impairment) of assets subject to operating lease and of investment properties	894	280	-	280	(116)	-	(116)	-
NET INTEREST INCOME AFTER LOSS ALLOWANCE, IMPAIRMENT AND PROVISIONS	**NET INTEREST INCOME AFTER LOSS ALLOWANCE, IMPAIRMENT AND PROVISIONS**	**255,450**	**640,223**	-	**640,223**	**309,157**	**(4,575)**	**(1,964)**	**315,696**
Release of loss allowance on securities at fair value through other comprehensive income and on securities at amortized cost		-	-	-	-	-	-	(45)	45
Other operating income	**Other operating income**	**19,322**	**111,093**	-	**111,093**	**26,239**	**(16)**	-	**26,255**
Other operating expense	**Other operating expense**	**(33,732)**	**(44,758)**	-	**(44,758)**	**(14,054)**	**21**	**2,009**	**(16,084)**
Net operating gain	**Net operating income**	**567**	**93,965**	-	**127,701**	**28,766**	**(53)**	**(12,123)**	**40,942**
Foreign exchange gains, net	**Foreign exchange gains, net**	**8,989**	**6,782**	(33,736)	**40,518**	**4,091**	(56)	(14,087)	**18,234**
Income from fees and commissions	**Income from fees and commissions**	**227,366**	**447,084**	33,736	**413,348**	**196,950**	(2,668)	14,087	**185,531**

[1] 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 exposed to credit risk

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 35.1.)

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 23.)

Other provision 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.

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

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)

	30 June 2020	31 December 2019
Cash on hand		
In HUF	137,184	186,172
In foreign currency	361,650	337,245
	498,834	**523,417**
Amounts due from banks and balances with the National Banks		
Within one year:		
In HUF	221,541	79,295
In foreign currency	1,358,057	1,130,023
	1,579,598	**1,209,318**
Over one year:		
In HUF	-	-
In foreign currency	50,849	51,643
	50,849	**51,643**
Total	**2,129,281**	**1,784,378**
Compulsory reserve set by the National Banks[1]	**(698,429)**	**(734,641)**
Cash and cash equivalents	**1,430,852**	**1,049,737**

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

	30 June 2020	31 December 2019
Within one year		
In HUF	146,380	35,804
In foreign currency	510,964	194,985
	657,344	**230,789**
Over one year		
In HUF	132,524	102,048
In foreign currency	141,226	10,563
	273,750	**112,611**
Loss allowance on placements	(946)	(478)
Total	**930,148**	**342,922**

[1] 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 5: PLACEMENTS WITH OTHER BANKS, NET OF LOSS ALLOWANCE FOR PLACEMENTS (in HUF mn) [continued]

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

	30 June 2020	31 December 2019
Balance as at 1 January	**478**	**485**
Loss allowance for the period	6,426	3,463
Release of loss allowance for the period	(6,077)	(3,602)
Reclassification	-	-
Foreign currency translation difference	119	132
Closing balance	**946**	**478**

Interest conditions of placements with other banks:

	30 June 2020	31 December 2019
In HUF	(3.78)% - 6.36%	(1.5)% - 3.84%
In foreign currency	(0.76)% - 3.81%	(2.39)% - 15.5%

	30 June 2020	31 December 2019
Average interest rates on placements with other banks	1.03%	2.06%

NOTE 6: REPO RECEIVABLES (in HUF mn)

	30 June 2020	31 December 2019
Within one year		
In HUF	11,929	45,545
In foreign currency	27,144	21,674
	39,073	**67,219**
Over one year		
In HUF	-	-
In foreign currency	13,178	-
	13,178	**-**
Loss allowance on repo receivables	(7)	(62)
Total	**52,244**	**67,157**

NOTE 6: REPO RECEIVABLES (in HUF mn) [continued]

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

	30 June 2020	31 December 2019
Balance as at 1 January	**62**	**12**
Loss allowance for the period	33	98
Release of loss allowance for the period	(95)	(48)
Use of loss allowance	(5)	-
Foreign currency translation difference	12	-
Closing balance	**7**	**62**

	30 June 2020	31 December 2019
Repo receivables denominated in HUF	0.0% - 0.0%	(0.1)% - 0.715 %
Repo receivables denominated in foreign currency	(0.55)% - 4.45%	(0.25)% - 16.0%

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

	30 June 2020	31 December 2019
Securities held for trading		
Government bonds	26,303	71,194
Discounted Treasury bills	8,336	50
Equity instruments and fund units	1,135	1,076
Other non-interest bearing securities	2,596	7,516
Other interest bearing securities	2,486	20,212
	40,856	**100,048**
Non-trading securities mandatorily at fair value through profit or loss	**56,350**	**39,317**
Equity instruments, open-ended fund units	40,286	34,915
Bonds	16,064	4,402
Debt securities designated at fair value through profit or loss	**2,159**	**2,001**
Total	**99,365**	**141,366**

Positive fair value of derivative financial assets held for trading

	30 June 2020	31 December 2019
Foreign exchange swaps held for trading	69,989	35,602
Interest rate swaps held for trading	67,406	61,198
Foreign exchange forward contracts held for trading	12,274	3,543
Held-for-trading option contracts	11,978	3,404
CCIRS and mark-to-market CCIRS[1] held for trading	5,449	1,216
Held-for-trading forward rate agreements	171	13
Other derivative transactions held for trading[2]	8,794	5,648
	176,061	**110,624**
Total	**275,426**	**251,990**

[1] CCIRS: Cross Currency Interest Rate Swaps (See Note 2.6.3.)
[2] Other category includes: commodity and equity swaps, commodity and index futures.

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

An analysis of securities held for trading portfolio by currency (%):

	30 June 2020	31 December 2019
Denominated in HUF (%)	54.5%	27.8%
Denominated in foreign currency (%)	45.5%	72.2%
Total	**100.0%**	**100.0%**

An analysis of government bond portfolio by currency (%):

	30 June 2020	31 December 2019
Denominated in HUF (%)	39.1%	25.7%
Denominated in foreign currency (%)	60.9%	74.3%
Total	**100.0%**	**100.0%**

	30 June 2020	31 December 2019
Interest rates on securities held for trading denominated in HUF (%)	0.5% - 7.5%	0.16% - 7.5%
Interest rates on securities held for trading denominated in foreign currency (%)	0.01% - 7.05%	0.01% - 8.25%

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

	30 June 2020	31 December 2019
Within one year		
With variable interest	78	124
With fixed interest	14,263	24,496
	14,341	**24,620**
Over one year		
With variable interest	1,197	1,046
With fixed interest	21,587	65,790
	22,784	**66,836**
Non-interest bearing securities	3,731	8,592
Total	**40,856**	**100,048**

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

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

	30 June 2020	31 December 2019
Within one year		
With variable interest	-	-
With fixed interest	-	866
	-	**866**
Over one year		
With variable interest	-	25
With fixed interest	7,156	3,511
	7,156	**3,536**
Non-interest bearing securities	49,194	34,915
Total	**56,350**	**39,317**

	30 June 2020	31 December 2019
Dividend income from shares measured at fair value through profit or loss	6	5,728

An analysis of **non-trading securities** mandatorily measured at fair value through profit or loss portfolio by currency (%):

	30 June 2020	31 December 2019
In HUF	59.1%	70.6%
In foreign currency	40.9%	29.4%
Total	**100.0%**	**100.0%**

	30 June 2020	31 December 2019
Interest rates on non-trading securities mandatorily measured at fair value through profit or loss	0.0% - 2.5%	0.0% - 4.95%

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

	30 June 2020	31 December 2019
Securities at fair value through other comprehensive income		
Government bonds	1,594,311	1,772,612
Discounted Treasury bills	120,775	443,690
Mortgage bonds	97,469	97,268
Corporate bonds	63,710	73,062
Listed securities:		
In HUF	*2,976*	*2,999*
In foreign currency	*38,239*	*46,486*
	41,215	*49,485*
Non-listed securities:		
In HUF	*17,373*	*18,516*
In foreign currency	*5,122*	*5,061*
	22,495	*23,577*
Subtotal	**1,876,265**	**2,386,632**

	30 June 2020	31 December 2019
Non-trading equity instruments to be measured at fair value through other comprehensive income		
Listed securities:		
In HUF	-	-
In foreign currency	*3,720*	*5,443*
	3,720	*5,443*
Non-listed securities:		
In HUF	*539*	*539*
In foreign currency	*25,978*	*34,165*
	26,517	*34,704*
Subtotal	**30,237**	**40,147**
Total securities at fair value through other comprehensive income	**1,906,502**	**2,426,779**

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

	30 June 2020	31 December 2019
Denominated in HUF (%)	35.2%	47.8%
Denominated in foreign currency (%)	64.8%	52.2%
Total	**100.0%**	**100.0%**

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

	30 June 2020	31 December 2019
Dividend from shares measured at fair value through other comprehensive income		
related to derecognized equity instruments	11	7
related to equity instrument existing at the balance sheet date	40	236
Accumulated gain transferred within reserves	1,175	1,842

An analysis of government bonds by currency (%):

	30 June 2020	31 December 2019
Denominated in HUF (%)	32.4%	39.5%
Denominated in foreign currency (%)	67.6%	60.5%
Total	**100.0%**	**100.0%**

	30 June 2020	31 December 2019
Interest rates on securities at fair value through other comprehensive income denominated in HUF	0.5% - 7.5%	0.16% - 7.5%
Interest rates on securities at fair value through other comprehensive income denominated in foreign currency	0.25% - 18.0%	0.25% - 17.25%

	30 June 2020	31 December 2019
Average interest rates securities at fair value through other comprehensive income denominated in HUF	2.00%	1.96%
Average interest rates on securities at fair value through other comprehensive income denominated in foreign currency	2.55%	2.24%

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

	30 June 2020	31 December 2019
Within one year		
With variable interest	9,128	7,799
With fixed interest	311,731	878,644
	320,859	**886,443**
Over one year		
With variable interest	55,254	60,974
With fixed interest	1,500,152	1,439,215
	1,555,406	**1,500,189**
Non-interest bearing securities	30,237	40,147
Total	**1,906,502**	**2,426,779**

Certain securities are hedged against interest rate risk. See Note 35.4.

During first half-year in 2020 no equity instruments designated at fair value through other comprehensive income were sold by the Group while in 2019 HUF 3,126 million equity instruments were sold.

NOTE 9: LOANS AT AMORTIZED COST AND AT FAIR VALUE (in HUF mn)

Loans at amortized cost

	30 June 2020	31 December 2019
Short-term loans and promissory notes (within one year)	3,484,941	3,196,480
Long-term loans and promissory notes (over one year)	8,949,507	8,373,834
Finance lease receivables	1,044,430	982,853
	13,478,878	**12,553,167**
Loss allowance on loans	(826,848)	(693,317)
Loss allowance on finance lease receivables	(21,085)	(13,590)
Loans at amortized cost	**12,630,945**	**11,846,260**

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

	30 June 2020	31 December 2019
In HUF	28.4%	28.1%
In foreign currency	71.6%	71.9%
Total	**100%**	**100%**

Interest rates of the loan portfolio are as follows:

	30 June 2020	31 December 2019
Short-term loans denominated in HUF	0.0% - 37.5%[1]	0.0% - 34%[1]
Long-term loans denominated in HUF	0.0% - 37.45%[1]	0.0% - 34%[1]
Short-term loans denominated in foreign currency	(0.45)% - 90.0%[2]	(0.45)% - 90.0%[2]
Long-term loans denominated in foreign currency	(0.45)% - 90.0%[2]	(0.45)% - 90.0%[2]

	30 June 2020	31 December 2019
Average interest rates on loans denominated in HUF	5.83%	6.13%
Average interest rates on loans denominated in foreign currency	5.67%	5.76%

[1] The highest interest rate relates to HUF loans regarding purchasing products and services.
[2] The highest interest rate relates to loans in foreign currency regarding POS services in Russia.

NOTE 9: LOANS AT AMORTIZED COST AND AT FAIR VALUE (in HUF mn) [continued]

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

	30 June 2020	31 December 2019
Balance as at 1 January	**693,317**	**676,359**
Loss allowance for the period	319,337	480,962
Release of loss allowance	(160,116)	(277,779)
Use of loss allowance	(34,679)	(94,458)
Partial write-off[1]	(3,239)	(112,198)
Decrease due to IFRS 5	-	(27,616)
Foreign currency translation difference	12,228	48,047
Closing balance	**826,848**	**693,317**

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

	30 June2020	31 December 2019
Loss allowance / (Release of loss allowance) on placements and gains from write-off and sale of placements	339	(235)
Loss allowance on loans and gains from write-off and sale of loans	117,626	44,027
Total[2]	**117,965**	**43,792**

Loans mandatorily at fair value through profit or loss

	30 June 2020	31 December 2019
Short-term loans at fair value through profit or loss with market risk value adjustment	2,372	2,663
Long-term loans at fair value through profit or loss with market risk value adjustment	30,745	31,866
Accumulated negative changes in fair value	(1,489)	(1,727)
Loans measured at fair value through profit or loss	**31,628**	**32,802**

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

	30 June 2020	31 December 2019
In HUF	90.2%	91%
In foreign currency	9.8%	9%
Total	**100%**	**100%**

[1] See details in Note 2.11.
[2] See details in Note 30.

NOTE 9: LOANS AT AMORTIZED COST AND AT FAIR VALUE (in HUF mn) [continued]

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

	30 June 2020	31 December 2019
Loans denominated in HUF	0.0% - 10.08%	1.5% - 10.08%
Loans denominated in foreign currency	2.5% - 4.5%	2.5% - 4.5%

NOTE 10: ASSOCIATES AND OTHER INVESTMENTS (in HUF mn)

	30 June 2020	31 December 2019
Investments		
Investments in associates (non-listed)	12,835	14,254
Other investments (non-listed)	22,596	15,384
	35,431	**29,638**
Impairment on investments	(8,550)	(8,816)
Total	**26,881**	**20,822**

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

	30 June 2020	31 December 2019
Balance as at 1 January	**8,816**	**5,592**
(Release of impairment) / Impairment for the period	(357)	3,342
Reclassification to securities at fair value through other comprehensive income	-	(80)
Foreign currency translation difference	91	(38)
Closing balance	**8,550**	**8,816**

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

	30 June 2020	31 December 2019
Government bonds	2,322,793	1,933,837
Corporate bonds	35,618	22,719
Discounted Treasury bills	7,701	6,516
Mortgage bonds	7,269	7,739
	2,373,381	**1,970,811**
Loss allowance on securities at amortized cost	(3,411)	(2,739)
Total	**2,369,970**	**1,968,072**

NOTE 11: SECURITIES AT AMORTIZED COST (in HUF mn) [continued]

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

	30 June 2020	31 December 2019
Within one year		
With variable interest	-	-
With fixed interest	208,531	261,358
	208,531	**261,358**
Over one year		
With variable interest	-	-
With fixed interest	2,164,850	1,709,453
	2,164,850	**1,709,453**
Total	**2,373,381**	**1,970,811**

An analysis of securities at amortized cost by currency (%):

	30 June 2020	31 December 2019
Denominated in HUF (%)	86.2%	86.5%
Denominated in foreign currency (%)	13.8%	13.5%
Total	**100.0%**	**100.0%**

	30 June 2020	31 December 2019
Interest rates of securities at amortized cost with variable interest	-	-
Interest rates of securities at amortized cost with fixed interest	0.0% - 9.25%	0.5% - 13.5%

	30 June 2020	31 December 2019
Average interest rates on securities at amortized cost	3.24%	3.36%

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

	30 June 2020	31 December 2019
Balance as at 1 January	**2,739**	**2,939**
Loss allowance for the period	2,920	593
Release of loss allowance	(2,412)	(755)
Use of loss allowance	95	(52)
Foreign currency translation difference	69	14
Closing balance	**3,411**	**2,739**

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

For the six month period ended 30 June 2020

Cost	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Tangible assets subject to operating lease	Total
Balance as at 1 January	**432,436**	**279,538**	**215,448**	**22,717**	**31,799**	**981,938**
Additions	43,644	20,897	14,809	12,418	4,192	**95,960**
Foreign currency translation differences	7,047	11,090	4,805	442	1,875	**25,259**
Disposals	(34,533)	(21,212)	(9,686)	(16,658)	(7,295)	**(89,384)**
Balance as at 30 June	**448,594**	**290,313**	**225,376**	**18,919**	**30,571**	**1,013,773**

Depreciation and Amortization	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Tangible assets subject to operating lease	Total
Balance as at 1 January	**189,414**	**71,085**	**145,321**	**-**	**10,889**	**416,709**
Charge for the period (without goodwill impairment)	20,569	4,449	11,202	-	2,506	**38,726**
Foreign currency translation differences	3,892	2,263	3,393	-	639	**10,187**
Disposals	(7,867)	(774)	(5,649)	-	(3,060)	**(17,350)**
Balance as at 30 June	**206,008**	**77,023**	**154,267**	**-**	**10,974**	**448,272**

Impairment	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Tangible assets subject to operating lease	Total
Balance as at 1 January	**803**	**-**	**1,337**	**-**	**440**	**2,580**
Charge for the period	-	1,505	-	-	347	**1,852**
Foreign currency translation differences	64	91	10	-	25	**190**
Disposals	(451)	-	(1,208)	-	(389)	**(2,048)**
Balance as at 30 June	**416**	**1,596**	**139**	**-**	**423**	**2,574**

Carrying value	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Tangible assets subject to operating lease	Total
Balance as at 1 January	**242,219**	**208,453**	**68,790**	**22,717**	**20,470**	**562,649**
Balance as at 30 June	**242,170**	**211,694**	**70,970**	**18,919**	**19,174**	**562,927**

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

For the six month period ended 30 June 2020 [continued]

An analysis of the intangible assets for the six month period ended 30 June 2020 is as follows:

Intangible assets	Self-developed	Other	Total
Gross values	8,992	333,972	**342,964**
Accumulated amortization	(2,327)	(203,681)	**(206,008)**
Carrying value	**6,665**	**130,291**	**136,956**

An analysis of the changes in the goodwill for the six month period ended 30 June 2020 is as follows:

	Goodwill
Gross balance as at 1 January	**111,687**
Additions	14,105
Foreign currency translation difference	(743)
Disposals	(19,419)
Balance as at 30 June	**105,630**

	Goodwill
Impairment as at 1 January	**6,388**
Additions	-
Disposals	(6,388)
Balance as at 30 June	**-**

Carrying value	Goodwill
Balance as at 1 January	**105,299**
Balance as at 30 June	**105,630**

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

List of units	HUF mn
DSK Bank EAD[1]	42,646
JSC “OTP Bank” (Russia)	42,276
OTP banka Hrvatska d.d.	20,699
POK-DSK Rodina a.d.	9
Total	**105,630**

[1] DSK Bank EAD after merge with the previous Expressbank.

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

For the six month period ended 30 June 2020 [continued]

The Bank decided that the recoverable amount of goodwill 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 30 June 2020 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 May 2020, while for the three-year explicit period the Bank applied the prognosis for year 2020 and on the basis of this the prepared medium-term (2021-2022) 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. In case of OTP Bank Romania S.A. a five-year explicit period (2020-2024) was used to be able to include the expected effects of the local strategic growth program more in detail.

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 six month period ended 30 June 2020

Based on the valuations of the subsidiaries as at 30 June 2020 no goodwill impairment, while as at 31 December 2019 HUF 4,887 million goodwill impairment for OTP Bank Romania S.A. was needed to book by the Group.

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

For the year ended 31 December 2019

Cost	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Tangible assets subject to operating lease	Total
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)**
Reclassified as held-for-sale	(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	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Tangible assets subject to operating lease	Total
Balance as at 1 January	**154,358**	**68,223**	**135,502**	**-**	**14,467**	**372,550**
Charge for the period (without goodwill impairment)	36,748	7,830	20,452	-	5,397	**70,427**
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)**
Reclassified as held-for-sale	(7,581)	(4,885)	(6,021)	-	-	**(18,487)**
Change in consolidation scope	171	1	165	-	-	**337**
Balance as at 31 December	**189,414**	**71,085**	**145,321**	**-**	**10,889**	**416,709**

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

For the year ended 31 December 2019 [continued]

Impairment	**Intangible assets and goodwill**	**Property**	**Office equipment and vehicles**	**Construction in progress**	**Tangible assets subject to operating lease**	**Total**
Balance as at 1 January	**2,200**	**28**	**34**	**-**	**585**	**2,847**
Charge for the period	803	-	1,294	-	1,991	**4,088**
Foreign currency translation differences	-	-	9	-	12	**21**
Disposals	(2,200)	(28)	-	-	(2,148)	**(4,376)**
Balance as at 31 December	**803**	**-**	**1,337**	**-**	**440**	**2,580**
Carrying value						
Balance as at 1 January	**166,711**	**171,388**	**59,504**	**22,881**	**22,793**	**443,277**
Balance as at 31 December	**242,219**	**208,453**	**68,790**	**22,717**	**20,470**	**562,649**

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

For the year ended 31 December 2019 [continued]

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

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

An analysis of the changes in the goodwill for the 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**

	Goodwill
Impairment as at 1 January	**5,962**
Additions	6,388
Disposals	(5,962)
Balance as at 31 December	**6,388**

Carrying value	Goodwill
Balance as at 1 January	**91,766**
Balance as at 31 December	**105,299**

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**

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.

NOTE 13: INVESTMENT PROPERTIES (in HUF mn)

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

Gross values	30 June 2020	31 December 2019
Balance as at 1 January	**53,906**	**49,256**
Increase due to transfer from inventories or owner-occupied properties	2,307	3,752
Increase from purchase	364	2,516
Increase due to transfer from held-for-sale properties	45	366
Increase from acquisition	-	299
Other additions	-	12
Transfer to inventories or owner-occupied properties	(34)	(778)
Transfer to held-for-sale properties	(487)	(999)
Disposal due to sale	(8,614)	(1,278)
Other disposal	-	(7)
Foreign currency translation difference	1,875	767
Closing balance	**49,362**	**53,906**

The applied depreciation and amortization rates were the following:

	30 June 2020	31 December 2019
Depreciation and amortization rates	0.01% - 13.3%	1% - 22.2%

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

Depreciation and amortization	30 June 2020	31 December 2019
Balance as at 1 January	**8,352**	**7,139**
Charge for the period	489	926
Additions due to transfer from inventories or owner-occupied properties	409	1,482
Additions due to transfer from held-for-sale properties	-	2
Transfer to inventories or owner-occupied properties	(10)	(710)
Disposal due to sale	(366)	(655)
Other disposal for the period	-	-
Foreign currency translation difference	524	168
Closing balance	**9,398**	**8,352**

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

Impairment	30 June 2020	31 December 2019
Balance as at 1 January	**3,994**	**4,002**
Impairment for the period	-	255
Release of impairment for the period	(852)	(378)
Use of impairment	(239)	(27)
Foreign currency translation difference	226	142
Closing balance	**3,129**	**3,994**

NOTE 13: INVESTMENT PROPERTIES (in HUF mn) [continued]

Carrying values	30 June 2020	31 December 2019
Balance as at 1 January	**41,560**	**38,115**
Balance as at 30 June / 31 December	**36,835**	**41,560**
Fair values	**40,590**	**45,768**

Income and expenses	30 June 2020	31 December 2019
Rental income	1,224	2,061
Direct operating expenses of investment properties – income generating	229	687
Direct operating expenses of investment properties – non income generating	1	8

NOTE 14: POSITIVE FAIR VALUE OF DERIVATIVE FINANCIAL ASSETS DESIGNATED AS HEDGE ACCOUNTING

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

	30 June 2020	31 December 2019
CCIRS and mark-to-market CCIRS designated as fair value hedge	10,972	3,705
Interest rate swaps designated as fair value hedge	1,417	3,758
Total	**12,389**	**7,463**

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

	30 June 2020	31 December 2019
Receivables from card operations	32,321	28,749
Prepayments and accrued income on other financial assets	31,306	35,725
Other advances	20,875	18,294
Receivables from investment services	17,174	3,896
Trade receivables	13,075	17,861
Stock exchange deals	9,476	6,058
Giro clearing accounts	2,180	2,817
Receivables due from pension funds and investment funds	900	15,668
Advances for securities and investments	756	746
Receivables from leasing activities	608	1,768
Other financial assets	25,825	6,088
Loss allowance on other financial assets	(16,056)	(14,617)
Total other financial assets	**138,440**	**123,053**

[1] 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.

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

	30 June 2020	31 December 2019
Inventories	68,999	58,420
Settlement and suspense accounts	14,350	6,282
Prepayments and accrued income on other non-financial assets	9,780	6,946
Receivables, subsidies from the State, Government	8,623	17,910
Receivable from the National Asset Management	-	62
Other non-financial assets	15,768	13,778
Impairment on other non-financial assets	(12,217)	(11,871)
Total other non-financial assets	**105,303**	**91,527**
Fair value of derivative financial assets designated as hedge accounting relationship[2]	12,389	7,463
Deferred tax assets[3]	29,869	26,543
Current income tax receivables	36,938	12,769
Subtotal	**79,196**	**46,775**
Total	**322,939**	**261,355**

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

	30 June 2020	31 December 2019
Balance as at 1 January	**14,617**	**15,053**
Loss allowance for the period	1,515	2,876
Use of loss allowance	(444)	(3,455)
Reclassified as held-for-sale	-	(420)
Foreign currency translation difference	368	563
Closing balance	**16,056**	**14,617**

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

	30 June 2020	31 December 2019
Balance as at 1 January	**11,871**	**12,550**
Impairment for the period	286	2,401
Use of impairment	(466)	(2,890)
Transfer to tangible assets subject to operating lease	-	(585)
Foreign currency translation difference	526	395
Closing balance	**12,217**	**11,871**

[1] 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.

[2] See Note 14.

[3] See Note 33.

NOTE 16: AMOUNTS DUE TO BANKS, THE NATIONAL GOVERNMENTS, DEPOSITS FROM THE NATIONAL BANKS AND OTHER BANKS (in HUF mn)

	30 June 2020	31 December 2019
Within one year		
In HUF	129,976	274,871
In foreign currency	198,947	166,813
	328,923	**441,684**
Over one year		
In HUF	444,645	151,415
In foreign currency	227,012	219,812
	671,657	**371,227**
Total	**1,000,580**	**812,911**

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

	30 June 2020	31 December 2019
Within one year		
In HUF	0.0% - 0.02%	(0.03)% - 0.9%
In foreign currency	(0.01)% - 1.9%	(0.89)% - 21.5%[1]
Over one year		
In HUF	0.0% - 1.55%	0.0% - 3.84%
In foreign currency	(0.01)% - 0.73 %	(0.45)% - 17.6%[1]

	30 June 2020	31 December 2019
Average interest rates on amounts due to banks, the National Governments, deposits from the National Banks and other banks denominated in HUF	1.32%	1.14%
Average interest rates on amounts due to banks, the National Governments, deposits from the National Banks and other banks denominated in foreign currency	2.20%	2.05%

NOTE 17: REPO LIABILITIES (in HUF mn)

	30 June 2020	31 December 2019
Within one year		
In HUF	6,870	488
In foreign currency	7,807	-
	14,677	**488**
Over one year		
In HUF	-	-
In foreign currency	107,414	-
	107,414	**-**
Total	**122,091**	**488**

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

NOTE 17: REPO LIABILITIES (in HUF mn) [continued]

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

	30 June 2020	31 December 2019
Average interest rates on repo liabilities denominated in HUF	(0.45)% - (0.001)%	(0.85)%
Average interest rates on repo liabilities denominated in foreign currency	(0.003)% - 6.6%	-

NOTE 18: FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn)

	30 June 2020	31 December 2019
Financial liabilities designated at fair value through profit or loss		
Within one year in HUF	2,447	2,679
Over one year in HUF	26,818	28,183
	29,265	**30,862**

Interest conditions of financial liabilities designated at fair value through profit or loss can be analysed as follows:

	30 June 2020	31 December 2019
Within one year		
In HUF	0.65% - 2.65%	0.01%-2.59%
Over one year		
In HUF	0.0% - 2.65%	0.01%-2.59%
In foreign currency	0.0% - 0.0%	0.0% - 0.0%

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

	30 June 2020	31 December 2019
Contractual amount	28,370	29,590
Fair value adjustment due to market risk	895	1,272
Carrying amount	**29,265**	**30,862**

NOTE 19: DEPOSITS FROM CUSTOMERS (in HUF mn)

	30 June 2020	31 December 2019
Within one year		
In HUF	5,540,415	5,454,729
In foreign currency	10,032,310	8,977,145
	15,572,725	**14,431,874**
Over one year		
In HUF	437,499	302,049
In foreign currency	221,703	437,385
	659,202	**739,434**
Total	**16,231,927**	**15,171,308**

Interest rates on deposits from customers are as follows:

	30 June 2020	31 December 2019
Within one year		
In HUF	0.0% - 7.96%	(3.13)% - 7.96%
In foreign currency	(0.40)% - 18.0[1]%	(0.6)% - 9.7%
Over one year		
In HUF	(4.21)% - 4.0%	(5.09)% - 7.96%
In foreign currency	0.0% - 16.5[1]%	0.0% - 15.0[1]%

	30 June 2020	31 December 2019
Average interest rates on deposits from customers denominated in HUF	0.10%	0.08%
Average interest rates on deposits from customers denominated in foreign currency	0.60%	0.69%

An analysis of deposits from customers by type is as follows:

	30 June 2020		31 December 2019	
Retail deposits	9,984,526	61.5%	9,195,778	61%
Corporate deposits	5,568,223	34.3%	5,171,579	34%
Municipality deposits	679,178	4.2%	803,951	5%
Total	**16,231,927**	**100%**	**15,171,308**	**100%**

[1] The highest interest rate regarding foreign currency deposits relate to individually agreed deposits in Ukraine.

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

	30 June 2020	31 December 2019
With original maturity		
Within one year		
In HUF	23,446	26,139
In foreign currency	3,344	3,816
	26,790	**29,955**
Over one year		
In HUF	374,987	363,159
In foreign currency	52	53
	375,039	**363,212**
Total	**401,829**	**393,167**

Interest rates on liabilities from issued securities are as follows:

	30 June 2020	31 December 2019
Issued securities denominated in HUF	0.0% - 9.0%	0.0% - 9.0%
Issued securities denominated in foreign currency	0.01% - 5.0%	0.74% - 6.70%

	30 June 2020	31 December 2019
Average interest rates on issued securities denominated in HUF	1.83%	1.80%
Average interest rates on issued securities denominated in foreign currency	1.06%	0.06%

Issued securities denominated in HUF as at 30 June 2020 (in HUF mn)

	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	OTPX2020B	28/06/2010	09/07/2020	267	291	indexed	NaN	hedged
2	OTPX2020C	11/11/2010	05/11/2020	151	185	indexed	NaN	hedged
3	OTPX2020D	16/12/2010	18/12/2020	161	173	indexed	NaN	hedged
4	OTPX2020F	10/10/2014	16/10/2020	2,602	2,530	indexed	0.20	hedged
5	OTPX2020G	15/12/2014	21/12/2020	2,280	2,208	indexed	0.30	hedged
6	OTPX2021A	01/04/2011	01/04/2021	183	244	indexed	NaN	hedged
7	OTPX2021B	17/06/2011	21/06/2021	245	345	indexed	NaN	hedged
8	OTPX2021C	19/09/2011	24/09/2021	231	200	indexed	NaN	hedged
9	OTPX2021D	21/12/2011	27/12/2021	259	310	indexed	NaN	hedged
10	OTPX2022A	22/03/2012	23/03/2022	201	217	indexed	NaN	hedged
11	OTPX2022B	18/07/2012	18/07/2022	172	409	indexed	1.70	hedged
12	OTPX2022C	29/10/2012	28/10/2022	201	223	indexed	1.70	hedged
13	OTPX2022D	28/12/2012	27/12/2022	265	287	indexed	1.70	hedged
14	OTPX2023A	22/03/2013	24/03/2023	324	329	indexed	1.70	hedged
15	OTPX2023B	28/06/2013	26/06/2023	198	215	indexed	0.60	hedged
16	OTPX2024A	18/06/2014	21/06/2024	241	239	indexed	1.30	hedged
17	OTPX2024B	10/10/2014	16/10/2024	295	288	indexed	0.70	hedged
18	OTPX2024C	15/12/2014	20/12/2024	242	236	indexed	0.60	hedged
19	OTPRF2020A	12/07/2010	20/07/2020	2,274	2,359	indexed	NaN	hedged
20	OTPRF2020B	12/07/2010	20/07/2020	1,270	1,410	indexed	NaN	hedged
	Subtotal			**12,062**	**12,698**			

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

Issued securities denominated in HUF as at 30 June 2020 (in HUF mn) [continued]

	Name	Date of issue	Maturity	Nominal value (in HUF mn)	Amortized cost (in HUF mn)	Interest conditions (actual interest rate in % p.a.)		Hedged
21	OTPRF2020C	11/11/2010	05/11/2020	2,757	2,669	indexed	NaN	hedged
22	OTPRF2021A	05/07/2011	13/07/2021	2,455	2,783	indexed	NaN	hedged
23	OTPRF2021B	20/10/2011	25/10/2021	2,725	2,840	indexed	NaN	hedged
24	OTPRF2021C	21/12/2011	30/12/2021	495	522	indexed	NaN	hedged
25	OTPRF2021D	21/12/2011	30/12/2021	349	365	indexed	NaN	hedged
26	OTPRF2021E	21/12/2011	30/12/2021	71	71	indexed	NaN	hedged
27	OTPRF2022A	22/03/2012	23/03/2022	1,937	1,852	indexed	1.70	hedged
28	OTPRF2022B	22/03/2012	23/03/2022	779	745	indexed	1.70	hedged
29	OTPRF2022C	28/06/2012	28/06/2022	180	189	indexed	1.70	hedged
30	OTPRF2022D	28/06/2012	28/06/2022	247	246	indexed	1.70	hedged
31	OTPRF2022E	29/10/2012	31/10/2022	711	689	indexed	1.70	hedged
32	OTPRF2022F	28/12/2012	28/12/2022	581	570	indexed	1.70	hedged
33	OTPRF2023A	22/03/2013	24/03/2023	748	719	indexed	1.70	hedged
34	OJB2020_I	19/11/2004	12/11/2020	5,503	5,630	9.0	fixed	
35	OJB2020_II	31/05/2011	12/11/2020	1,487	1,532	9.0	fixed	
36	OJB2021_I	15/02/2017	27/10/2021	114,000	113,193	2.0	fixed	
37	OJB2023_I	05/04/2018	24/11/2023	44,120	45,560	1.75	fixed	
38	OJB2024_A	17/09/2018	20/05/2024	47,678	48,071	1.62	floating	
39	OJB2024_C	24/02/2020	24/10/2024	57,398	57,876	1.30	floating	
40	OJB2024_II	10/10/2018	24/10/2024	95,700	94,577	2.50	fix	
41	OJB2025_II	03/02/2020	26/11/2025	4,842	4,820	1.50	fix	
42	Other			216	216			
	Total issued securities in HUF			**397,041**	**398,433**			

Issued securities denominated in foreign currency as at 30 June 2020 (in HUF mn)

	Name	Date of issue	Maturity	Type of FX	Nominal value		Amortized cost	Amortized cost	Interest conditions (actual interest rate in % p.a.)	
					(FX mn)	(HUF mn)	(FX mn)	(HUF mn)		
1	OTP_VKI_20/5	15/08/2019	15/08/2020	USD	1.97	624	1.97	628	1.42	floating
2	OTP_VKI_20/7	07/11/2019	07/11/2020	USD	1.66	528	1.66	528	1.20	floating
3	OTP_VKI_20/8	19/12/2019	19/12/2020	USD	1.52	483	1.52	483	1.32	floating
4	OTP_VKI_21/1	20/02/2020	20/02/2021	USD	1.4	445	1.41	447	1.10	floating
5	OTP_VKI_21/2	02/04/2020	02/04/2021	USD	1.28	406	1.28	407	1.48	floating
6	OTP_VKI_21/3	14/05/2020	14/05/2021	USD	1.18	376	1.18	376	1.10	floating
7	OTP_VKI_21/4	18/06/2020	18/06/2021	USD	0.74	236	0.74	236	1.32	floating
8	OTP_VKI_21/6	26/09/2020	26/09/2021	USD	0.72	229	0.72	229	1.20	floating
9	Other[1]				8	53	14	62		
	Total issued securities in FX				**18.47**	**3,380**	**24.48**	**3,396**		
	Total issued securities							**401,829**		

[1] Other category includes promissory notes issued by JSC "OTP Bank" (Russia) in the amount of HUF 62 million.

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

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 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 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 2020/2021

On 21 April 2020 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 9 July 2020 the prospectus of Term Note Program and the disclosure as at 10 July 2020. 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 and to other stock exchanges without any obligations.

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.

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

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

	30 June 2020	31 December 2019
Held-for-trading foreign exchange swaps	66,437	28,453
Held-for-trading interest rate swaps	64,045	46,717
Held-for-trading option contracts	11,468	3,128
Held-for-trading foreign exchange forward contracts	7,467	5,561
Held-for-trading CCIRS and mark-to-market CCIRS	6,510	1,037
Held-for-trading forward rate agreements	204	32
Held-for-trading forward security agreements	85	8
Held-for-trading other transactions[1]	3,123	1,807
Total	**159,339**	**86,743**

NOTE 22: 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

	30 June 2020	31 December 2019
Interest rate swaps designated as fair value hedge	11,742	8,839
CCIRS and mark-to-market CCIRS designated as fair value hedge	2,338	1,870
Total	**14,080**	**10,709**

NOTE 23: OTHER LIABILITIES[2] (in HUF mn)

	30 June 2020	31 December 2019
Liabilities connected to Cafeteria benefits	132,117	80,003
Liabilities from investment services	93,168	101,417
Accrued expenses on other financial liabilities	44,430	16,815
Liabilities from card transactions	43,204	20,563
Accounts payable	18,715	50,974
Advances received from customers	16,034	15,555
Liabilities due to short positions	7,474	7,040
Giro clearing accounts	5,779	3,935
Loans from government	1,362	1,291
Dividend payable	135	108
Liabilities due to refunding assets	12	9,133
Other financial liabilities	77,907	31,186
Total other financial liabilities	**440,337**	**338,020**

[1] Other category includes: commodity and equity swaps, commodity and index futures.
[2] Other liabilities – except deferred tax and corporate 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.

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

	30 June 2020	31 December 2019
Provision on off-balance sheet commitments and contingent liabilities	136,503	102,449
Salaries and social security payable	27,276	24,937
Clearing and giro settlement accounts	24,634	35,393
Insurance technical reserve	10,269	10,396
Liabilities related to housing loans	7,198	6,055
Accrued expenses on other non-financial liabilities	6,373	41,610
Provision due to CHF loans conversion at foreign subsidiaries	1,912	1,985
Other non-financial liabilities	28,796	31,695
Total other non-financial liabilities	**242,961**	**254,520**
Fair value of derivative financial liabilities designated as hedge accounting[2]	14,080	10,709
Deferred tax liabilities[3]	26,825	29,195
Current income tax payable	50,304	35,928
Subtotal	**91,209**	**75,832**
Total	**774,507**	**668,372**

The provisions are detailed as follows:

	30 June 2020	31 December 2019
Commitments and guarantees given	59,356	48,662
Total provision according to IFRS 9	**59,356**	**48,662**
Pending legal issues and tax litigation	32,692	28,650
Pensions and other post-employment defined benefit obligations	10,630	11,253
Restructuring	2,483	2,626
Other long-term employee benefits	2,336	2,343
Provision due to CHF loans conversion at foreign subsidiaries	1,912	1,985
Other provision	29,006	8,915
Total provision according to IAS 37	**79,059**	**55,772**
Total	**138,415**	**104,434**

[1] Other liabilities – except deferred tax liabilities, corporate tax 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.
[2] See Note 22.
[3] See Note 33.

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

The movements of provisions according to IFRS 9 can be summarized as follows:

	30 June 2020	31 December 2019
Balance as at 1 January	**48,662**	**28,144**
Provision for the period	42,983	50,919
Release of provision for the period	(32,563)	(42,924)
Use of provision	(595)	(1)
Transfer	-	5,259
Change due to acquisition	-	5,693
Reclassified as held-for-sale	-	(451)
Foreign currency translation differences	869	2,023
Closing balance	**59,356**	**48,662**

The movements of provisions according to IAS 37 can be summarized as follows:

	30 June 2020	31 December 2019
Balance as at 1 January	**55,772**	**57,285**
Provision for the period	25,905	11,196
Release of provision for the period	(4,593)	(7,538)
Use of provision	(1,547)	(4,265)
Change due to acquisition	-	4,005
Transfer	-	(5,259)
Reclassified as held-for-sale	-	(904)
Foreign currency translation differences	3,522	1,252
Closing balance	**79,059**	**55,772**

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

	30 June 2020	31 December 2019
Within one year:		
In foreign currency	5,299	2,700
Over one year:		
In foreign currency	266,179	247,238
Total	**271,478**	**249,938**

Types of subordinated bonds and loans	30 June 2020	31 December 2019
Debt securities issued	266,063	244,924
Deposits	5,415	5,014
Total	**271,478**	**249,938**

[1] Other liabilities – except deferred tax liabilities, corporate tax 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.

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

Interest rates on subordinated bonds and loans are as follows:

	30 June 2020	31 December 2019
Denominated in foreign currency	2.74% - 5.00%	2.60% - 5.00%

	30 June 2020	31 December 2019
Average interest rates on subordinated bonds and loans	2.89%	2.82%

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 30 June 2020
Subordinated bond	EUR 231.64 million	07/11/2006	Perpetual	99.375%	Three-month EURIBOR + 3%, variable after year 10 (payable quarterly)	2.742%
Subordinated bond	EUR 499.9 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	30/06/2025	100.00%	Bullet repayment, once at the end of the loan agreement	5.00%

NOTE 25: SHARE CAPITAL (in HUF mn)

	30 June 2020	31 December 2019
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[1] (in HUF mn)

Until 1 January 2021 – taking into consideration the regulations of the NBH - no dividend is expected to be proposed by the Management of OTP Bank.

The retained earnings and reserves according to IFRS contains the retained earnings (HUF 752,193 million and HUF 632,436 million) and reserves (HUF 1,696,942 million and HUF 1,686,827 million) as at 30 June 2020 and 31 December 2019 respectively. The reserves include mainly the option reserve, other reserves, the fair value adjustment of financial instruments at fair value through other comprehensive income, share-based payment reserve, 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 20,673 million and HUF (72,404) million as at 30 June 2020 and 31 December 2019 respectively.

Share capital

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

Share-based payment reserve

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

Retained earnings

Profit of previous years generated by the 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.

[1] See more details about the Consolidated statement of Changes in equity and about the Consolidated Statement of Comprehensive Income on page 4and 5.

NOTE 26: RETAINED EARNINGS AND RESERVES[1] (in HUF mn) [continued]

	30 June 2020	31 December 2019
Retained earnings	752,193	632,436
Capital reserve	52	52
Option reserve	(55,468)	(55,468)
Other reserves	88,511	87,035
Fair value of financial instruments measured at fair value through other comprehensive income	39,732	68,314
Share-based payment reserve	40,923	39,179
Fair value of derivative financial instruments designated as cash-flow hedge	-	2
Net investment hedge in foreign operations	(26,102)	(18,814)
Extra reserves	89,935	89,935
Net profit for the period	74,598	412,241
Changes in equity accumulated in the previous years at the subsidiaries and due to consolidation	1,424,088	1,136,755
Foreign currency translation differences	20,673	(72,404)
Retained earnings and other reserves	**2,449,135**	**2,319,263**

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 27: TREASURY SHARES (in HUF mn)

	30 June 2020	31 December 2019
Nominal value (Ordinary shares)	2,181	1,778
Carrying value at acquisition cost	101,305	60,931

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

Change in number of shares:

	30 June 2020	31 December 2019
Number of shares as at 1 January	**17,779,845**	**18,475,833**
Additions	5,630,654	906,194
Disposals	(1,602,298)	(1,602,182)
Closing number of shares	**21,808,201**	**17,779,845**

[1] See more details about the Consolidated statement of Changes in equity and about the Consolidated Statement of Comprehensive Income on page 4and 5.

NOTE 27: TREASURY SHARES (in HUF mn) [continued]

Change in carrying value:

	30 June 2020	31 December 2019
Balance as at 1 January	**60,931**	**67,999**
Additions	56,875	8,887
Disposals	(16,501)	(15,955)
Closing balance	**101,305**	**60,931**

NOTE 28: NON-CONTROLLING INTEREST (in HUF mn)

	30 June 2020	31 December 2019
Balance as at 1 January	**4,956**	**2,452**
Increase due to business combination	-	1,736
Non-controlling interest included in net profit for the period	1	341
Changes due to ownership structure	-	(10)
Purchase of non-controlling interest	(382)	-
Foreign currency translation difference	(142)	437
Closing balance	**4,433**	**4,956**

NOTE 29: INTEREST INCOMES , INCOMES SIMILAR TO INTEREST INCOME AND EXPENSES (in HUF mn)

	30 June 2020	30 June 2019
Interest income calculated using the effective interest method from / on		
loans	346,875	286,507
securities at amortized cost	34,560	31,637
finance lease receivables	26,428	18,635
securities at fair value through other comprehensive income	24,230	21,350
placements with other banks and repo receivables	3,905	4,483
banks and balances with the National Banks	1,192	669
liabilities (negative interest expense)	824	1,130
non-trading securities mandatorily at fair value through profit or loss	3	-
Subtotal	**438,017**	**364,411**
Income similar to interest income from		
swap deals related to placements with other banks	43,957	37,265
swap deals related to credit institutions	12,342	14,644
rental income	4,259	5,358
Subtotal	**60,558**	**57,267**
Total interest income and incomes similar to interest income	**498,575**	**421,678**

NOTE 29: INTEREST INCOMES, INCOMES SIMILAR TO INTEREST INCOME AND EXPENSES (in HUF mn) [continued]

	30 June 2020	30 June 2019
Interest expense due to / from / on		
swaps related to banks, National Governments and to deposits from the National Banks	48,285	40,946
deposits from customers	30,305	26,175
swaps related to deposits from customers	7,858	9,754
banks, National Governments and on deposits from the National Banks and repo liabilities	6,941	5,329
subordinated and supplementary bonds and loans	3,750	1,222
issued securities	3,549	3,908
depreciation of assets subject to operating lease, and investment properties	2,995	3,274
on financial assets (negative interest income)	2,474	1,185
leases	836	891
other	178	14
Total interest expense	**107,171**	**92,698**

NOTE 30: LOSS ALLOWANCES / IMPAIRMENT AND PROVISIONS (in HUF mn)

	30 June 2020	30 June 2019
Loss allowance on loans		
Loss allowance for the period	326,069	187,734
Release of loss allowance	(160,116)	(137,844)
(Losses) / Gains on loans	(725)	1,840
Income from loan recoveries	(40,920)	(33,434)
Modification gains on loans measured at amortized cost	70	(475)
	124,378	**17,821**
Loss allowance on placements and on repo receivables		
Allowance for the period	6,459	1,979
Release of allowance	(6,122)	(1,923)
Gains on placements due to write-off and sale	2	(16)
	339	**40**
Loss allowance / (Release of loss allowance) on securities at fair value through other comprehensive income and on securities at amortized cost		
Allowance for the period	4,123	583
Release of allowance	(2,412)	(628)
	1,711	**(45)**

NOTE 30: LOSS ALLOWANCES / IMPAIRMENT AND PROVISIONS (in HUF mn) [continued]

	30 June 2020	30 June 2019
(Release of impairment) / Impairment of intangible, tangible assets subject to operating lease and of investment properties		
Impairment for the period	347	1,960
Release of impairment	(1,241)	(1,844)
	(894)	**116**
Provision for commitments and guarantees given		
Provision for the period	42,983	19,164
Release of provision	(32,563)	(17,273)
	10,420	**1,891**
Loss allowances / Impairment and provisions	**135,954**	**19,823**

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

Income from fees and commissions	30 June 2020	30 June 2019
Fees and commissions related to lending[1]	**13,932**	**11,850**
Deposit and account maintenance fees and commissions	82,967	77,563
Fees and commissions related to the issued bank cards	38,255	32,428
Currency exchange gains and losses	23,872	13,970
Fees related to cash withdrawal	18,531	18,605
Fees and commissions related to security trading	12,507	9,562
Fees and commissions related to fund management	10,560	10,370
Insurance fee income	6,578	7,180
Other	20,164	15,422
Fees and commissions from contracts with customers	**213,434**	**185,100**
Total	**227,366**	**196,950**

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

NOTE 31: **NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn) [continued]**

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 (e.g. OTP Direct fee), account control fees (e.g. sms fee), or other fees for occasional services (account statement fees, other administration fees, etc.). Fees for ongoing account management services are charged to the customer's account on a monthly basis. The fees are commonly fix amounts that can be vary per account package and customer category. In the case of the transaction based fees where the services include money transfer the fee is charged when the transaction takes place. The rate of the fee is typically determined in a certain % of the transaction amount. In case of other transaction-based fees (e.g. SMS fee), the fee is settled monthly. In case of occasional services the 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. 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.

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

Fee type	Nature and timing of obligation settlement, and the significant payment terms	Revenue recognition under IFRS 15
Fees and commissions related to security account management services	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 %.	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 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.

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

Expense from fees and commissions	30 June 2020	30 June 2019
Fees and commissions related to issued bank cards	14,239	10,871
Interchange fees	8,803	7,139
Fees and commissions related to deposits	3,316	2,453
Cash withdrawal transaction fees	2,450	1,591
Fees and commissions related to security trading	1,976	1,461
Fees and commissions paid on loans	1,928	1,460
Fees and commissions related to collection of loans	705	247
Insurance fees	521	543
Postal fees	415	494
Money market transaction fees and commissions	52	37
Other	5,440	3,959
Total	**39,845**	**30,255**
Net profit from fees and commissions	**187,521**	**166,695**

NOTE 32: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn)

Other operating income	30 June 2020	30 June 2019
Negative goodwill due to acquisition	7,504	10,619
Gains on transactions related to property activities	1,164	5,632
Rental income	940	627
Gains on transactions related to insurance activity	803	428
Non-repayable assets received	37	287
Other income from non-financial activities	8,874	8,646
Total	**19,322**	**26,239**

Other operating expenses	30 June 2020	30 June 2019
Provision / (Release of provision) for off-balance sheet commitments and contingent liabilities	21,509	(1,813)
Financial support for sport association and organization of public utility	3,312	5,749
Loss allowance / Impairment on other assets	2,163	2,340
Non-repayable assets contributed	158	2,369
Expenses from losses due to foreign currency loan conversion at foreign subsidiaries	52	157
Fine imposed by Competition Authority	18	45
Subtotal	**27,212**	**8,847**

NOTE 32: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn) [continued]

Other operating expenses [continued]	**30 June 2020**	**30 June 2019**
(Release of impairment) / Impairment on tangible and intangible assets	(98)	421
Release of provision due to foreign currency loan conversion at foreign subsidiaries	(197)	(139)
(Release of impairment) / Impairment on investments[1]	(357)	170
Other	7,172	4,755
Total	**33,732**	**14,054**

Other administrative expenses	**30 June 2020**	**30 June 2019**
Personnel expenses		
Wages	121,031	98,075
Taxes related to personnel expenses	21,874	19,711
Other personnel expenses	11,320	10,255
Subtotal	**154,225**	**128,041**
Depreciation and impairment of tangible, intangible assets and goodwill impairment	**44,510**	**40,198**

	30 June 2020	**30 June 2019**
Other administrative expenses		
Taxes, other than income tax [2]	58,562	52,416
Services	46,164	41,253
Professional fees	23,577	20,465
Administration expenses	17,414	14,813
Advertising	7,178	6,891
Rental fees	3,521	4,036
Subtotal	**156,416**	**139,874**
Total	**355,151**	**308,113**

NOTE 33: 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.

[1] See details in Note 9.

[2] Special tax of financial institutions was paid by the Group in the amount of HUF 18,536 million for the first half year of 2020 and HUF 12,043 million for the year 2019, recognized as an expense thus decreased the corporate tax base. For the firs half year ended 30 June 2020 financial transaction duty was paid by the Bank in the amount of HUF 29 billion while for the year ended 31 December 2019 the same dutiy was HUF 61 billion.

NOTE 33: INCOME TAXES (in HUF mn) [continued]

The breakdown of the income tax expense is:

	30 June 2020	31 December 2019
Current tax expense	12,804	42,591
Deferred tax (income) / expense	(1,648)	7,311
Total	**11,156**	**49,902**

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

	30 June 2020	31 December 2019
Balance as at 1 January	**(2,652)**	**13,904**
Deferred tax income / (expense) in profit or loss	1,648	(7,311)
Deferred tax related to items recognized directly in equity and in Comprehensive Income	2,627	(877)
Due to merge of subsidiary	3,146	-
Due to acquisition of subsidiary	-	(9,068)
Due to sale of subsidiary	(621)	-
Foreign currency translation difference	(1,104)	700
Closing balance	**3,044**	**(2,652)**

A breakdown of the deferred tax assets are as follows:

	30 June 2020	31 December 2019
Loss allowance on granted loans	6,577	12,187
Premium and discount amortization on bonds	4,975	4,975
Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments	4,793	3,948
Loss allowance / impairment on other financial and non-financial assets	3,115	3,238
Fair value adjustment of securities at fair value through profit or loss and through other comprehensive income	2,812	2,766
Tax accrual caused by negative taxable income	2,127	902
Difference in depreciation and amortization	1,646	1,074
Temporary differences arising on consolidation	827	827
Fair value adjustment of derivative financial instruments	658	553
Difference due to IFRS 9	521	483
Difference in accounting for leases	274	156
Amounts unenforceable by tax law	185	210
Adjustment from effective interest rate method	155	254
Unused tax allowance	115	398
Other	3,632	6,825
Deferred tax asset	**32,412**	**38,796**

NOTE 33: INCOME TAXES (in HUF mn) [continued]

A breakdown of the deferred tax liabilities are as follows:

	30 June 2020	31 December 2019
Fair value adjustment of securities at fair value through profit or loss and through other comprehensive income	(10,458)	(13,798)
Difference in depreciation and amortization	(4,899)	(9,200)
Premium and discount amortization on bonds	(2,588)	(2,588)
Loss allowance on granted loans	(1,895)	(23)
Deferred tax due to acquisition	(1,425)	(9,720)
Temporary differences arising on consolidation	(598)	(598)
Amounts unenforceable by tax law	(432)	(104)
Fair value adjustment of derivative financial instruments	(96)	-
Loss allowance / impairment on other financial and non-financial assets	(81)	(75)
Unused tax allowance	(76)	-
Difference in accounting for leases	(22)	-
Difference due to IFRS 9	-	(70)
Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments	-	(408)
Other	(6,798)	(4,864)
Deferred tax liabilities	**(29,368)**	**(41,448)**
Net deferred tax asset / (liability) (net amount presented in the statement of financial positions)	**3,044**	**(2,652)**
Deferred tax assets	29,869	26,543
Deferred tax liabilities	(26,825)	(29,195)

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

	30 June 2020	31 December 2019
Profit before income tax	88,387	467,152
Income tax expense at statutory tax rates	12,849	55,812
Income tax adjustments due to permanent differences are as follows:		
Deferred use of tax allowance	283	5,046
Share-based payment	157	319
Correction on tax basis due to change of accounting policy	69	-
Amounts unenforceable by tax law	24	(58)
Use of tax allowance in the current year	-	(6,975)
Reversal of statutory general provision	(501)	-
Permanent differences from unused tax losses	(1,372)	-
Other	(353)	(4,242)
Income tax	**11,156**	**49,902**
Effective tax rate	**12.62%**	**10.68%**

NOTE 34: LEASE (in HUF mn)

The Group as a lessee:

Amounts recognised in profit and loss	**30 June 2020**	**31 December 2019**
Interest expense on lease liabilities	836	1,652
Expense relating to short-term leases	1,938	5,923
Expense relating to leases of low value assets	481	382
Expense relating to variable lease payments not included in the measurement of lease liabilities	11	4
Income from subleasing right-of-use assets	4	6
Gains or losses arising from sale and leaseback transactions	-	-

Right-of-use assets by class of underlying assets as at 30 June 2020:

	Property	**Office equipment and vehicles**	**Total**
Depreciation expense of right-of-use assets	7,953	337	**8,290**
Additions to right-of-use assets	6,614	55	**6,669**
Carrying amount of right-of-use assets at the end of the reporting period	47,022	965	**47,987**

Right-of-use assets by class of underlying assets as at 31 December 2019:

	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 HUF 6,490 million and HUF 20,603 million in the first half year of 2020 and in year 2019, respectively.

Leasing liabilities by maturities:

	30 June 2020	**31 December 2019**
Within one year	11,080	9,789
Over one year	38,958	44,404
Total	**50,038**	**54,194**

The Group as a lessor:

The Group’s leasing activities are most significant in Hungary, Bulgaria, Slovenia, Ukraine and Croatia. 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 the first half of 2020, the gross value of the Group’s finance lease receivables in HUF increased by 6.3 %, which is due to exchange rate changes and new contracts while 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.

NOTE 34: **LEASE (in HUF mn) [continued]**

The Group as a lessor [continued]:

Amounts receivable under finance leases	**30 June 2020**	**31 December 2019**
In less than 1 year	348,512	317,799
Between 1 and 2 years	302,204	238,249
Between 2 and 3 years	219,124	196,142
Between 3 and 4 years	133,781	139,292
Between 4 and 5 years	77,348	93,361
More than 5 years	47,363	49,639
Total receivables from undiscounted lease payments	**1,128,332**	**1,034,482**
Unguaranteed residual values	856	401
Gross investment in the lease	**1,129,188**	**1,034,883**
Less: unearned finance income	(84,758)	(52,030)
Present value of minimum lease payments receivable	**1,044,430**	**982,853**
Loss allowance	(21,085)	(13,590)
Net investment in the lease	**1,023,345**	**969,263**

Result from finance leases	**30 June 2020**	**31 December 2019**
Selling profit or loss	7	(78)
Finance income on the net investment in the lease	22,309	40,914
Income relating to variable lease payments not included in the measurement of the net investment in the lease	-	-

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

	30 June 2020	**31 December 2019**
Balance as at 1 January	**13,590**	**9,005**
Loss allowance for the period	13,565	13,415
Release of loss allowance	(6,780)	(8,535)
Use of loss allowance	(18)	(809)
Partial write-off	-	-
Foreign currency translation difference	728	514
Closing balance	**21,085**	**13,590**

Amounts receivable under operating leases	**30 June 2020**	**31 December 2019**
In less than 1 year	11,383	11,990
Between 1 and 2 years	8,747	6,928
Between 2 and 3 years	6,145	5,033
Between 3 and 4 years	3,284	3,955
Between 4 and 5 years	2,281	1,781
More than 5 years	1,010	491
Total receivables from undiscounted lease payments	**32,850**	**30,178**

Result from operating leases	**30 June 2020**	**31 December 2019**
Lease income	5,199	11,127
Therein lease income relating to variable lease payments that do not depend on an index or a rate	-	-

NOTE 35: 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:

35.1. 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 (amortized 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 items' 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.

NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

35.1. Credit risk [continued]

Defining the expected credit loss on individual and collective basis [continued]

On collective basis:

The following exposures are subject to collective assessment:

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

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

The Bank's 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.

NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

35.1. Credit risk [continued]

35.1.1. 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 30 June 2020:

	Carrying amount / Exposure	Gross carrying amount / Notional value				Accumulated loss allowance / Provision			
		Stage 1	Stage 2	Stage 3 and POCI[1]	Total	Stage 1	Stage 2	Stage 3 and POCI[1]	Total
Placements with other banks and repo receivables	**984,298**	983,307	7	31	**983,345**	927	2	24	**953**
Mortgage loans	**3,732,845**	3,150,399	176,785	237,295	**3,564,479**	13,531	9,849	144,986	**168,366**
Loans to medium and large corporates	**4,872,407**	3,936,607	504,845	213,610	**4,655,062**	40,852	57,446	119,047	**217,345**
Consumer loans	**3,708,439**	2,750,128	250,504	328,451	**3,329,083**	68,288	54,984	256,084	**379,356**
Loans to micro and small enterprises	**980,679**	702,978	158,476	58,471	**919,925**	5,834	17,786	37,134	**60,754**
Car-finance loans	**587,450**	501,101	52,488	15,412	**569,001**	3,862	3,936	10,651	**18,449**
Municipal loans	**444,991**	437,834	2,945	549	**441,328**	3,378	58	227	**3,663**
Loans at amortized cost	**14,326,811**	11,479,047	1,146,043	853,788	**13,478,878**	135,745	144,059	568,129	**847,933**
Interest bearing securities at fair value through other comprehensive income[2]	**1,876,265**	1,876,265	-	-	**1,876,265**	3,971	-	-	**3,971**
Securities at amortized cost	**2,376,792**	2,372,531	70	780	**2,373,381**	2,618	13	780	**3,411**
Financial assets total	**19,564,166**	**16,711,150**	**1,146,120**	**854,599**	**18,711,869**	**143,261**	**144,074**	**568,933**	**856,268**
Loan commitments given	3,191,867	3,142,893	75,627	5,909	**3,224,429**	24,637	5,505	2,420	**32,562**
Financial guarantees given	666,438	650,196	25,257	6,885	**682,338**	9,736	2,847	3,317	**15,900**
Other commitments given	686,078	677,396	15,843	3,733	**696,972**	8,797	956	1,141	**10,894**
Financial liabilities total	**4,544,383**	**4,470,485**	**116,727**	**16,527**	4,603,739	**43,170**	**9,308**	**6,878**	**59,356**

[1] Stage 3 includes POCI category too.
[2] Interest bearing securities at fair value through other comprehensive income are recognized in the Consolidated statement of financial position as at fair value (see in Note 8). Loss allowances for securities at fair value through other comprehensive income that are in Stage 1 and / or in Stage 2 is recognized in the Other comprehensive income. It is included in the accumulated loss allowance of this table showed above.

NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

35.1. Credit risk [continued]

35.1.1. Financial instruments by stages [continued]

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	Gross carrying amount / Notional value				Accumulated loss allowance / Provision			
		Stage 1	Stage 2	Stage 3 and POCI[1]	Total	Stage 1	Stage 2	Stage 3 and POCI[1]	Total
Placements with other banks and repo receivables	**410,079**	410,443	147	29	**410,619**	513	5	22	**540**
Mortgage loans	**3,144,032**	2,930,435	138,118	230,043	**3,298,596**	7,936	5,213	141,415	**154,564**
Loans to medium and large corporates	**4,176,545**	3,949,756	181,564	210,485	**4,341,805**	40,367	16,200	108,693	**165,260**
Consumer loans	**2,831,310**	2,664,985	209,280	281,845	**3,156,110**	57,797	39,956	227,047	**324,800**
Loans to micro and small enterprises	**816,284**	742,009	68,224	51,382	**861,615**	7,788	5,962	31,581	**45,331**
Car-finance loans	**534,339**	491,689	42,058	14,264	**548,011**	2,639	1,610	9,423	**13,672**
Municipal loans	**343,750**	343,370	3,257	403	**347,030**	2,788	267	225	**3,280**
Loans at amortized cost	**11,846,260**	11,122,244	642,501	788,422	**12,553,167**	119,315	69,208	518,384	**706,907**
Interest bearing securities at fair value through other comprehensive income[2]	**2,386,632**	2,386,632	-	-	**2,386,632**	2,927	-	-	**2,927**
Securities at amortized cost	**1,968,072**	1,970,083	-	728	**1,970,811**	2,014	-	725	**2,739**
Financial assets total	**16,611,043**	**15,889,402**	**642,648**	**789,179**	**17,321,229**	**124,769**	**69,213**	**519,131**	**713,113**
Loan commitments given	2,955,152	2,937,741	37,380	4,447	**2,979,568**	21,254	1,497	1,665	**24,416**
Financial guarantees given	641,925	635,410	11,864	5,740	**653,014**	6,927	974	3,188	**11,089**
Other commitments given	601,412	600,052	4,478	8,110	**612,640**	8,316	257	2,655	**11,228**
Financial liabilities total	**4,198,489**	**4,173,203**	**53,722**	**18,297**	**4,245,222**	**36,497**	**2,728**	**7,508**	**46,733**

[1] Stage 3 includes POCI category too.
[2] Interest bearing securities at fair value through other comprehensive income are recognized in the Consolidated statement of financial position as at fair value (see in Note 8). Loss allowances for securities at fair value through other comprehensive income that are in Stage 1 and / or in Stage 2 is recognized in the Other comprehensive income. It is included in the accumulated loss allowance of this table showed above.

NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

35.1. Credit risk [continued]

35.1.2. 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 30 June 2020:

	Opening balance	Increases due to origination and acquisition	Decreases due to derecognition	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 write-offs	Other adjustments	Closing balance
Stage 1	**124,769**	**71,683**	**(24,075)**	**(119,922)**	**81,264**	**(1,491)**	**(22)**	**11,055**	**143,261**
Placements with other banks and repo receivables	**513**	3,943	(23)	-	(3,727)	-	-	221	**927**
Loans at amortized cost	**119,315**	66,433	(23,523)	(119,922)	84,682	(1,491)	(22)	10,273	**135,745**
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	**4,941**	1,307	(529)	-	309	-	-	561	**6,589**
Stage 2	**69,213**	**19,385**	**(8,169)**	**9,966**	**57,311**	**910**	**(46)**	**(4,496)**	**144,074**
Placements with other banks and repo receivables	**5**				(3)				**2**
Loans at amortized cost	**69,208**	19,385	(8,169)	9,966	57,363	910	(46)	(4,558)	**144,059**
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	**-**	-	-	-	(49)	-	-	62	**13**
Stage 3[1]	**519,131**	**76,886**	**(71,251)**	**109,956**	**(72,989)**	**978**	**(18,399)**	**24,621**	**568,933**
Placements with other banks and repo receivables	**22**				(4)			6	**24**
Loans at amortized cost	**518,384**	76,104	(70,481)	109,956	(72,942)	978	(18,399)	24,529	**568,129**
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	**725**	782	(770)	-	(43)	-	-	86	**780**
Loss allowance on financial assets total	**713,113**	**167,954**	**(103,495)**	**-**	**65,586**	**397**	**(18,467)**	**31,180**	**856,268**
Loan commitments and financial guarantees given - stage 1	**36,497**	10,189	(3,543)	(431)	(2,249)	291	(118)	2,534	**43,170**
Loan commitments and financial guarantees given - stage 2	**2,728**	1,895	(181)	273	4,706	13	-	(126)	**9,308**
Loan commitments and financial guarantees given - stage 3	**7,508**	1,259	(1,251)	158	(471)	(69)	-	(256)	**6,878**
Financial liabilities total	**46,733**	**13,343**	**(4,975)**	**-**	**1,986**	**235**	**(118)**	**2,152**	**59,356**

[1] Stage 3 includes POCI category too.

NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

35.1. Credit risk [continued]

35.1.2. Movement table of loss allowance / provision on financial instruments [continued]

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	Transfers between stages	Changes due to change in credit risk (net)	Changes due to modifications without derecognition (net)	Decrease in loss allowance account due to write-offs	Other adjustments	Closing balance
Stage 1	**97,174**	**107,450**	**(26,719)**	**(70,791)**	**16,615**	**(5,070)**	**(960)**	**7,070**	**124,769**
Placements with other banks and repo receivables	463	3,975	(144)	(1)	(1,165)	9	-	(2,624)	**513**
Loans at amortized cost	91,379	101,861	(25,623)	(70,785)	19,848	(5,079)	(960)	8,674	**119,315**
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	5,332	1,614	(952)	(5)	(2,068)	-	-	1,020	**4,941**
Stage 2	**58,717**	**19,549**	**(14,884)**	**(2,766)**	**12,234**	**406**	**(388)**	**(3,655)**	**69,213**
Placements with other banks and repo receivables	12	2	-	1	3	-	-	(13)	**5**
Loans at amortized cost	58,705	19,547	(14,884)	(2,772)	12,236	406	(388)	(3,642)	**69,208**
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	-	-	-	5	(5)	-	-	-	**-**
Stage 3[1]	**536,007**	**28,353**	**(75,876)**	**73,557**	**(16,754)**	**4,647**	**(79,597)**	**48,794**	**519,131**
Placements with other banks and repo receivables	22	-	-	-	-	-	-	-	**22**
Loans at amortized cost	535,280	27,628	(75,094)	73,557	(16,720)	4,647	(79,597)	48,683	**518,384**
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	705	725	(782)	-	(34)	-	-	111	**725**
Loss allowance on financial assets total	**691,898**	**155,352**	**(117,479)**	**-**	**12,095**	**(17)**	**(80,945)**	**52,209**	**713,113**
Loan commitments and financial guarantees given - stage 1	21,457	16,460	(4,010)	192	(2,120)	(903)	(1)	5,422	**36,497**
Loan commitments and financial guarantees given - stage 2	2,821	1,188	(92)	(265)	(1,226)	55	(1)	248	**2,728**
Loan commitments and financial guarantees given - stage 3	3,775	3,283	(2,138)	73	2,479	(163)	(100)	299	**7,508**
Financial liabilities total	**28,053**	**20,931**	**(6,240)**	**-**	**(867)**	**(1,011)**	**(102)**	**5,969**	**46,733**

[1] Stage 3 includes POCI category too.

NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

35.1. Credit risk [continued]

35.1.3. Loan portfolio by countries

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

	30 June 2020		31 December 2019	
Country	**Gross amount of loan at amortized cost, placement with other banks and repo receivable portfolio**	**Loss allowance**	**Gross amount of loan at amortized cost, placement with other banks and repo receivable portfolio**	**Loss allowance**
Hungary	4,574,250	197,847	4,122,987	134,243
Bulgaria	2,579,002	185,897	2,419,203	148,053
Croatia	1,585,844	101,341	1,380,175	68,906
Serbia	1,403,279	19,160	1,215,038	23,021
Romania	862,553	50,107	747,026	41,319
Slovenia	810,660	10,145	823,611	4,025
Russia	708,537	167,119	812,703	159,045
Ukraine	461,334	77,498	484,678	74,650
Montenegro	367,665	22,202	333,697	20,198
France	253,063	483	92,791	63
Albania	169,286	6,550	152,279	3,688
Moldova	121,855	3,605	104,796	1,797
Germany	104,196	668	46,553	189
Slovakia	74,086	1,645	69,158	24,769
United Kingdom	65,633	1,187	47,618	1,171
Switzerland	58,333	743	34,232	635
The Netherlands	52,407	195	6,491	167
Austria	47,357	23	2,129	16
Belgium	35,337	109	24,042	98
United States of America	30,666	155	11,471	56
Cyprus	16,574	616	16,221	431
Luxembourg	16,552	39	347	13
Ireland	13,368	343	401	118
Italy	10,453	255	5,811	125
Spain	8,783	28	893	23
Czech Republic	6,853	30	454	24
Poland	4,395	40	525	21
Bosnia and Herzegovina	4,091	247	382	44
Denmark	3,843	13	427	10
Australia	2,964	1	214	1
Greece	1,251	120	2,147	132
Turkey	1,012	66	433	46
Canada	889	22	222	1
Sweden	805	51	437	45
Israel	396	3	384	2
Norway	363	37	568	36
Japan	243	-	19	-
United Arab Emirates	236	30	34	24
Kazakhstan	76	26	73	21
Egypt	71	2	14	1
Iceland	55	52	51	49
Latvia	36	17	29	15
Other[1]	3,571	169	3,022	156
Total	**14,462,223**	**848,886**	**12,963,786**	**707,447**

[1] Other category as at 30 June 2020 includes e.g.: China, Malta, Singapore, Macedonia, Algeria, Portugal, Finland, Saudi Arabia, Lithuania , Qatar, Belorussia, Republic of South-Africa, Tunisia, Armenia, Brazil, India, Syria, Hong Kong, South-Korea, Jordan, Estonia, Iran, Georgia, Kosovo, Morocco, Nigeria, Vietnam, Republic of Pakistan, Kyrgyzstan, Saint Vincent, Seychelles.

NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

35.1. Credit risk [continued]

35.1.3. Loan portfolio by countries [continued]

	Loans at fair value	
Country	**30 June 2020**	**31 December 2019**
Hungary	28,543	29,732
Bosnia-Herzegovina	2,557	2,581
Croatia	527	489
Total	**31,628**	**32,802**

35.1.4. 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	**30 June 2020**	**31 December 2019**
Mortgages	12,614,331	11,113,017
Guarantees of state or organizations owned by state	604,963	486,112
Guarantees and warranties	583,397	423,035
Assignments (revenue or other receivables)	576,133	447,820
Securities	241,848	186,154
Cash deposits	158,339	130,913
Other	2,402,268	2,216,505
Total	**17,181,279**	**15,003,556**

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	**30 June 2020**	**31 December 2019**
Mortgages	5,987,234	5,184,997
Guarantees of state or organizations owned by state	563,397	439,148
Assignments (revenue or other receivables)	374,090	306,863
Guarantees and warranties	284,943	303,711
Securities	160,112	137,613
Cash deposits	75,902	70,910
Other	1,297,251	1,331,823
Total	**8,742,929**	**7,775,065**

The coverage level of the loan portfolio (total collateral) increased by 6.48% and the coverage level to the extent of the exposures also increased by 2.40% as at 30 June 2020.

NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

35.1. Credit risk [continued]

35.1.5. Restructured loans

	30 June 2020		31 December 2019	
	Gross portfolio	Loss allowance	Gross portfolio	Loss allowance
Loans to medium and large corporations	24,088	6,376	22,418	3,948
Retail consumer loans	22,211	8,779	16,344	3,748
Retail mortgage loans	15,196	2,387	16,564	1,218
Loans to micro and small enterprises	9,767	2,471	9,344	1,728
Municipal	41	21	9	3
Other loans	3,544	524	305	32
Total	**74,847**	**20,558**	**64,984**	**10,677**

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

NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

35.1. Credit risk [continued]

35.1.6. Financial instruments by rating categories[1]

Securities held for trading as at fair value through profit or loss as at 30 June 2020

	Aaa	A2	A3	Baa1	Baa2	Baa3	Ba2	Ba3	B1	B3	Not rated	Total
Government bonds	-	-	-	-	5,965	16,815	984	2,539	-	-	-	**26,303**
Discounted Treasury bills	-	-	-	-	-	8,288	-	-	-	48		**8,336**
Other interest bearing securities	-	-	596	-	-	1,210	-	-	-	-	680	**2,486**
Equity instruments and fund units	384	52	24	31	7	172	6	-	4	-	455	**1,135**
Other non-interest bearing securities	-	-	-	-	-	-	-	-	-	-	2,596	**2,596**
Total	**384**	**52**	**620**	**31**	**5,972**	**26,485**	**990**	**2,539**	**4**	**48**	**3,731**	**40,856**

Non-trading securities mandatorily at fair value through profit or loss as at 30 June 2020

	Aa3	A1	Baa3	Not rated	Total
Non-trading equity instruments mandatorily at fair value through profit or loss	-	-	-	40,286	**40,286**
Non-trading debt instruments mandatorily at fair value through profit or loss	1,862	-	1,857	12,345	**16,064**
Debt securities designated at fair value through profit or loss	-	2,159	-	-	**2,159**
Total	**1,862**	**2,159**	**1,857**	**52,631**	**58,509**

[1] Moody's ratings

NOTE 35: **FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]**

35.1. Credit risk [continued]

35.1.6. Financial instruments by rating categories[1] [continued]

Securities at fair value through other comprehensive income as at 30 June 2020

	Aaa	Aa2	Aa3	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3	B1	B3	Caa1	Not rated	Total
Government bonds	22,346	7,841	-	37,505	7,013	131,321	174,744	794,437	-	161,066	159,727	54,536	43,686	89	-	**1,594,311**
Discounted Treasury bills	-	-	-	-	-	-	-	35,742	-	85,033	-	-	-	-	-	**120,775**
Mortgage bonds	-	-	-	-	-	65,712	-	-	-	-	-	-	-	-	31,757	**97,469**
Corporate bonds	-	-	-	-	4,789	-	1,549	36,234	3,573	192	-	-	-	-	17,373	**63,710**
Non-trading equity instruments	530	-	1,757	-	-	-	-	303	-	-	-	-	-	-	27,647	**30,237**
Total	**22,876**	**7,841**	**1,757**	**37,505**	**11,802**	**197,033**	**176,293**	**866,716**	**3,573**	**246,291**	**159,727**	**54,536**	**43,686**	**89**	**76,777**	**1,906,502**

Securities at amortized cost as at 30 June 2020

	Aa2	Baa1	Baa2	Baa3	Ba2	Ba3	B1	B3	Not rated	Total
Government bonds	44,872	38,556	10,865	2,090,249	11,786	4,551	28,293	90,429	-	**2,319,601**
Corporate bonds	-	-	-	-	10,662	-	-	-	24,787	**35,449**
Discounted treasury bills	-	-	-	-	-	-	-	7,651	-	**7,651**
Mortgage bonds	-	-	-	-	-	-	-	-	7,269	**7,269**
Total	**44,872**	**38,556**	**10,865**	**2,090,249**	**22,448**	**4,551**	**28,293**	**98,080**	**32,056**	**2,369,970**

[1] Moody's ratings

NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

35. 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. There were no material changes in the liquidity risk management process for the six month period ended 30 June 2020.

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.

NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

35. 2. Maturity analysis of assets, liabilities and liquidity risk [continued]

As at 30 June 2020	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	2,060,915	17,517	12,856	37,993	-	2,129,281
Placements with other banks, net of loss allowance for placements and net of repo receivables	660,658	35,976	261,598	25,739	449	984,420
Trading securities at fair value through profit or loss	2,078	13,404	12,806	9,163	889	38,340
Non-trading instruments mandatorily at fair value through profit or loss	172	-	3,801	13,432	34,119	51,524
Debt securities designated at fair value through profit or loss	-	-	2,159	-	-	2,159
Securities at fair value through other comprehensive income	92,642	236,300	946,059	577,421	22,762	1,875,184
Loans at amortized cost	1,755,135	2,293,849	5,365,541	4,783,734	-	14,198,259
Loans measured at fair value through profit or loss	594	1,778	13,673	16,173	-	32,218
Associates and other investments	-	-	-	-	35,431	35,431
Securities at amortized cost	135,174	82,226	1,449,651	629,700	-	2,296,751
Other financial assets[1]	125,180	3,965	7,696	3,849	13,807	154,497
TOTAL ASSETS	**4,832,548**	**2,685,015**	**8,075,840**	**6,097,204**	**107,457**	**21,798,064**
Amounts due to the National Governments, to the National Banks and other banks and repo liabilities	311,314	41,717	779,956	10,248	-	1,143,235
Financial liabilities designated at fair value through profit or loss	597	1,851	10,934	15,884	-	29,266
Deposits from customers	13,317,108	2,251,300	353,963	305,422	-	16,227,793
Liabilities from issued securities	9,003	21,372	369,235	5,329	-	404,939
Leasing liabilities	3,495	7,730	29,611	9,350	12	50,198
Other financial liabilities[1]	409,210	18,973	2,325	109	9,720	440,337
Subordinated bonds and loans	5,456	-	7,340	260,975	-	273,771
TOTAL LIABILITIES	**14,056,183**	**2,342,943**	**1,553,364**	**607,317**	**9,732**	**18,569,539**
NET POSITION	**(9,223,635)[2]**	**342,072**	**6,522,476**	**5,489,887**	**97,725**	**3,228,525**
Receivables from derivative financial instruments held for trading	1,691,109	1,935,231	943,454	424,440	-	4,994,234
Liabilities from derivative financial instruments held for trading	(1,786,555)	(1,572,574)	(799,575)	(541,595)	-	(4,700,299)
Net position of financial instruments held for trading	**(95,446)**	**362,657**	**143,879**	**(117,155)**	**-**	**293,935**
Receivables from derivative financial instruments designated as hedge accounting	9,962	126,471	254,641	117,153	-	508,227
Liabilities from derivative financial instruments designated as hedge accounting	(5,025)	(44,557)	(311,179)	(122,327)	-	(483,088)
Net position of financial instruments designated as hedge accounting	**4,937**	**81,914**	**(56,538)**	**(5,174)**	**-**	**25,139**
Net position of derivative financial instruments total	**(90,509)**	**444,571**	**87,341**	**(122,329)**	**-**	**319,074**

[1] Without derivative financial instruments

[2] 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 appropriate liquidity reserves as maintenance and management of liquidity risk.

NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

35. 2. Maturity analysis of assets, liabilities and liquidity risk [continued]

As at 30 June 2020 [continued]	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Commitments to extend credit	2,322,753	483,540	360,373	101,309	-	3,267,975
Bank guarantees	436,777	400,504	316,252	30,325	107,527	1,291,385
Confirmed letters of credit	21,167	8,967	3,652	7,193	3,399	44,378
Factoring loan commitment	293,837	-	-	-	-	293,837
Off-balance sheet commitments	**3,074,534**	**893,011**	**680,277**	**138,827**	**110,926**	**4,897,575**

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 and net of repo receivables	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[1]	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 and repo liabilities	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[1]	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)**[2]	**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**

[1] Without derivative financial instruments

[2] 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 appropriate liquidity reserves as maintenance and management of liquidity risk.

NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

35. 2. Maturity analysis of assets, liabilities and liquidity risk [continued]

As at 31 December 2019 [continued]	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
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**

35. 3. Net foreign currency position and foreign currency risk

As at 30 June 2020

	USD	EUR	CHF	Others	Total
Assets	663,371	6,442,919	75,312	6,002,546	13,184,148
Liabilities	(861,576)	(5,471,364)	(81,691)	(4,850,229)	(11,264,860)
Derivative financial instruments	323,329	(1,030,946)	(2,488)	(38,241)	(748,346)
Net position	**125,124**	**(59,391)**	**(8,867)**	**1,114,076**	**1,170,942**

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**

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.

NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

35.4. 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.

NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

35.4. Interest rate risk management [continued]

As at 30 June 2020

ASSETS	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	
Cash, amounts due from banks and balances with the National Banks	**169,943**	**530,038**	**2,594**	**7,581**	**-**	**12,919**	**-**	**10,200**	**-**	**24,468**	**186,179**	**1,185,359**	**358,716**	**1,770,565**	**2,129,281**
fixed rate	168,251	424,169	2,594	7,866	-	12,919	-	10,200	-	24,468	-	-	170,845	479,622	650,467
variable rate	1,692	105,869	-	(285)	-	-	-	-	-	-	-	-	1,692	105,584	107,276
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	186,179	1,185,359	186,179	1,185,359	1,371,538
Placements with other banks, net of allowance for placements losses and repo receivables	**127,543**	**279,794**	**14,855**	**134,843**	**7,981**	**29,743**	**120,889**	**106,667**	**-**	**84,769**	**19,298**	**56,010**	**290,566**	**691,826**	**982,392**
fixed rate	72,135	132,422	3,964	134,843	7,981	29,240	120,889	106,667	-	42,413	-	-	204,969	445,585	650,554
variable rate	55,408	147,372	10,891	-	-	503	-	-	-	42,356	-	-	66,299	190,231	256,530
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	19,298	56,010	19,298	56,010	75,308
Trading instruments at fair value through profit or loss	**776**	**2,365**	**640**	**-**	**8,699**	**3,939**	**1,093**	**385**	**8,924**	**11,408**	**2,147**	**480**	**22,279**	**18,577**	**40,856**
fixed rate	61	1,044	256	-	8,699	3,939	1,093	385	8,909	11,408	-	-	19,018	16,776	35,794
variable rate	715	1,321	384	-	-	-	-	-	15	-	-	-	1,114	1,321	2,435
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	2,147	480	2,147	480	2,627
Non-trading instruments mandatorily at fair value through profit or loss	**-**	**29**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,820**	**31,197**	**21,304**	**31,197**	**25,153**	**56,350**
fixed rate	-	-	-	-	-	-	-	-	-	3,820	-	-	-	3,820	3,820
variable rate	-	29	-	-	-	-	-	-	-	-	-	-	-	29	29
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	31,197	21,304	31,197	21,304	52,501
Financial assets designated at fair value through profit or loss	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,159**	**-**	**2,159**	**2,159**
fixed rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
variable rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	2,159	-	2,159	2,159
Securities at fair value through other comprehensive income	**66,160**	**17,167**	**11,546**	**19,819**	**32,031**	**207,149**	**110,889**	**250,777**	**449,884**	**693,785**	**706**	**46,589**	**671,216**	**1,235,286**	**1,906,502**
fixed rate	27,466	13,159	2,631	19,819	16,707	206,572	110,889	250,777	449,884	693,785	-	-	607,577	1,184,112	1,791,689
variable rate	38,694	4,008	8,915	-	15,324	577	-	-	-	-	-	-	62,933	4,585	67,518
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	706	46,589	706	46,589	47,295
Loans at amortized cost, net of allowance for loan losses	**527,697**	**4,542,836**	**743,346**	**963,542**	**441,655**	**1,556,626**	**117,424**	**411,924**	**1,713,813**	**1,467,235**	**108,660**	**36,187**	**3,652,595**	**8,978,350**	**12,630,945**
fixed rate	35,800	938,768	2,765	244,645	21,388	513,266	44,157	313,688	680,835	859,358	-	-	784,945	2,869,725	3,654,670
variable rate	491,897	3,604,068	740,581	718,897	420,267	1,043,360	73,267	98,236	1,032,978	607,877	-	-	2,758,990	6,072,438	8,831,428
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	108,660	36,187	108,660	36,187	144,847
Loans mandatorily at fair value through profit or loss	**28,543**	**586**	**-**	**117**	**-**	**529**	**-**	**343**	**-**	**2,412**	**-**	**(902)**	**28,543**	**3,085**	**31,628**
fixed rate	-	59	-	117	-	529	-	343	-	2,412	-	-	-	3,460	3,460
variable rate	28,543	527	-	-	-	-	-	-	-	-	-	-	28,543	527	29,070
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	(902)	-	(902)	(902)
Securities at amortized cost	**142**	**82,789**	**45**	**10,620**	**73,996**	**18,901**	**133,799**	**19,266**	**1,834,255**	**188,247**	**-**	**7,910**	**2,042,237**	**327,733**	**2,369,970**
fixed rate	142	82,789	45	10,620	73,996	18,901	133,799	19,266	1,834,255	188,247	-	-	2,042,237	319,823	2,362,060
variable rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	7,910	-	7,910	7,910
Fair value adjustment of derivative financial instruments	**871,394**	**290,185**	**1,078,826**	**423,938**	**822,817**	**642,436**	**10,535**	**4,874**	**23,783**	**81,749**	**423,785**	**136,955**	**3,231,140**	**1,580,137**	**4,811,277**
fixed rate	845,376	152,399	858,262	224,683	824,539	616,036	10,535	5,234	23,982	80,444	-	-	2,562,694	1,078,796	3,641,490
variable rate	26,018	137,786	220,564	199,255	(1,722)	26,400	-	(360)	(199)	1,305	-	-	244,661	364,386	609,047
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	423,785	136,955	423,785	136,955	560,740
Other financial assets	**2,539**	**17,471**	**-**	**104**	**-**	**318**	**-**	**72**	**-**	**-**	**51,293**	**66,643**	**53,832**	**84,608**	**138,440**
fixed rate	2,193	6,737	-	11	-	13	-	-	-	-	-	-	2,193	6,761	8,954
variable rate	346	10,734	-	93	-	305	-	72	-	-	-	-	346	11,204	11,550
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	51,293	66,643	51,293	66,643	117,936

NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

35.4. Interest rate risk management [continued]

As at 30 June 2020 [continued]

LIABILITIES	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	
Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks and repo liabilities	**112,231**	**337,336**	**13,638**	**33,014**	**210**	**108,751**	**1,426**	**11,219**	**447,591**	**31,806**	**6,396**	**19,053**	**581,492**	**541,179**	**1,122,671**
fixed rate	56,805	140,788	13,634	15,050	210	13,320	1,426	11,219	440,767	29,907	-	-	512,842	210,284	723,126
variable rate	55,426	196,548	4	17,964	-	95,431	-	-	6,824	1,899	-	-	62,254	311,842	374,096
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	6,396	19,053	6,396	19,053	25,449
Financial liabilities designated at fair value through profit or loss	**27,105**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,160**	**27,105**	**2,160**	**29,265**
fixed rate	9	-	-	-	-	-	-	-	-	-	-	-	9	-	9
variable rate	27,096	-	-	-	-	-	-	-	-	-	-	-	27,096	-	27,096
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	2,160	-	2,160	2,160
Deposits from customers	**5,350,115**	**7,438,449**	**178,943**	**659,667**	**126,333**	**833,182**	**56,703**	**141,786**	**240,587**	**457,160**	**25,232**	**723,770**	**5,977,913**	**10,254,014**	**16,231,927**
fixed rate	575,302	3,326,837	178,943	661,157	125,706	832,735	56,703	141,784	240,587	457,153	-	-	1,177,241	5,419,666	6,596,907
variable rate	4,774,813	4,111,612	-	(1,490)	627	447	-	2	-	7	-	-	4,775,440	4,110,578	8,886,018
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	25,232	723,770	25,232	723,770	749,002
Liabilities from issued securities	**(56,950)**	**-**	**17,974**	**1,303**	**8,692**	**2,030**	**117,273**	**-**	**311,443**	**52**	**-**	**12**	**398,432**	**3,397**	**401,829**
fixed rate	214	-	-	-	7,219	-	117,273	-	135,929	52	-	-	260,635	52	260,687
variable rate	(57,164)	-	17,974	1,303	1,473	2,030	-	-	175,514	-	-	-	137,797	3,333	141,130
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	12	-	12	12
Fair value adjustment of derivative financial instruments	**1,029,175**	**111,344**	**1,261,418**	**238,567**	**892,534**	**552,512**	**8,175**	**10,354**	**35,967**	**77,515**	**319,885**	**258,802**	**3,547,154**	**1,249,094**	**4,796,248**
fixed rate	863,506	106,108	883,517	222,112	893,908	534,482	8,175	10,369	36,166	75,756	-	-	2,685,272	948,827	3,634,099
variable rate	165,669	5,236	377,901	16,455	(1,374)	18,030	-	(15)	(199)	1,759	-	-	541,997	41,465	583,462
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	319,885	258,802	319,885	258,802	578,687
Leasing liabilities	**1,057**	**7,017**	**304**	**1,146**	**124**	**5,519**	**1,426**	**6,099**	**47**	**18,539**	**-**	**8,760**	**2,958**	**47,080**	**50,038**
fixed rate	1,057	7,028	304	1,146	123	5,519	1,424	6,099	47	18,539	-	-	2,955	38,331	41,286
variable rate	-	(11)	-	-	1	-	2	-	-	-	-	-	3	(11)	(8)
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	8,760	-	8,760	8,760
Other financial liabilities	**3,115**	**7,388**	**-**	**619**	**-**	**200**	**-**	**447**	**-**	**199**	**315,999**	**112,370**	**319,114**	**121,223**	**440,337**
fixed rate	2,500	7,406	-	619	-	200	-	447	-	199	-	-	2,500	8,871	11,371
variable rate	615	(18)	-	-	-	-	-	-	-	-	-	-	615	(18)	597
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	315,999	112,370	315,999	112,370	428,369
Subordinated bonds and loans	**2**	**182,130**	**-**	**83,380**	**-**	**-**	**-**	**-**	**-**	**5,963**	**-**	**3**	**2**	**271,476**	**271,478**
fixed rate	-	-	-	-	-	-	-	-	-	5,963	-	-	-	5,963	5,963
variable rate	2	182,130	-	83,380	-	-	-	-	-	-	-	-	2	265,510	265,512
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	3	-	3	3
Net position	(4,671,113)	(2,320,404)	379,575	542,868	359,286	970,366	309,626	634,603	2,995,024	1,966,659	155,753	433,764	(471,849)	2,227,856	1,756,007

NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

35.4. Interest rate risk management [continued]

As at 31 December 2019

ASSETS	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	
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 and repo receivables, net	**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 at amortized cost, 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

NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

35.4. Interest rate risk management [continued]

As at 31 December 2019 [continued]

LIABILITIES	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	
Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks and repo liabilities	**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	**(4,897,284)**	**(1,490,668)**	**494,151**	**680,093**	**991,731**	**411,115**	**(85,850)**	**562,211**	**2,929,632**	**1,630,744**	**(2,750)**	**474,960**	**(570,370)**	**2,268,455**	**1,698,085**

NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

35.5. 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 35.2., 35.3. and 35.4., respectively.)

35.5.1. 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**	
	30 June 2020	**30 June 2019**
Foreign exchange	671	413
Interest rate	221	122
Equity instruments	75	27
Diversification	-	-
Total VaR exposure	**967**	**562**

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 35.5.2., for interest rate risk in Note 35.5.3., and for equity price sensitivity analysis in Note 35.5.4.

NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

35.5. Market risk [continued]

35.5.2. 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 30 June 2020. 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	
	30 June 2020 In HUF billion	30 June 2019 In HUF billion
1%	(13.4)	(12.2)
5%	(9.3)	(8.4)
25%	(3.9)	(3.5)
50%	(0.5)	(0.3)
25%	2.7	2.6
5%	7.2	6.8
1%	10.4	9.7

Notes:
(1) The EUR 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 2020.

The effect on equity of the foreign currency sensitivity analysis is not significant either for the half-year ended 30 June 2020 or for the year ended 31 December 2019.

35.5.3. 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.

NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

35.5 Market risk [continued]

35.5.3. Interest rate sensitivity analysis [continued]

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

(1) HUF base rate and BUBOR decreases gradually by 30 bps over the next year (probable scenario)
(2) HUF base rate and BUBOR decreases gradually by 60 bps over the next year (alternative scenario)

The net interest income in a one year period after 1 July 2020 would be decreased by HUF 2,242 million (probable scenario) and HUF 4,767 million (alternative scenario) as a result of these simulation. The same simulation indicated HUF 1,794 million (probable scenario) and HUF 3,305 million (alternative scenario) decrease in the Net interest income in a one year period after 1 July 2019.
This effect is counterbalanced by capital gains HUF 2,387 million (or probable scenario), HUF 4,755 million (for alternative scenario) as at 30 June 2020 and (HUF 256 million for probable scenario, HUF 3,082 million for alternative scenario as at 30 June 2019) 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):

	30 June 2020		30 June 2019	
Description	**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	(1,439)	792	(1,604)	(641)
EUR (0.1%) parallel shift	(1,446)	-	(1,030)	-
USD (0.1%) parallel shift	(409)	-	(196)	-
Total	**(3,294)**	**792**	**(2,830)**	**(641)**

35.5.4. 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	**30 June 2020**	**30 June 2019**
VaR (99%, one day, HUF million)	75	27
Stress test (HUF million)	(202)	(38)

NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

35.6. 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 the first half of 2020 as well as in year 2019.

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 2,426,091 million and the Total regulatory capital requirement was HUF 1,190,677 million as at 30 June 2020. The same ratios calculated as at 31 December 2019 were the following: 16.8%, HUF 2,390,688 million and HUF 1,140,976 million.

NOTE 35: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

35.6. Capital management [continued]

Capital adequacy [continued]

Calculation on IFRS basis	30 June 2020	31 December 2019
Core capital (Tier 1) = Common Equity Tier 1 (CET 1)	***2,075,528***	***2,055,106***
Issued capital	28,000	28,000
Reserves	2,204,844	2,208,519
Fair value corrections	13,629	49,501
Other capital components	61,597	(33,225)
Non-controlling interests	1,955	2,571
Treasury shares	(148,564)	(60,931)
Goodwill and other intangible assets	(242,171)	(230,017)
Other adjustments	156,238	90,688
Additional Tier 1 (AT1)	**-**	**-**
Supplementary capital (Tier 2)	***350,563***	***335,582***
Subordinated bonds and loans	260,161	244,536
Other issued capital components	89,935	89,935
Components recognized in T2 capital issued by subsidiaries	467	1,111
Regulatory capital[1]	**2,426,091**	**2,390,688**
Credit risk capital requirement	1,057,306	1,002,390
Market risk capital requirement	17,448	15,905
Operational risk capital requirement	115,923	122,681
Total requirement regulatory capital	**1,190,677**	**1,140,976**
Surplus capital	**1,235,414**	**1,249,712**
CET 1 ratio	13.9%	14.4%
Tier 1 ratio	13.9%	14.4%
Capital adequacy ratio	**16.3%**	**16.8%**

Basel III

The components of the Common Equity Tier 1 capital (CET 1) 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 (Tier 2): Subordinated loan capital, Supplementary loan capital, Other issued capital components, Components recognized in T2 capital issued by subsidiaries.

[1] The consolidated regulatory capital of the Group for the first half of 2020 doesn't contain the profit for the first half year of 2020.

NOTE 36: 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	2,511	2,523	2%-3%	30

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

	30 June 2020		31 December 2019	
	Transferred assets Carrying amount	**Associated liabilities Carrying amount**	**Transferred assets Carrying amount**	**Associated liabilities Carrying amount**
Financial assets at fair value through profit or loss				
Debt securities	-	-	-	-
Total	**-**	**-**	**-**	**-**
Financial assets at fair value through other comprehensive income				
Debt securities	71,856	66,773	40,912	40,253
Total:	**71,856**	**66,773**	**40,912**	**40,253**
Financial assets at amortised cost				
Debt securities	144,684	125,314	-	-
Loans and advances	450	-	5,263	2,555
Total	**145,134**	**125,314**	**5,263**	**2,555**
Total	**216,990**	**192,087**	**46,175**	**42,808**

As at 30 June 2020 and 31 December 2019, the Group had obligation from repurchase agreements (repo liability) about HUF 122,000 million and HUF 111 million 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 and repo liabilities".

NOTE 37: 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

	30 June 2020	31 December 2019
Commitments to extend credit	3,267,976	3,027,112
Guarantees arising from banking activities	997,548	966,649
Factoring loan commitment	293,837	228,145
Confirmed letters of credit	44,378	33,296
Contingent liabilities and commitments total in accordance with IFRS 9	**4,603,739**	**4,255,202**
Legal disputes (disputed value)	60,972	30,844
Other	65,309	57,151
Contingent liabilities and commitments total in accordance with IAS 37	**126,281**	**87,995**
Total	**4,730,020**	**4,343,197**

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 32,692 million as at 30 June 2020 and HUF 28,650 million as at 31 December 2019, respectively. (See Note 23.)

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.

NOTE 37: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn) [continued]

Guarantees, payment undertakings arising from banking activities [continued]

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 38: 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[1]

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

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

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.

[1] Until the end of 2014 Board of Directors

NOTE 38: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn) [continued]

The parameters for the share-based payment relating to years 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 2015			**for the year 2016**			**for the year 2017**		
2016	4,892	2,500	6,892	-	-	-	-	-	-
2017	4,892	3,000	6,892	7,200	2,500	9,200	-	-	-
2018	4,892	3,000	6,892	7,200	3,000	9,200	8,064	3,000	10,064
2019	4,892	3,000	6,892	7,200	3,500	9,200	8,064	3,500	10,064
2020	-	-	-	7,200	4,000	9,200	8,064	4,000	10,064
2021	-	-	-	-	-	-	8,064	4,000	10,064
2022	-	-	-	-	-	-	8,064	4,000	10,064

Year	**Share purchasing at a discounted price**		Price of remuneration exchanged to share	**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 2018			**for the year 2019**		
2019	10,413	4,000	12,413			
2020	10,413	4,000	12,413	9,553	4,000	11,553
2021	10,413	4,000	12,413	9,553	4,000	11,553
2022	10,913	4,000	12,413	9,553	4,000	11,553
2023	10,913	4,000	12,413	9,553	4,000	11,553
2024	10,913	4,000	12,413	9,553	4,000	11,553
2025	10,913	4,000	12,413	9,553	4,000	11,553
2026	-	-	-	9,553	4,000	11,553

NOTE 38: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn) [continued]

Based on parameters accepted by Supervisory Board relating to the year **2015** effective pieces are follows as at 30 June 2020:

	Approved pieces of shares	Exercised until 30 June 2020	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 30 June 2020
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 30 June 2020:

	Approved pieces of shares	Exercised until 30 June 2020	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 30 June 2020
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	156,859	11,771	-	4,587
Remuneration exchanged to share provided in 2019	4,033	4,033	11,813	-	-
Share purchasing period started in 2020	166,231	132,659	11,516	-	33,572
Remuneration exchanged to share provided in 2020	4,303	4,303	11,897	-	-

Based on parameters accepted by Supervisory Board relating to the year **2017** effective pieces are follows as at 30 June 2020:

	Approved pieces of shares	Exercised until 30 June 2020	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 30 June 2020
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	212,282	198,195	12,101	-	14,087
Remuneration exchanged to share provided in 2019	26,538	26,538	11,813	-	-
Share purchasing period started in 2020	101,571	6,617	11,512	-	94,954
Remuneration exchanged to share provided in 2020	11,584	11,584	11,897	-	-
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

NOTE 38: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn) [continued]

Based on parameters accepted by Supervisory Board relating to the year **2018** effective pieces are follows as at 30 June 2020:

	Approved pieces of shares	Exercised until 30 June 2020	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 30 June 2020
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 started in 2020	149,322	-	-	-	149,322
Remuneration exchanged to share provided in 2020	33,024	33,024	11,897	-	-
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

Based on parameters accepted by Supervisory Board relating to the year **2019** effective pieces are follows as at 30 June 2020:

	Approved pieces of shares	Exercised until 30 June 2020	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 30 June 2020
Share purchasing period started in 2020	91,403	2,739	11,475	-	88,664
Remuneration exchanged to share provided in 2020	22,806	22,806	11,897	-	-
Share purchasing period starting in 2021	-	-	-	-	202,386
Remuneration exchanged to share applying in 2021	-	-	-	-	32,238
Share purchasing period starting in 2022	-	-	-	-	109,567
Remuneration exchanged to share applying in 2022	-	-	-	-	15,554
Share purchasing period starting in 2023	-	-	-	-	125,771
Remuneration exchanged to share applying in 2023	-	-	-	-	18,025
Share purchasing period starting in 2024	-	-	-	-	44,421
Remuneration exchanged to share applying in 2024	-	-	-	-	6,279
Remuneration exchanged to share applying in 2025	-	-	-	-	1,000
Remuneration exchanged to share applying in 2026	-	-	-	-	500

Effective pieces relating to the periods starting in 2021-2026 settled during valuation of performance of year 2017-2019, can be modified based on risk assessment and personal changes.

In connection with the share-based compensation for Board of Directors and connecting compensation, shares given as a part of payments detailed above and based on performance assessment accounted as equity-settled share based transactions, HUF 1,744 million and HUF 3,548 million was recognized as expense for the first half of 2020 and for the year ended 31 December 2019 respectively.

NOTE 39: 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	**30 June 2020**	**31 December 2019**
Short-term employee benefits	5,364	8,453
Share-based payment	1,490	2,732
Other long-term employee benefits	478	636
Post-employment benefits	85	35
Termination benefits	5	40
Total	**7,422**	**11,896**

	30 June 2020	**31 December 2019**
Loans provided to companies owned by the Management (normal course of business)	74,929	55,517
Commitments to extend credit and guarantees	39,175	27,708
Credit lines of the members of Board of Directors and the Supervisory Board and their close family members (at normal market conditions)	492	666

	30 June 2020		**31 December 2019**	
Types of transactions	Non-consolidated subsidiaries	Associated companies	Non-consolidated subsidiaries	Associated companies
Loans provided	2,264	521	2,656	513
Client deposits	7,427	477	5,335	-
Net interest income on loan provided	11	(2)	32	-
Net fee incomes	8	42	30	-

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

	30 June 2020	**31 December 2019**
Members of Board of Directors and their close family members	127	153
Members of Supervisory Board and their close family members	26	4
Executives and their close family members	140	-
Total	**293**	**157**

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

	30 June 2020	**31 December 2019**
Members of Board of Directors and their close family members	27	39
Executives and their close family members	3	1
Total	**30**	**40**

An analysis of credit limit related to **MasterCard Classic** is as follows:

	30 June 2020	**31 December 2019**
Members of Supervisory Board and their close family members	1	-
Executives and their close family members	2	-
Total	**3**	**-**

NOTE 39: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

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

	30 June 2020	31 December 2019
Members of Board of Directors and their close family members	1	-
Executives and their close family members	1	-
Total	**2**	**-**

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

	30 June 2020	31 December 2019
Members of Board of Directors and their close family members	47	39
Members of Supervisory Board and their close family members	1	2
Total	**48**	**41**

An analysis of credit limit related to **Mastercard Bonus Gold / AMEX Gold credit card loan** is as follows:

	30 June 2020	31 December 2019
Members of Board of Directors and their close family members	9	7
Members of Supervisory Board and their close family members	2	-
Executives and their close family members	64	33
Total	**75**	**40**

An analysis of credit limit related to **Visa Infinite / AMEX Platinum credit card loan** is as follows:

	30 June 2020	31 December 2019
Members of Board of Directors and their close family members	27	20
Members of Supervisory Board and their close family members	5	5
Executives and their close family members	124	69
Total	**156**	**94**

An analysis of **Lombard loans**, **Personal loans** is as follows:

	30 June 2020	31 December 2019
Members of Board of Directors and their close family members	53,770	53,661
Members of Supervisory Board and their close family members	-	10
Executives and their close family members	1,419	1,419
Total Lombard loans	**55,189**	**55,090**
Members of Board of Directors and their close family members	62	214
Executives and their close family members	26	7
Total Personal loans	**88**	**221**

An analysis of **"Baby expecting loan"** and **AXA real estate loans** at the Bank is as follows:

	30 June 2020	31 December 2019
Members of Board of Directors and their close family members	10	-
Executives and their close family members	40	-
Total "Baby expecting loan"	**50**	**-**
Executives and their close family members	32	-
Total Axa real estate loans	**32**	**-**

NOTE 39: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

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

	30 June 2020	31 December 2019
Members of Board of Directors	1,968	3,060
Members of Supervisory Board	124	227
Total	**2,092**	**3,287**

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 40: 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 Societe Generale 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 Societe Generale S.A.** („MBSG"), the Moldovan subsidiary of Societe Generale 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 **Societe Generale banka Montenegro a.d.** („SGM"), the Montenegrin subsidiary of Societe Generale Group between Crnogorska komercijalna banka a.d., the Montenegrin subsidiary of OTP Bank and Societe Generale Group, has been completed on 16 July 2019. 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 **Societe Generale banka Srbija a.d. Beograd** („SGS"), the Serbian subsidiary of Societe Generale 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 Societe Generale 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 Societe Generale Albania SH.A.** („SGAL"), the Albanian subsidiary of Societe Generale 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 **Societe Generale Expressbank** („SGEB"), the Bulgarian subsidiary of Societe Generale Group ("SG"), and other local subsidiaries held by SGEB, between Societe Generale 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.

NOTE 40: ACQUISITIONS (in HUF mn) [continued]

Purchase and consolidation of subsidiaries [continued]

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 AD. 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 and net of repo receivables	(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)**

NOTE 40: ACQUISITIONS (in HUF mn) [continued]

Purchase and consolidation of subsidiaries [continued]

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

	SKB Banka d.d. Ljubljana Group	Mobiasbanca - OTP Group S.A.	Podgorička banka AD Podgorica	OTP Banka Srbija AD. Beograd Group	Banka OTP Albania SH.A.	Expressbank Group
Amounts due to the banks, the National Governments, deposits from the National Banks and other banks and repo liabilities	260,395	15,870	30,518	229,216	18,762	139,753
Financial liabilities designated 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[1]
Negative goodwill	67,516
Net cash	**(460,077)**

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

NOTE 40: ACQUISITIONS (in HUF mn) [continued]

Purchase and consolidation of subsidiaries [continued]

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

	Interest incomes	Net result	One-off expense[1]
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 AD. 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[1]
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 AD. 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 AD. 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%

[1] 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 41: 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) 30 June 2020	31 December 2019	Activity
DSK Bank EAD (Bulgaria)	100.00%	100.00%	commercial banking services
OTP Bank JSC (Ukraine)	100.00%	100.00%	commercial banking services
JSC "OTP Bank" (Russia)	97.91%	97.91%	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%	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%	100.00%	commercial banking services
Banka OTP Albania SH.A. (Albania)	100.00%	100.00%	commercial banking services
Mobiasbanca - OTP Group S.A. (Moldova)	98.26%	98.26%	commercial banking services
SKB Banka d.d. Ljubljana (Slovenia)	100.00%	99.66%	commercial banking services
OTP 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

NOTE 41: SIGNIFICANT SUBSIDIARIES AND ASSOCIATES (in HUF mn) [continued]

Significant associates and joint ventures[1]

Summarized financial information 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 30 June 2020

	Szallas.hu Ltd.	*D-ÉG Thermoset Ltd.*[2]	*Company for Cash Services Ltd.*	*Total*
Total assets	5,142	3,883	2,696	**11,721**
Total liabilities	2,296	4,629	184	**7,109**
Shareholders' equity	2,846	(746)	2,512	**4,612**
Total revenues	1,000	2,386	696	**4,082**
Ownership	50.0%	0.10%	25.0%	

As at 31 December 2019

	Szallas.hu Ltd.	*D-ÉG Thermoset Ltd.*[2]	*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%	

NOTE 42: 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.

	30 June 2020	**31 December 2019**
The amount of loans managed by the Group as a trustee	36,925	37,320

NOTE 43: CONCENTRATION OF ASSETS AND LIABILITIES

	30 June 2020	**31 December 2019**
In the percentage of the total assets		
Receivables from, or securities issued by the Hungarian Government or the NBH	12.44%	15.63%

There were no other significant concentrations of the assets or liabilities of the Group either as at 30 June 2020 or 31 December 2019 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.

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

NOTE 43: CONCENTRATION OF ASSETS AND LIABILITIES [continued]

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.

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 44: 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

	30 June 2020	31 December 2019
Consolidated net profit for the period attributable to ordinary shareholders (in HUF mn)	74,598	412,241
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	261,881,696	261,593,299
Basic Earnings per share (in HUF)	**285**	**1,576**
Consolidated net profit for the period attributable to ordinary shareholders (in HUF mn)	74,598	412,241
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	262,054,094	261,660,993
Diluted Earnings per share (in HUF)	**285**	**1,575**

NOTE 44: EARNINGS PER SHARE (in HUF mn) [continued]

	30 June 2020	31 December 2019
Consolidated earnings per share from continuing operations		
Consolidated net profit for the period attributable to ordinary shareholders (in HUF mn)	77,230	416,909
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	261,881,696	261,593,299
Basic Earnings per share (in HUF)	**295**	**1,594**
Consolidated net profit for the period attributable to ordinary shareholders (in HUF mn)	77,230	416,909
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	262,054,094	261,660,993
Diluted Earnings per share (in HUF)	**295**	**1,593**

	30 June 2020	31 December 2019
	Number of shares	
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	18,118,314	18,406,711
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	**261,881,696**	**261,593,299**
Dilutive effects of options issued in accordance with the remuneration policy and convertible into ordinary shares[1]	172,398	67,694
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	**262,054,094**	**261,660,993**

NOTE 45: NET GAIN OR LOSS REALIZED ON FINANCIAL INSTRUMENTS (in HUF mn)

As at 30 June 2020

	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	1,192	-	-	-
Placements with other banks, net of loss allowance for placements and net of repo receivables	4,729	-	(339)	-
Trading securities at fair value through profit or loss	-	(568)	-	-
Non-trading instruments mandatorily at fair value through profit or loss	3	4,221	-	-
Securities at fair value through other comprehensive income	24,230	985[2]	(1,203)	(28,602)
Loans at amortized cost	372,930	12,003	(124,379)	-
Loans measured at fair value through profit or loss	373	-	-	-
Securities at amortized cost	34,560	210	(508)	-
Other financial assets	1,264[3]	-	894	-
Derivative financial instruments	156[3]	7,972	-	-
Total result on financial assets	**439,437**	**24,823**	**(125,535)**	**(28,602)**

[1] Both in the first half year of 2020 and in the year 2019 the dilutive effect is in connection with the Remuneration Policy and the Management Option Program.
[2] Fort he first half year of 2020 HUF 985 million and 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.
[3] Gains from other financial assets and derivative financial instruments recognised in net interest income as Income similar to interest income.

NOTE 45: NET GAIN OR LOSS REALIZED ON FINANCIAL INSTRUMENTS (in HUF mn) [continued]

As at 30 June 2020 [continued]

	Net interest / similar to interest gain and loss	Net non-interest gain and loss	Loss allowances	Other Comprehensive Income
Amounts due to the National Governments, to the National Banks and other banks and repo liabilities	(9,251)	-	-	-
Financial liabilities designated at fair value through profit or loss	(164)	(375)	-	-
Deposits from customers	(30,483)	110,946	-	-
Liabilities from issued securities	(3,549)	-	-	-
Leasing liabilities	(836)	-	-	-
Subordinated bonds and loans	(3,750)	-	-	-
Total result on financial liabilities	**(48,033)**	**110,571**	**-**	**-**
Total result on financial instruments	**391,404**	**135,394**	**(125,535)**	**(28,602)**

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 and net of repo receivables	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[1]	(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[2]	-	280	-
Derivative financial instruments	773[2]	(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 and repo liabilities	(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**

[1] 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.
[2] Gains from other financial assets and derivative financial instruments recognised in net interest income as Income similar to interest income.

NOTE 46: 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 46. 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, repo receivables, amounts due to banks, repo liabilities, 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,
- 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 mainly categorized in level 2 of the fair value hierarchy.

NOTE 46: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

a) Fair value of financial assets and liabilities

	30 June 2020		31 December 2019	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash, amounts due from banks and balances with the National Banks	2,129,281	2,129,281	1,784,378	1,784,378
Placements with other banks, net of loss allowance for placements, net of repo receivables	982,392	1,000,425	410,079	383,455
Financial assets at fair value through profit or loss	275,426	275,426	251,990	251,990
Trading securities at fair value through profit or loss	*40,856*	*40,856*	*100,048*	*100,048*
Fair value of derivative financial assets held for trading	*176,061*	*176,061*	*110,624*	*110,624*
Non-trading instruments mandatorily at fair value through profit or loss	*56,350*	*56,350*	*39,317*	*39,317*
Financial assets designated at fair value through profit or loss	*2,159*	*2,159*	*2,001*	*2,001*
Securities at fair value through other comprehensive income	1,906,502	1,906,502	2,426,779	2,426,779
Loans at amortized cost[1]	12,630,945	13,487,297	11,846,260	12,546,426
Loans measured at fair value through profit or loss	31,628	31,628	32,802	32,802
Securities at amortized cost	2,369,970	2,501,880	1,968,072	2,087,633
Derivative financial assets designated as hedge accounting	12,389	12,389	7,463	7,463
Other financial assets	138,440	138,440	123,053	123,053
Financial assets total	**20,476,973**	**21,483,268**	**18,850,876**	**19,643,979**
Amounts due to the National Governments, to the National Banks and other banks and repo liabilities	1,122,671	1,117,057	813,399	1,071,520
Financial liabilities designated at fair value through profit or loss	29,265	29,265	30,862	30,862
Deposits from customers	16,231,927	16,240,894	15,171,308	15,240,968
Liabilities from issued securities	401,829	505,306	393,167	494,196
Held-for-trading derivative financial liabilities	159,339	159,339	86,743	86,743
Derivative financial liabilities designated as hedge accounting	14,080	14,080	10,709	10,709
Leasing liabilities	50,038	50,038	54,194	54,194
Other financial liabilities	440,337	440,337	338,020	338,020
Subordinated bonds and loans	271,478	255,638	249,938	237,381
Financial liabilities total	**18,720,964**	**18,811,954**	**17,148,340**	**17,564,593**

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

NOTE 46: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

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:

	30 June 2020		31 December 2019	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Interest rate derivatives				
Interest rate swaps	37,924	(37,654)	33,203	(31,471)
Cross currency interest rate swaps	5,427	(6,407)	1,141	(1,037)
OTC options	393	(2)	306	(14)
Forward rate agreement	171	(204)	13	(32)
Total interest rate derivatives (OTC derivatives)	**43,915**	**(44,267)**	**34,663**	**(32,554)**
Foreign exchange derivatives				
Foreign exchange swaps	67,224	(63,619)	32,845	(26,244)
Foreign exchange forward contracts	12,274	(7,238)	3,522	(5,504)
OTC options	11,585	(11,466)	3,098	(3,114)
Foreign exchange spot conversion	510	(487)	16	(55)
Total foreign exchange derivatives (OTC derivatives)	**91,593**	**(82,810)**	**39,481**	**(34,917)**
Equity stock and index derivatives				
Commodity Swaps	1,521	(1,949)	1,097	(954)
Equity swaps	6,019	(482)	4,530	(558)
OTC derivatives total	**7,540**	**(2,431)**	**5,627**	**(1,512)**
Exchange traded futures and options	744	(290)	5	(248)
Total equity stock and index derivatives	**8,284**	**(2,721)**	**5,632**	**(1,760)**
Derivatives held for risk management not designated in hedge				
Interest rate swaps	29,482	(26,391)	27,995	(15,246)
Foreign exchange swaps	2,765	(2,818)	2,757	(2,209)
Forward contracts	-	(229)	21	(57)
Cross currency interest rate swaps	22	(103)	75	-
Total derivatives held for risk management not designated in hedge	**32,269**	**(29,541)**	**30,848**	**(17,512)**
Total held for trading derivative financial instruments	**176,061**	**(159,339)**	**110,624**	**(86,743)**

NOTE 46: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

b) Fair value of derivative instruments [continued]

	30 June 2020		31 December 2019	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Derivative financial instruments designated as hedge accounting				
Derivatives designated in fair value hedges				
Interest rate swaps	1,417	(11,742)	3,758	(8,839)
Cross currency interest rate swaps	10,972	(2,338)	3,705	(1,870)
Total derivatives designated in fair value hedges	**12,389**	**(14,080)**	**7,463**	**(10,709)**
Total derivatives held for risk management (OTC derivatives)	**12,389**	**(14,080)**	**7,463**	**(10,709)**

NOTE 46: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Types of hedge accounting

Amount, timing and uncertainty of future cash flows – hedging instruments as at 30 June 2020

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	-	-	4,200	50,503	158,710	**213,413**
		Average Interest Rate (%)	-	-	2.25%	1.34%	1.34%	
		EUR						
		Notional	-	-	15	107	10	**132**
		Average Interest Rate (%)	-	-	(0.11)%	0.23%	0.22%	
		USD						
		Notional	-	-	-	192	29	**225**
		Average Interest Rate (%)	-	-	-	2.34%	2.35%	
		RUB						
		Notional	-	-	-	2,100	-	**2,100**
		Average Interest Rate (%)	-	-	-	7.38%	-	
Fair Value Hedge	**Foreign exchange & Interest rate risk**	**Cross currency interest rate swap**						
		EUR/HUF						
		Notional	-	-	3	15	12	**30**
		Average Interest Rate (%)	(1.55)%	(1.60)%	(1.63)%	(1.64)%	(1.66)%	
		Average FX Rate	311.08	310.98	309.63	309.70	308.52	

NOTE 46: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Types of hedge accounting [continued]

Amount, timing and uncertainty of future cash flows – hedging instruments as at 30 June 2020 [continued]

Type of hedge	Type of risk	Type of instrument	Within one month	Within three months and over one month	Within one year and over three months	Within five years and over one year	More than five years	Total
Fair Value Hedge	**Foreign exchange risk**	**Cross currency interest rate swap**						
		EUR/HUF						
		Notional	(4)	1	226	622	-	**845**
		Average FX Rate	361.45	352.60	358.07	356.03	-	
		RON/HUF						
		Notional	-	-	750	550	-	**1,300**
		Average FX Rate	-	-	69.42	70.07	-	
		RUB/HUF						
		Notional	2,000	-	3,000	4,100	-	**9,100**
		Average FX Rate	4.42	-	4.11	4.46	-	
	Other	**Interest rate swap**						
		HUF						
		Notional	7,328	(442)	7,357	15,429	-	**29,672**
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 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%	

NOTE 46: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Types of hedge accounting [continued]

Amount, timing and uncertainty of future cash flows – hedging instruments as at 31 December 2019 [continued]

Type of hedge	Type of risk	Type of instrument	Within one month	Within three months and over one month	Within one year and over three months	Within five years and over one year	More than five years	Total
Fair Value Hedge	**Interest rate risk**	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	**Foreign exchange & Interest rate 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	**Foreign exchange risk**	**Cross currency interest rate swap**						
		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	-	
Fair Value Hedge	**Other**	**Interest rate swap**						
		HUF						
		Notional	-	(310)	13,644	15,763	-	**29,097**

NOTE 46: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Types of hedge accounting [continued]

As at 30 June 2020 is as follows:

Type of hedge	Type of instrument	Type of risk	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument as at 30 June 2020		Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness for the six month period ended 30 June 2020
				Assets	Liabilities		
Fair value hedge							
	Interest rate swap	Interest rate risk	408,581	579	(11,740)	Derivative financial instruments designated as hedge accounting	(119)
	Cross-currency swap	FX & IR risk	78,651	-	(1,286)	Derivative financial instruments designated as hedge accounting	(1,092)
	Cross-currency swap	FX risk	445,363	10,972	(1,052)	Derivative financial instruments designated as hedge accounting	(623)
	Interest rate swap	Other	27,622	838	(2)	Derivative financial instruments designated as hedge accounting	13
Fair value hedges total			**960,217**	**12,389**	**(14,080)**		**(1,821)**

As at 31 December 2019 is 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	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
Fair value hedges total			**867,874**	**7,463**	**(10,709)**		**(26)**

NOTE 46: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Types of hedge accounting [continued]

As at 30 June 2020 is as follows:

Type of hedge	Type of risk	Carrying amount of the hedged item as at 30 June 2020		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item for the six month period ended 30 June 2020		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***	38,258	(19,903)	544	(24)	Loans
- Government bonds	***Interest rate risk***	298,622	-	14	-	Securities at amortised cost
- Government bonds	***Interest rate risk***	81,261	-	2,832	-	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***	46,145	-	74	-	Securities at fair value through other comprehensive income
- Loans	***Foreign exchange & Interest rate risk***	78,892	-	(1,054)	-	Loans
- Loans	***Foreign exchange risk***	321,625	-	10,605	-	Loans
- Other securities	***Other risk***	-	(26,096)	-	(4,725)	Liabilities from issued securities
Fair value hedges total		**864,803**	**(45,999)**	**13,015**	**(4,749)**	

NOTE 46: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Types of hedge accounting [continued]

As at 31 December 2019 is as follows:

Type of hedge	Type of risk	Carrying amount of the hedged item for the year ended 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 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	***Foreign exchange &Interest rate risk***	12,242	-	2	-	Loans
- Loans	***Foreign exchange 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)**	

NOTE 46: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Types of hedge accounting [continued]

As at 30 June 2020 is as follows:

Type of instrument	Type of risk	Change in the value of the hedging instrument recognised in cash flow hedge reserve	Hedge ineffectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness
Interest rate swap	Interest rate risk	418	(85)	Interest income from placements with other banks

As at 31 December 2019 is as follows:

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

As at 30 June 2020 is as follows:

Type of hedge	Type of risk	Carrying amount of the hedged item as at 31 December 2019	Type of hedging instrument	Changes in fair value used for calculating hedge ineffectiveness for the six month period ended 30 June 2020
		EUR million		HUF million
Net investment hedge for foreign subsidiaries				
Fx assets in foreign subsidiaries	Foreign exchange risk	310[1]	OTP HB Perpetual bonds	8,008.4

As at 31 December 2019 is as follows:

Type of hedge	Type of risk	Carrying amount of the hedged item as at 31 December 2019	Type of hedging instrument	Changes in fair value used for calculating hedge ineffectiveness for the year ended 31 December 2019
		EUR million		HUF million
Net investment hedge for foreign subsidiaries				
Fx assets in foreign subsidiaries	Foreign exchange risk	310[1]	OTP HB Perpetual bonds	2,776.3

[1] Companies included: DSK Bank EAD, OTP banka Hrvatska d.d., OTP Banka Slovensko, a.s., Crnogorska Komercijalna Banka AD.

NOTE 46: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

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).

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

As at 30 June 2020	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	275,426	71,409	188,895	15,122
from this: trading securities at fair value through profit or loss	40,856	37,073	3,783	-
from this: positive fair value of derivative financial assets held for trading	176,061	760	175,301	-
from this: non-trading instruments mandatorily at fair value through profit or loss	56,350	33,576	7,652	15,122
from this: financial assets designated at fair value through profit or loss	2,159	-	2,159	-
Securities at fair value through other comprehensive income	1,906,502	976,337	886,783	43,382[1]
Loans mandatorily measured at fair value through profit or loss	31,628	527	2,558	28,543
Positive fair value of derivative financial assets designated as fair value hedge	12,389	-	12,389	-
Financial assets measured at fair value total	**2,225,945**	**1,048,273**	**1,090,625**	**87,047**
Financial liabilities designated at fair value through profit or loss	29,265	-	2,159	27,106
Negative fair value of held-for-trading derivative financial liabilities	159,339	798	158,541	-
Negative fair value of derivative financial liabilities designated as fair value hedge	14,080	-	14,080	-
Financial liabilities measured at fair value total	**202,684**	**798**	**174,780**	**27,106**

[1] The portfolio includes mainly HUF 37,062 million albanian government bonds.

NOTE 46: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) Fair value levels [continued]

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[1]
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 designated 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**

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 (-)**	**Transfer (+/-)**	**Revaluation**	**Closing balance**
Trading securities at fair value through profit or loss	3,511	2,256	158	-	8,652	545	15,122
Securities at fair value through other comprehensive income	59,695	270	474	(7,812)	(8,652)	(593)	43,382
Loans mandatorily measured at fair value through profit or loss	29,731	-	-	(1,188)	-	-	28,543
Financial assets measured at fair value total	**92,937**	**2,526**	**632**	**(9,000)**	**-**	**(48)**	**87,047**
Financial liabilities designated at fair value through profit or loss	28,861	-	-	(1,755)	-	-	27,106
Financial liabilities designated at fair value total	**28,861**	**-**	**-**	**(1,755)**	**-**	**-**	**27,106**

There were no movements among the levels of fair value hierarchy neither in the six month period ended 30 June 2020 or in the year ended 31 December 2019 respectively.

[1] The portfolio includes mainly Visa Inc. "C" convertible preferred stock and common shares and HUF 44,098 million albanian government bonds.

NOTE 47: 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. The segment information reported on the next pages does not include any amounts for these discontinued operations neither in the current year nor in the previous one, which are described in more details in Note 48.

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 Group, 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., OTP Ingatlanpont Llc. were included from the first quarter of 2019 and OTP eBIZ Ltd was included from the first quarter of 2020. 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.

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 AD 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, OTP Services d.o.o. and from the third quarter of 2019 the financial position of the newly acquired OTP banka Srbija AD 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.

NOTE 47: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF mn) [continued]

The activities of the other subsidiaries are out of the leasing and fund management and factoring 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 expenses, 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 30 June 2020 due to HUF 9,841 million goodwill impairment on OTP Bank Romania S.A. HUF 885.7 million positive tax effect was recognized. 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).

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 and effects related to the planned sale of the Slovakian bank.

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

NOTE 47: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF mn) [continued]

As at 30 June 2020

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 AD. Beograd (Szerbia)	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 Group (Hungary)	Asset Management subsidiaries	Other subsidiaries	Corporate Centre	Eliminations and adjustments
	a	b	1=a+b 1= 2+3+14+18+19	2	3=4+…+13	4	5	6	7	8	9	10	11	12	13	14=15+16+17	15	16	17	18	19
Net profit for the year from continued and discontinued operations	**74,598**		**74,598**																		
Net profit for the year from discontinued operations	(2,632)		(2,632)																		
Net profit for the year from continued opearations	**71,966**		**71,966**																		
Adjustments (total)		**(39,455)**	**(39,455)**																		
Dividends and net cash transfers (after income tax)		185	185																		
Goodwill /investment impairment (after income tax)		886	886																		
Bank tax on financial institutions (after income tax)		(17,328)	(17,328)																		
Effect of acquisition (after income tax)		(5,783)	(5,783)																		
Impact of fines imposed by the Hungarian Competition Authority (after income tax)		749	749																		
Expected one-off negative effect of the debt repayment moratorium in Hungary (after income tax)		(18,164)	(18,164)																		
Consolidated adjusted net profit for the year	**77,231**	**36,824**	**114,055**	**54,707**	**52,553**	**21,536**	**9,957**	**3,661**	**3,243**	**1,137**	**10,759**	**(2,240)**	**1,625**	**1,146**	**1,729**	**8,149**	**2,688**	**1,673**	**3,788**	**371**	**(1,725)**
Profit before income tax	**88,387**	**40,310**	**128,697**	**60,789**	**60,106**	**23,396**	**11,955**	**3,889**	**4,063**	**1,110**	**13,130**	**(2,380)**	**1,779**	**1,359**	**1,805**	**8,769**	**2,926**	**1,786**	**4,057**	**457**	**(1,424)**
Adjusted operating profit	**224,341**	**33,860**	**258,201**	**85,828**	**161,555**	**43,274**	**18,385**	**16,251**	**9,184**	**6,610**	**21,138**	**36,424**	**3,802**	**2,938**	**3,549**	**9,242**	**4,666**	**1,787**	**2,789**	**457**	**1,119**
Adjusted total income	579,492	(11,417)	568,075	216,138	324,204	80,047	40,899	37,295	19,793	21,548	34,127	67,320	10,711	5,651	6,813	23,259	10,124	3,757	9,378	884	3,590
Adjusted net interest income	391,404	3,359	394,763	139,131	240,677	55,046	29,142	28,449	13,984	16,178	24,970	55,479	8,385	4,813	4,231	9,263	8,578	3	682	884	4,808
Adjusted net profit from fees and commissions	187,521	(51,701)	135,820	60,069	65,034	21,200	7,317	6,851	5,452	1,863	6,714	11,936	2,108	593	1,000	9,200	(9)	4,086	5,123	0	1,517
Adjusted other net non-interest income	567	36,925	37,492	16,938	18,493	3,801	4,440	1,995	357	3,507	2,443	(95)	218	245	1,582	4,796	1,555	(332)	3,573	0	(2,735)
Adjusted other administrative expenses	(355,151)	45,277	(309,874)	(130,310)	(162,649)	(36,773)	(22,514)	(21,044)	(10,609)	(14,938)	(12,989)	(30,896)	(6,909)	(2,713)	(3,264)	(14,017)	(5,458)	(1,970)	(6,589)	(427)	(2,471)
Total risk costs	**(135,954)**	**5,210**	**(130,744)**	**(26,279)**	**(101,449)**	**(19,878)**	**(6,430)**	**(12,362)**	**(5,121)**	**(5,500)**	**(8,008)**	**(38,804)**	**(2,023)**	**(1,579)**	**(1,744)**	**(473)**	**(1,740)**	**(1)**	**1,268**	**0**	**(2,543)**
Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX)	(135,954)	19,753	(116,201)	(19,325)	(92,626)	(19,967)	(6,777)	(10,543)	(3,865)	(4,149)	(6,399)	(36,517)	(1,499)	(1,432)	(1,478)	(1,461)	(1,461)	0	0	0	(2,789)
Other provision (adjustment)	0	(14,543)	(14,543)	(6,954)	(8,823)	89	347	(1,819)	(1,256)	(1,351)	(1,609)	(2,287)	(524)	(147)	(266)	988	(279)	(1)	1,268	0	246
Total other adjustments (one-off items)[1]	**0**	**1,240**	**1,240**	**1,240**	0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	0	0	0	0	0
Income tax	**(11,156)**	**(3,486)**	**(14,642)**	**(6,082)**	**(7,553)**	**(1,860)**	**(1,998)**	**(228)**	**(820)**	**27**	**(2,371)**	**140**	**(154)**	**(213)**	**(76)**	**(620)**	**(238)**	**(113)**	**(269)**	**(86)**	**(301)**
Total Assets[2]	**21,790,154**	**0**	**21,790,154**	**10,280,890**	**12,854,941**	**4,036,516**	**2,160,705**	**1,895,196**	**1,273,699**	**1,047,032**	**695,728**	**765,909**	**472,979**	**271,121**	**236,056**	**1,037,558**	**624,012**	**28,174**	**385,372**	**2,829,588**	**(5,212,823)**
Total Liabilities[3]	**19,409,891**	**0**	**19,409,891**	**8,582,390**	**10,968,722**	**3,449,637**	**1,843,945**	**1,628,630**	**1,120,172**	**923,871**	**580,613**	**578,707**	**399,871**	**245,539**	**197,737**	**773,952**	**576,309**	**8,728**	**188,915**	**1,456,353**	**(2,371,526)**

( ) used at: provisions, impairment and expenses

[1] One-off item in the total amount consists the result of the treasury share swap agreement at OTP Core.

[2] Relating to the discontinued operations the assets were HUF 472,473 million.

[3] Relating to the discontinued operations the liabilities were HUF 368,837 million.

NOTE 47: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF mn) [continued]

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 AD. Beograd (Szerbia)	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
	a	b	1=a+b 1= 2+3+14+18+19	2	3=4+…+13	4	5	6	7	8	9	10	11	12	13	14=15+16+17	15	16	17	18	19
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**	**0**	**6,309**	**35,222**	**28,127**	**6,377**	**2,615**	**1,935**	**32,182**	**7,116**	**15,335**	**9,731**	**3,478**	**(211)**
Profit before income tax	**467,152**	**(1,179)**	**465,973**	**206,659**	**220,152**	**75,078**	**37,399**	**9,971**	**0**	**6,907**	**42,159**	**36,399**	**7,056**	**3,074**	**2,109**	**34,829**	**7,748**	**16,782**	**10,299**	**3,906**	**427**
Adjusted operating profit	**523,978**	**(13,932)**	**510,046**	**177,030**	**293,500**	**83,495**	**42,925**	**13,144**	**0**	**12,315**	**44,353**	**84,946**	**5,692**	**3,702**	**2,928**	**34,754**	**7,373**	**16,642**	**10,739**	**3,906**	**856**
Adjusted total income	1,165,195	(87,467)	1,077,728	435,048	565,450	155,566	85,069	43,277	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
Adjusted net interest income	697,049	9,249	706,298	261,754	408,725	109,030	56,812	30,809	0	28,254	48,128	113,572	11,464	6,697	3,959	18,807	14,013	3	4,791	4,490	12,522
Adjusted net profit from fees and commissions	340,445	(57,941)	282,504	126,911	123,739	42,019	17,032	9,506	0	3,180	14,877	31,012	4,215	1,007	891	29,118	(104)	20,475	8,747	0	2,736
Adjusted other net non-interest income	127,701	(38,775)	88,926	46,383	32,986	4,517	11,225	2,962	0	6,097	4,446	1,998	441	248	1,052	20,154	461	708	18,985	0	(10,597)
Adjusted other administrative expenses	(641,217)	73,535	(567,682)	(258,018)	(271,950)	(72,071)	(42,144)	(30,133)	0	(25,216)	(23,098)	(61,636)	(10,428)	(4,250)	(2,974)	(33,325)	(6,997)	(4,544)	(21,784)	(584)	(3,805)
Total risk costs	**(56,826)**	**9,719**	**(47,107)**	**26,595**	**(73,348)**	**(8,417)**	**(5,526)**	**(3,173)**	**0**	**(5,408)**	**(2,194)**	**(48,547)**	**1,364**	**(628)**	**(819)**	**75**	**375**	**140**	**(440)**	**0**	**(429)**
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)	0	(3,018)	(1,433)	(46,123)	1,293	(249)	(737)	52	143	0	(91)	0	94
Other provision (adjustment)	0	(17,633)	(17,633)	(3,737)	(13,396)	(3,201)	(2,691)	(1,539)	0	(2,390)	(761)	(2,424)	71	(379)	(82)	23	232	140	(349)	0	(523)
Total other adjustments (one-off items)[1]	**0**	**3,034**	**3,034**	**3,034**	0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Income tax	**(49,902)**	**2,981**	**(46,921)**	**(12,668)**	**(30,540)**	**(7,199)**	**(6,681)**	**459**	**0**	**(598)**	**(6,937)**	**(8,272)**	**(679)**	**(459)**	**(174)**	**(2,647)**	**(632)**	**(1,447)**	**(568)**	**(428)**	**(638)**
Total Assets[2]	**19,659,696**	**0**	**19,659,696**	**9,641,692**	**11,965,975**	**3,669,766**	**2,098,951**	**1,659,483**	**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)**
Total Liabilities[3]	**17,467,983**	**0**	**17,467,983**	**7,920,820**	**10,207,807**	**3,141,007**	**1,806,302**	**1,410,022**	**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)**

( ) used at: provisions, impairment and expenses

[1] One-off item in the total amount consists the result of the treasury share swap agreement at OTP Core.

[2] Relating to the discontinued operations the assets were HUF 462,071 million.

[3] Relating to the discontinued operations the liabilities were HUF 362,496 million.

NOTE 48: DISCONTINUED OPERATIONS (in HUF mn)

On 30 June 2020, 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:

	30 June 2020	31 December 2019
Cash, amounts due from banks and balances with the National Banks	46,131	57,586
Placements with other banks, net of loss allowance for placements, net of repo receivables	458	354
Non-trading instruments mandatorily at fair value through profit or loss	832	-
Securities at fair value through other comprehensive income	2	759
Loans at amortized cost	382,293	368,456
Securities at amortized cost	29,353	27,555
Tangible assets and other asset on net value	7,372	7,361
Non-current assets and disposal group classified as held-for-sale	**466,441**	**462,071**
Amounts due to banks, the National Governments, deposits from the National Banks and other banks and repo liabilities	1,584	1,898
Deposits from customers	356,235	351,344
Leasing liabilities	905	940
Other liabilities	10,113	8,314
Disposal group liabilities classified as held-for-sale	**368,837**	**362,496**

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

	30 June 2020	31 December 2019
Incomes	8,507	16,942
Expenses	11,018	15,522
Profit before income tax	**(2,511)**	**1,420**
Income tax	121	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	**(2,632)**	**(4,668)**

The Slovak subsidiary bank contributed to the Group’s operating activity with HUF (1,163) and (48,377) million, to the Group’s investing activity with HUF (2,528) and (1,197) million, and in respect of the Group’s financing activity with HUF 2,575 and (1,086) million which were modified by the eliminations during the consolidation by HUF 954 and 23,788 million as at 30 June 2020 and 31 December 2019, respectively.

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.

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 49: SIGNIFICANT EVENTS DURING THE SIX MONTH PERIOD ENDED 30 JUNE 2020

1) Term Note Program

See details in Note 20.

2) Sale of the stake in the Slovakian subsidiary, OTP Banka Slovensko a.s.

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.

3) Situation of coronavirus disease ("COVID-19")

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.

11 March 2020 Government of Hungary ("government") declared a state of emergency related to coronavirus disease, and still in March economic decisions were made to react to the economic effects of COVID-19. As a result the following measures were taken:

- the government ordered payment moratorium on corporate and retail loans, furthermore determined a cap on full credit rate ("THM") of new personal loans disbursed during the state of emergency,
- National Bank of Hungary ("NBH") proposed that dividend approval and payment should be suspended at the banking corporations till the end of September,
- NBH decided on the ease of capital adequacy requirements,
- NBH decided to expand liquidity related to lending of corporates

During April and at the beginning of May further economic recovery decisions were made by NBH:

- further ease of capital adequacy requirements,
- further measures related to expansion of liquidity (NBH one week deposit tender, expansion and new phase of Funding of Growth Schemes "NHP hajrá" and modification of the existing "NKP")
- interest rate policy decisions

In April the government established Disease Control Fund related to the fundamental rearrangement of the budget, to which fund financial sector will contribute with an amount of HUF 55 billion as a special banking tax. Amount to be paid can be deducted in equal instalments from the normal banking tax in the next five years. OTP group is affected in amount of HUF 14.2 billion from this new special banking tax.

18 June 2020 the state of emergency was lifted in Hungary.

NOTE 50: POST BALANCE SHEET EVENTS

27 July 2020 NBH set minimum requirements for calculating impairments for potential loan losses, simultaneously formulated more flexible prudential criteria through modifying its circular on applying IFRS9 standards regarding macroeconomic information and credit risk standards. Credit institutions can use the modified criteria aimed at moderating the consequences of COVID-19 pandemic from 27 July 2020 until the end of 2021 the latest. One particular modification is that in case of restructuring beyond the payment moratorium deadline banks may dispense with classifying the restructuring as a significant credit risk factor provided such restructuring decision was made on an assumption that both the financial difficulties of the client and the restructuring aimed curing that are having a temporary nature.