DOCUMENTS FOR THE ANNUAL GENERAL MEETING

ANNUAL GENERAL MEETING OF OTP BANK PLC.

30 APRIL 2020

AGENDA ITEMS OF THE ANNUAL GENERAL MEETING

THE REPORT OF THE BOARD OF DIRECTORS ON THE COMPANY'S BUSINESS OPERATIONS IN 2019

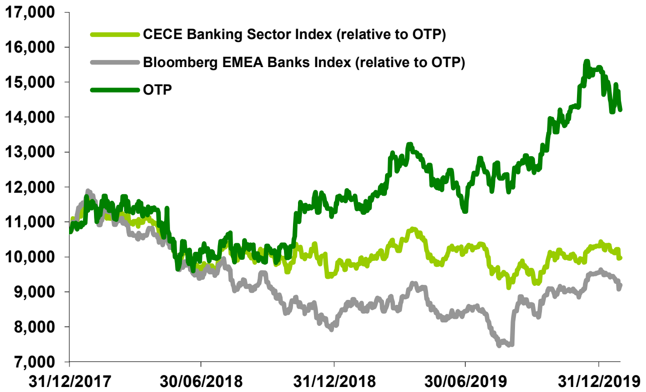
BUSINESS REPORT
OTP BANK (SEPARATE)

Based on the judgment of the Bank's management, the separate business report's data can be interpreted fully only together with the consolidated processes and figures, so this business report contains consolidated data as well.

CONSOLIDATED FINANCIAL HIGHLIGHTS[1] AND SHARE DATA

Main components of the Statement of recognised income	2018 HUF million	2019 HUF million	Change %
Consolidated after tax profit	**318,322**	**412,582**	**30**
Adjustments (total)	**(7,013)**	**(6,470)**	**(8)**
Consolidated adjusted after tax profit without the effect of adjustments	**325,335**	**419,052**	**29**
Pre-tax profit	362,734	465,973	28
Operating profit	384,908	510,045	33
Total income	881,726	1,077,727	22
Net interest income	599,832	706,298	18
Net fees and commissions	220,731	282,504	28
Other net non-interest income	61,163	88,926	45
Operating expenses	(496,818)	(567,682)	14
Total risk costs	(26,167)	(47,107)	80
One off items	3,993	3,034	(24)
Corporate taxes	(37,400)	(46,921)	25
Main components of balance sheet closing balances	2018	2019	%
Total assets	14,590,288	20,121,767	38
Total customer loans (net, FX adjusted)	**8,306,712**	**12,247,519**	**47**
Total customer loans (gross, FX adjusted)	**9,001,577**	**12,942,009**	**44**
Allowances for possible loan losses (FX adjusted)	(694,866)	(694,490)	0
Total customer deposits (FX adjusted)	**11,547,410**	**15,522,654**	**34**
Issued securities	417,966	393,167	(6)
Subordinated loans	81,429	249,938	207
Total shareholders' equity	1,826,657	2,291,288	25
Indicators based on adjusted earnings	2018	2019	pps
ROE (from accounting net earnings)	18.7%	20.3%	1.6
ROE (from adjusted net earnings)	19.1%	20.6%	1.5
ROA (from adjusted net earnings)	2.3%	2.4%	0.1
Operating profit margin	2.76%	2.97%	0.21
Total income margin	6.33%	6.28%	(0.04)
Net interest margin	4.30%	4.12%	(0.19)
Cost-to-asset ratio	3.57%	3.31%	(0.26)
Cost/income ratio	56.3%	52.7%	(3.7)
Provision for impairment on loan and placement losses-to-average gross loans ratio	0.23%	0.28%	0.05
Total risk cost-to-asset ratio	0.19%	0.27%	0.09
Effective tax rate	10.3%	10.1%	(0.2)
Net loan/(deposit+retail bond) ratio (FX adjusted)	72%	79%	7
Capital adequacy ratio (consolidated, IFRS) - Basel3	18.3%	16.3%	(2.0)
Tier1 ratio - Basel3	16.5%	13.9%	(2.6)
Common Equity Tier1 ('CET1') ratio - Basel3	16.5%	13.9%	(2.6)
Share Data	2018	2019	%
EPS diluted (HUF) (from unadjusted net earnings)	1,215	1,575	30
EPS diluted (HUF) (from adjusted net earnings)	1,242	1,602	29
Closing price (HUF)	11,290	15,430	37
Highest closing price (HUF)	11,850	15,600	32
Lowest closing price (HUF)	9,600	11,270	17
Market Capitalization (EUR billion)	9.8	13.1	33
Book Value Per Share (HUF)	6,524	8,183	25
Tangible Book Value Per Share (HUF)	5,921	7,362	24
Price/Book Value	1.7	1.9	9
Price/Tangible Book Value	1.9	2.1	10
P/E (trailing, from accounting net earnings)	9.9	10.5	5
P/E (trailing, from adjusted net earnings)	9.7	10.3	6
Average daily turnover (EUR million)	18	16	(7)
Average daily turnover (million share)	0.5	0.4	(20)

SHARE PRICE PERFORMANCE



S&P GLOBAL RATINGS

OTP Bank and **OTP Mortgage Bank** – FX Long term credit rating	BBB

MOODY'S RATINGS

OTP Bank – FX long term deposits	Baa3
OTP Bank – Subordinated Foreign Currency Debt	Ba1
OTP Mortgage Bank – Covered mortgage bond	Baa1

FITCH'S RATINGS

OTP Bank Russia – Long term credit rating	BB+
Expressbank Bulgaria – Long term credit rating	BB+

[1] Structural adjustments made on consolidated IFRS profit and loss statement as well as balance sheet, together with the calculation methodology of adjusted indicators are detailed in the Supplementary data section of this Report.
General note: in the tables of the Business Report those changes aren't presented that are deemed not to carry a meaningful economic substance (for example, if the absolute value of the change exceeds 1000%).

MANAGEMENT'S ANALYSIS OF THE FULL-YEAR 2019 RESULTS OF OTP GROUP

According to the preliminary 4Q GDP data published on 14 February 2020 (4Q: +4.5% y-o-y), in 2019 Hungary was one of the most dynamically growing economies within the European Union with an annual growth rate of 4.9%, marking a moderate deceleration against the previous year. The key engine of growth was the strong domestic demand and the rapidly expanding investment activity, furthermore the contribution of the market services to overall growth was substantial and more pronounced than expected.

Balance indicators showed stable picture, employment rate increased further and the credit stance of Hungary within the investor community improved significantly: in 2019 both Fitch and S&P Global Ratings raised their credit rating by one notch (to 'BBB'). The country attracted a record level of FDI exceeding EUR 5 billion and by the beginning of 2020 the 5 year Hungarian CDS spreads tightened to their lows (48 bps).

Annual average inflation was 3.3% and NBH continued to pursue a loose monetary policy. The reference rate (3 months BUBOR) closed at 16 bps (+3 bps y-o-y) and the whole government bond yield curve shifted lower. Despite the headline inflation in December and also in January 2020 exceeded original expectations, the tax-adjusted core inflation remained in the tolerance range set by the central bank.

Among the economic policy measures, those aiming at boosting the demographic indicators enjoyed high priority: during the last five years under the Housing Subsidy Scheme for Families (CSOK) around HUF 318 billion non-refundable state subsidy was granted by end-2019, whereas the contracted volume of subsidized baby loans reached HUF 470 billion within the July-December period of 2019. Furthermore, there were several other targeted measures aiming at providing preferential funding sources to the actors of the real economy (Lending for Growth Scheme Fix, Bond Funding for Growth programme).

Household lending growth accelerated y-o-y: on sector level the newly disbursed household loan volumes expanded by 47.5% y-o-y, as a result the outstanding book grew by 15.5% y-o-y. In particular, cash loans advanced by 28%, housing loans by 9%, respectively; on the other hand home equities eroded by 14% y-o-y. The corporate exposures demonstrated an 11% expansion on a yearly base.

Across OTP Group, most of the national economies enjoyed a fairly positive macroeconomic environment. General market sentiment towards the Ukraine improved significantly: in December the country reached an agreement with IMF on a new standby facility and UAH shined as one of the best performing Emerging Markets currencies. Partially explained by those factors, in January Ukraine successfully returned to the euro bond market. In Russia a faster economic growth is expected in 2020 with further monetary easing. In Romania, fiscal overspending characterizing the previous periods came to end which is expected to have negative impact on economic growth; the political uncertainty has been on the rise.

Based on the most recent GDP data for 4Q 2019, as well as considering some negative developments hindering global growth perspectives, on 14 February the Hungarian minister for finance announced that the Government revised its 2020 growth forecast from 4.0% to 3.5%.

Consolidated earnings: HUF 419 billion adjusted annual after tax profit, robust business activity and loan volume growth, moderate contraction in NIM y-o-y, improving efficiency indicators, stable portfolio quality

2019 was another landmark in the history of OTP Group: altogether there were six M&A transactions being executed (Bulgaria, Albania, Montenegro, Moldova, Serbia and Slovenia). Those acquisitions improved existing market positions in a meaningful way, whereas in new markets OTP acquired banks with substantial market share.

While the purchase price of those particular transactions was not made public as a result of an agreement between the parties, the overall average price of the deals completed since 2017 was around the book value of the acquired entities.

In 2019 OTP Group posted the highest ever after tax profit in its history, whereas the closing volume of total assets exceeded HUF 20,000 billion. The all-time high accounting and adjusted profits were shaped by number of factors: on the back of the favourable regional macroeconomic performance, business activity got further boost, as a result of that and also due to the accomplished acquisitions, performing loan volumes increased y-o-y by a remarkable pace in European comparison +48%; within that the organic growth rate was 15% (FX-adjusted). Higher performing loan volumes off-set the negative impact of eroding margins resulting from the low and even declining interest rate environment, intensifying competition and tighter regulatory framework. Furthermore, the y-o-y weakening HUF against all local currencies across the Group had an upward pressure on P&L lines.

The overall credit quality has been stable, the ratio of Stage 3 loans declined further and the annual credit risk cost rate increased only moderately.

On 17 February 2020 OTP Bank announced the signing of the sale agreement of its Slovakian subsidiary. According to IFRS 5 the Slovakian bank was presented as a discontinued operation in the consolidated income statement and balance sheet. With regards to the consolidated accounting balance sheet, all assets and liabilities of the Slovakian bank was shown on one-one line of the 2019 balance sheet (there was no change in the 2018 closing balance sheet structure). As for the consolidated accounting income statement, the Slovakian contribution for both 2018 and 2019 was shown separately from the result of continued operation, on the *Loss from discontinued operation* line, i.e. the particular P&L lines in the 'continuing operations' section of the accounting P&L don't incorporate the contribution from the Slovakian subsidiary. As opposed to this, the *adjusted* financial statements presented in this Summary incorporated the Slovakian banks' balance sheet and P&L contribution in the relevant respective lines, in line with the structure of the financial statements monitored by the management. The consolidated *accounting* income statement and balance sheet can be found in the Financial Data section of this Summary, whereas the transparent presentation of the differences between the adjusted and accounting financial statements in the Supplementary Data section, respectively.

The full-year 2019 consolidated accounting after tax profit was HUF 412.6 billion, against HUF 318.3 billion reached in the base period, marking a 30% y-o-y increase.

The accounting ROE was 20.3% (+1.6 pps y-o-y).

The total volume of adjustment items in 2019 represented -HUF 6.5 billion (after tax), i.e. less than in 2018. Adjustment items were the follows:

- -HUF 16.2 billion negative impact of banking tax paid at the Hungarian, Slovakian and Romanian subsidiaries (after tax);
- -HUF 8.4 billion (after tax) on the effect of acquisitions line, which included the goodwill impairment booked in 2Q 2019 in relation to the Romanian subsidiary, and the tax shield stemming from the recognition or reversal of impairment charges booked in relation to the revaluation of investments in certain subsidiaries accounted for in 4Q 2019;
- -HUF 1.6 billion negative effect on the optional conversion of Serbian CHF mortgage loans into EUR;
- +HUF 19.3 billion acquisition effect (after tax), which included those items that were directly related to the recently completed acquisitions and on-going integration projects, as well as one-off effect of the sale of the Slovakian bank announced in February 2020;
- +HUF 0.5 billion dividend and cash transfer (after tax).

In 2019 OTP Group posted HUF 419 billion adjusted after-tax profit underpinning a 29% y-o-y increase. Without the contribution of the newly acquired Bulgarian, Albanian, Moldavian, Montenegrin and Serbian banks the annual profit would be HUF 389.7 billion (+20% y-o-y). The effective tax rate moderated by 0.2 pp y-o-y to 10.1%. The profit before tax increased by 28% y-o-y.

Out of the annual profit it was still OTP Core posting the highest individual net results (HUF 191 billion). Regarding the annual performances all subsidiaries managed to improve their earnings. Given its weight, the Bulgarian operation excelled itself with HUF 67.9 billion, followed by the Ukrainian (HUF 35.2 billion), Croatian (HUF 30.7 billion) and Russian profit contributions (HUF 28.1 billion). Besides, several other subsidiaries doubled or even tripled their annual profit. Of them the most outstanding improvement belonged to OTP Fund Management (Hungary): as a result of its all-time high success fee income the bottom-line profit jumped to 3.5-fold y-o-y (to HUF 15.1 billion).

When comparing the individual profit contributions of the newly acquired banks one should consider that their consolidation took place in different times.

In particular, the Bulgarian Expressbank contributed around HUF 18 billion through a 12-months period; the Albanian subsidiary brought in HUF 2.6 billion between April-December 2019 (9 months); both the Montenegrin and Moldavian subsidiaries contributed HUF 1.9 billion between August-December (5 months), whereas the newly acquired Serbian subsidiary boosted consolidated earnings by HUF 5 billion in 4Q (with its full quarterly earnings). As a result these five new entities brought in HUF 29.4 billion in total into the consolidated adjusted profit in 2019. In the case of the newly acquired Slovenian SKB Banka only its balance sheet was consolidated; its P&L contribution will be consolidated from 2020.

Based on those figures the share of the non-Hungarian operations' profit contribution within the Group's total profit increased from 38% in 2018 to 46% in 2019.

The consolidated adjusted ROE increased to 20.6% (+1.5 pps y-o-y). Out of that the Ukrainian subsidiary excelled itself with an annual ROE of 42.5%.

Since certain elements of the management guidance for 2019 were adjusted for acquisitions, in the below section the without acquisition balance sheet and P&L developments are also presented.

In 2019 total income grew by 22% y-o-y (+14% without acquisitions). The annual operating income advanced by 33% (+21% w/o acquisitions), whereas total risk costs jumped by 80% y-o-y (+46% w/o acquisitions), within that credit costs grew by 53%.

Despite the continued margin erosion and the more intense competition, the annual net interest income grew by 18% (+9% w/o acquisitions). Net fee and commission income had an excellent run (+28% y-o-y, and +21% w/o acquisitions), which, to a great extent, was related to the Hungarian operation: in 2019 the success fee revenues at OTP Fund Management (Hungary) comprised HUF 14 billion (versus HUF 1 billion in the previous year). Also, alongside the stronger transactional volumes and business activity, distribution fee revenues related to the retail Hungarian Government Bond Plus (MÁP Plus) gave further boost to this line at OTP Core.

The other net non-interest income grew by 45% y-o-y (+34% without acquisitions). On one hand this was shaped by the consolidation of the newly acquired banks, but stronger FX and securities gains helped, too.

The annual NIM was shaped by several factors: the low and further declining interest rate environment, stronger competition, the dilution effect of lower margins of the newly acquired subsidiaries, but also the weaker HUF (annual average HUF/UAH rate: -13.5%, HUF/RUB: -4.1%). As a result the annual net interest margin dropped by 19 bps y-o-y to 4.12%. However, the net interest margin adjusted for the acquisitions eroded only marginally (-4 bps y-o-y to 4.27%).

On a stand-alone base the single biggest NIM erosion hit the Russian operation (the Russian margin dropped from 15.21% to 13.58%), whereas the Bulgarian and Core operations faced continued margin erosion, albeit at a slower magnitude (from 3.37% to 3.0% and from 3.01% to 2.92%, respectively). Only the Ukrainian subsidiary enjoyed a NIM improvement y-o-y (from 9.21% to 9.55%).

Consolidated operating costs grew by 14% y-o-y, whereas the FX-adjusted increase without the effect of acquisitions was 6.0%. All cost elements grew: personnel expenses leaped by 12% reflecting the elevated wage inflation practically in every country. Amortization grew even faster, by 17% y-o-y. Administrative expenses advanced by 16% as a result of higher expenses supporting general banking activities (rental fees, office equipment costs), higher supervisory contributions and also the growing digital transformation expenses.

The consolidated cost-to-income ratio dropped by 3.7 pps y-o-y to 52.7%, whereas the cost-to-asset indicator declined from 3.57% to 3.31%.

Cost synergy benefits were already utilized at the Croatian operation throughout 2019.

In 2019 the consolidated FX-adjusted performing (Stage 1+2) loan volumes surged by 48%, by around HUF 4,000 billion y-o-y, out of which the organic growth represented 15% (HUF 1,252 billion). It was positive that volumes increased at all Group members and in each category.

As for the major credit categories in 2019 the Stage 1+2 micro and small enterprise book advanced the fastest y-o-y (+54%, and -3% w/o acquisitions), followed by the corporate portfolio (+52% and +17%) and the consumer exposure (+48% and +28%). The FX-adjusted mortgage loan portfolio advanced by 39% y-o-y (+9% w/o acquisitions).

Regarding the individual performances, y-o-y the Hungarian (+21%, within that +81% for consumer credits), Ukrainian (+27%), Romanian (+23%) and Croatian (+15%) organic loan expansions were the most remarkable. In case of other operations the yearly loan volume dynamics were distorted by acquisitions.

The FX-adjusted deposit portfolio grew slower than loans, by 34% y-o-y (+11% adjusted for the acquisitions).

As a result, the consolidated net loan-to-deposit ratio grew the fastest during the last couple of years and reached 79% (+7 pps y-o-y).

At the end of 4Q 2019 the gross operative liquidity reserves of the Group comprised EUR 7.4 billion equivalent.

In line with the improving macroeconomic environment and the steadily good recovery results of the work-out activity, risk indicators in total improved.

At the end of 2019 the ratio of Stage 3 loans was 5.9% (-2.7 pps y-o-y); the ratio of Stage 2 loans stood at 5.3% (-1.5 pps y-o-y).

In 2019 the DPD90+ volume growth (HUF 81 billion adjusted for FX and the effect of sales and write-offs, as well as for the one-off inclusion effect of newly acquired banks) was higher than in 2018 (HUF 24 billion). The consolidated DPD90+ ratio dropped significantly (-2.1 pps y-o-y) to 4.2%, lower than before the financial crisis. The decline was supported by sales and write-offs, too, in 2019 as a whole in the amount of HUF 133 billion (FX-adjusted), mainly at the Russian and Ukrainian subsidiaries. At OTP Core the DPD90+ ratio shrank to 3.2% (-1.3 pps y-o-y). The consolidated annual risk cost rate was 0.28% versus 0.23% in 2018.

Consolidated capital adequacy ratio (in accordance with BASEL III)

At the end of December 2019 the consolidated Common Equity Tier1 ratio under IFRS – including the annual net result less the proposed dividend amount – was 13.9%. This ratio equals to the Tier1 ratio.

Credit rating, shareholder structure

The sovereign rating improved in February 2019: both S&P Global and Fitch upgraded Hungary's rating to 'BBB'. Roughly a year later, on 27 January 2020 S&P Global raised OTP Bank Plc.'s and OTP Mortgage Bank's short and long term issuer credit ratings from 'BBB-/A-3' to 'BBB/A-2'. S&P affirmed its 'BBB/A-2' long- and short-term resolution counterparty ratings on OTP and OTP Mortgage Bank. The outlook remained stable for both banks. OTP Bank Plc.'s long term foreign-currency deposit rating by Moody's remained unchanged, i.e. it is 'Baa3' with stable outlook. Moody's assigned 'Ba1' foreign currency rating to the subordinated notes (Tier 2) issued by OTP Bank Plc. on 15 July 2019. Furthermore, on 17 July 2019 the long term local currency deposit rating of OTP Bank Plc. was upgraded from 'Baa2' to 'Baa1'. Simultaneously, OTP Mortgage Bank's issuer rating was upgraded by Moody's from 'Baa3' to 'Baa2' with stable outlook. OTP Mortgage Bank's covered bond rating remained 'Baa1'.

On 29 July 2019 Fitch upgraded OTP Bank Russia' 'BB' rating to 'BB+', the outlook is stable. Similar decision was made at the Bulgarian Expressbank: it was upgraded to 'BB+' from 'BB', the outlook is stable.

Regarding the ownership structure of the Bank, on 31 December 2019 the following investors had more than 5% influence (voting rights) in the Company: MOL (the Hungarian Oil and Gas Company, 8.58%), the Kafijat Ltd. (6.89%), OPUS Securities SA (5.18%) and Groupama Group (5.13%).

POST BALANCE SHEET EVENTS

Hungary

- On 27 January 2020, S&P Global Ratings raised its long and short-term issuer credit ratings (ICRs) on OTP Bank Plc. and OTP Mortgage Bank Ltd. to 'BBB/A-2' from 'BBB-/A-3'; while the 'BBB/A-2' long and short-term resolution counterparty ratings (RCR) on both banks were affirmed. The outlooks are stable.
- As a result of a group-wide Supervisory Review And Evaluation Process (SREP) the National Bank of Hungary imposed the below additional capital requirements for OTP Group, on consolidated level:
  - 0.78 pp in case of the Common Equity Tier1 (CET1) capital, accordingly the minimum requirement for the consolidated CET1 ratio is 5.28% (without regulatory capital buffers);
  - 1.03 pps in case of the Tier1 capital, accordingly the minimum requirement for the consolidated Tier1 ratio is 7.03% (without regulatory capital buffers);
  - 1.38 pps in case of the Total SREP Capital Requirement (TSCR), accordingly the minimum requirement for the consolidated capital adequacy ratio is 9.38% (without regulatory capital buffers).
- According to the preliminary statistics published by the Hungarian Central Statistical Office in 4Q 2019 the GDP advanced by 4.5% y/y, as a result the annual growth rate was 4.9%. Due to the increasing external risk factors the Government cut back its original 4% growth estimation to 3.5% for 2020.
- On 14 February 2020 S&P Global Ratings revised its outlook from stable to positive on Hungary's sovereign credit ratings ('BBB').
- On 17 February 2020 OTP Bank announced that it signed an agreement about the sale of its 99.44% stake in its Slovakian subsidiary to the Belgian KBC Bank NV.

Romania

- On 11 January 2020 the Government Emergency Ordinance no. 1/2020 ruled that „in the year 2020 the tax on assets is not calculated and not due".

Russia

- On 21 January 2020 a new Russian government has been approved with Mikhail Mishustin as Prime Minister.
- On 7 February 2020 the Russian Central Bank cut the key policy rate from 6.25% to 6.0%.

Ukraine

- On 30 January 2020 the Ukrainian Central Bank lowered its benchmark interest rate by 250 bps to 11%.

Croatia

- The Croatian Supreme Court ruling in September 2019 concerning the unfairness of unilateral amendment and the FX variability clauses of the CHF-based consumer loans, and the opinion announced by the Civil Division of the Supreme Court in January 2020 about the statute of limitations, and also the upcoming ruling of the Supreme Court (due until the 17th of March) about the scope of the loan contracts the declared unfairness refers to, can potentially have ramifications on the Croatian subsidiary of OTP Bank. The potential financial effect, however, cannot be quantified at the moment. Borrowers may sue the banks for reimbursement individually. The final verdict of the Supreme Court can be contested at the Constitutional Court of Republic of Croatia.

CONSOLIDATED AFTER TAX PROFIT BREAKDOWN BY SUBSIDIARIES (IFRS)[2]

	2018 HUF million	2019 HUF million	Change %
Consolidated after tax profit	**318,322**	**412,582**	**30**
Adjustments (total)	**(7,013)**	**(6,470)**	**(8)**
Consolidated adjusted after tax profit without the effect of adjustments	**325,335**	**419,052**	**29**
Banks total[1]	308,831	385,622	25
OTP Core (Hungary)[2]	180,445	190,956	6
Corporate Centre[3]	6,190	3,478	(44)
DSK Group (Bulgaria)[4]	47,293	67,879	44
OBH (Croatia)[5]	24,961	30,719	23
OTP Bank Serbia[6]	2,999	10,430	248
OTP Bank Romania[7]	3,850	6,309	64
OTP Bank Ukraine[8]	24,415	35,223	44
OTP Bank Russia[9]	16,420	28,127	71
CKB Group (Montenegro)[10]	2,214	6,377	188
OTP Bank Albania	-	2,616	
Mobiasbanca (Moldova)	-	1,936	
OBS (Slovakia)[11]	44	1,575	
Leasing	9,827	7,115	(28)
Merkantil Bank (Hungary)[12]	7,437	7,115	(4)
Foreign leasing companies (Croatia, Bulgaria, Romania, Serbia)[13]	2,391		
Asset Management	4,159	15,208	266
OTP Asset Management (Hungary)	4,122	15,104	266
Foreign Asset Management Companies (Ukraine, Romania, Bulgaria)[14]	37	104	179
Other Hungarian Subsidiaries	1,601	9,498	493
Other Foreign Subsidiaries[15]	388	232	(40)
Eliminations	528	1,377	161
Total adjusted after tax profit of HUNGARIAN subsidiaries[16]	200,323	227,527	14
Total adjusted after tax profit of FOREIGN subsidiaries[17]	125,012	191,525	53
Share of foreign profit contribution	38%	46%	19

Note: Effective from 2019 foreign leasing companies are shown as part of their local operations.

[2] Belonging footnotes are in the Supplementary data section of the Report.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Main components of the Statement of recognized income	2018 HUF million	2019 HUF million	Change %
Consolidated after tax profit	**318,322**	**412,582**	**30**
Adjustments (total)	**(7,013)**	**(6,470)**	**(8)**
Dividends and net cash transfers (after tax)	457	505	11
Goodwill/investment impairment charges (after tax)	(4,729)	(8,427)	78
Special tax on financial institutions (after corporate income tax)	(15,286)	(16,170)	6
Impact of fines imposed by the Hungarian Competition Authority (after tax)	565	0	(100)
Effect of acquisitions (after tax)	(6,844)	19,265	(381)
Initial NPV gain on the monetary policy interest rate swap (MIRS) deals (after tax)	18,823	0	(100)
One-off impact of regulatory changes related to FX consumer contracts in Serbia	0	(1,644)	
Consolidated adjusted after tax profit without the effect of adjustments	**325,335**	**419,052**	**29**
Before tax profit	**362,734**	**465,973**	**28**
Operating profit	**384,908**	**510,045**	**33**
Total income	**881,726**	**1,077,727**	**22**
Net interest income	**599,832**	**706,298**	**18**
Net fees and commissions	**220,731**	**282,504**	**28**
Other net non-interest income	**61,163**	**88,926**	**45**
Foreign exchange result, net	33,568	45,177	35
Gain/loss on securities, net	2,461	12,372	403
Net other non-interest result	25,134	31,376	25
Operating expenses	**(496,818)**	**(567,682)**	**14**
Personnel expenses	(249,447)	(280,002)	12
Depreciation	(48,210)	(56,383)	17
Other expenses	(199,161)	(231,298)	16
Total risk costs	**(26,167)**	**(47,107)**	**80**
Provision for impairment on loan and placement losses	(19,283)	(29,474)	53
Other provision	(6,885)	(17,633)	156
Total one-off items	**3,993**	**3,034**	**(24)**
Gain on the repurchase of own Upper and Lower Tier2 Capital	0	0	
Result of the treasury share swap agreement at OTP Core	3,993	3,034	(24)
Corporate taxes	**(37,400)**	**(46,921)**	**25**
Indicators	2018	2019	%/pps
ROE (from accounting net earnings)	18.7%	20.3%	1.6
ROE (from adjusted net earnings)	19.1%	20.6%	1.5
ROA (from adjusted net earnings)	2.3%	2.4%	0.1
Operating profit margin	2.76%	2.97%	0.21
Total income margin	6.33%	6.28%	(0.04)
Net interest margin	4.30%	4.12%	(0.19)
Net fee and commission margin	1.58%	1.65%	0.06
Net other non-interest income margin	0.44%	0.52%	0.08
Cost-to-asset ratio	3.57%	3.31%	(0.26)
Cost/income ratio	56.3%	52.7%	(3.7)
Provision for impairment on loan and placement losses-to-average gross loans	0.23%	0.28%	0.05
Total risk cost-to-asset ratio	0.19%	0.27%	0.09
Effective tax rate	10.3%	10.1%	(0.2)
Non-interest income/total income	32%	34%	2
EPS base (HUF) (from unadjusted net earnings)	1,215	1,576	30
EPS diluted (HUF) (from unadjusted net earnings)	1,215	1,575	30
EPS base (HUF) (from adjusted net earnings)	1,243	1,602	29
EPS diluted (HUF) (from adjusted net earnings)	1,242	1,602	29
Comprehensive Income Statement	2018	2019	%
Consolidated after tax profit	318,322	412,582	30
Fair value changes of financial instruments measured at fair value through other comprehensive income	(20,323)	30,224	(249)
Fair value adjustment of derivative financial instruments designated as cash-flow hedge	(9)	11	(222)
Net investment hedge in foreign operations	(3,253)	(2,526)	(22)
Foreign currency translation difference	10,007	79,440	694
Change of actuarial costs (IAS 19)	(65)	(161)	148
Net comprehensive income	**304,679**	**519,570**	**71**
o/w Net comprehensive income attributable to equity holders	304,813	518,802	70
Net comprehensive income attributable to non-controlling interest	(134)	768	(673)
Average exchange rate[1] of the HUF	2018 HUF	2019 HUF	Change %
HUF/EUR	319	325	2
HUF/CHF	276	292	6
HUF/USD	270	291	8

Exchange rates presented in the tables of this report should be interpreted as follows: the value of a unit of the other currency expressed in Hungarian forint terms, i.e. HUF/EUR represents the HUF equivalent of one EUR.

ASSET-LIABILITY MANAGEMENT

Similar to previous periods OTP Group maintained a strong and safe liquidity position…

The primary objective of OTP Group in terms of asset-liability management has not changed, that is to ensure that the Group's liquidity is maintained at a safe level.

Refinancing sources of the European Central Bank are still available for OTP (ECB repo eligible security portfolio on Group level reaches EUR 1.2 billion). As a result of the high level of liquidity reserves, the Group could safely function without considerable fund raising. The EUR 500 million Tier 2 bond issuance in second half of the year served the purpose of optimizing the capital structure of the bank.

Total liquidity reserves of OTP Bank remained steadily and substantially above the safety level. As of 31 December 2019 the gross liquidity buffer was around EUR 7.4 billion equivalent. This buffer is significantly higher than the maturing debt within one year and the reserves required to protect against possible liquidity shocks. Due to governmental FX lending measures and FX loan conversion FX liquidity need of the Group has considerably declined. No long term foreign currency receiver FX-swaps (vs. HUF) were executed during 2019 and the ECB refinancing facilities were not utilized. FX liquidity reserves are at safe levels (at EUR 1.7 billion on 31 December 2019).

The volume of issued securities decreased by 6% y-o-y, mainly because in contract to 2018, in 2019 OTP Mortgage bank did not issue any mortgage bonds, thus the net amount of newly issued retail bonds and matured retail and mortgage bonds was negative. In the last 12 months the amount of retail targeted bonds decreased by HUF 1.5 billion to close to HUF 3 billion.

The volume of subordinated debt trebled y-o-y, mainly due to the aforementioned EUR 500 million Tier 2 bond issuance.

…and kept its interest-rate risk exposures low.

Interest-rate risk exposure of OTP Group is determined primarily by the positions of OTP Bank Plc. and OTP Mortgage Bank Ltd. Due to the forint liabilities on OTP Bank's balance sheet, which respond to yield changes only to a moderate extent, the Bank has an interest-rate risk exposure resulting from its business operations. The Bank considers the reduction and closing of this exposure as a strategic matter. Consequently, it has been reducing its interest-rate risk exposure through the purchase of fixed-rate government securities in order to offset the negative impact of declining yields on net interest income.

Market Risk Exposure of OTP Group

The consolidated capital requirement of the trading book positions, the counterparty risk and the FX risk exposure represented HUF 21,97 billion in total.

OTP Group is an active participant of the international FX and derivative market. Open FX positions of group members are restricted to individual and global net open position limits (overnight and intraday), and to stop-loss limits. The open positions of the group members outside Hungary except for the Bulgarian DSK Bank – the EUR/BGN exposure of DSK under the current exchange rate regime does not represent real risk – were negligible measured against either the balance sheet total or the regulatory capital. Therefore, the group level FX exposure was concentrated at OTP Bank.

Thus the main part of the FX exposure booked at OTP Bank – in line with the previous years' practice – was the strategic open FX position (EUR 310 million) kept to hedge the currency risk of the expected FX-denominated net earnings of the main foreign subsidiaries. The strategic open position has been kept since 2007, and its size has been constant at EUR 310 million since 2008. The revaluation result of the strategic open position is accounted for directly against the equity.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF OTP GROUP

Main components of balance sheet	2018 HUF million	2019 HUF million	Change %
TOTAL ASSETS	**14,590,288**	**20,121,767**	**38**
Cash, amounts due from Banks and balances with the National Banks	1,547,272	1,841,963	19
Placements with other banks, net of allowance for placement losses	420,606	410,433	(2)
Financial assets at fair value through profit or loss	181,355	251,991	39
Securities at fair value through other comprehensive income	1,883,849	2,427,537	29
Net customer loans	8,066,592	12,247,519	52
Net customer loans (FX adjusted[1])	**8,306,712**	**12,247,519**	**47**
Gross customer loans	8,719,342	12,942,009	48
Gross customer loans (FX adjusted[1])	**9,001,577**	**12,942,009**	**44**
o/w Retail loans	5,480,960	7,619,989	39
Retail mortgage loans (incl. home equity)	2,609,698	3,471,008	33
Retail consumer loans	2,223,583	3,190,556	43
SME loans	647,680	958,425	48
Corporate loans	3,203,486	4,774,075	49
Loans to medium and large corporates	2,899,818	4,395,789	52
Municipal loans	303,668	378,285	25
Car financing loans	317,131	547,946	73
Allowances for loan losses	(652,751)	(694,490)	6
Allowances for loan losses (FX adjusted[1])	(694,866)	(694,490)	0
Associates and other investments	17,592	20,822	18
Securities at amortized costs	1,740,520	1,995,627	15
Tangible and intangible assets, net	420,484	605,673	44
o/w Goodwill, net	91,766	105,298	15
Tangible and other intangible assets, net	328,718	500,375	52
Other assets	312,018	320,201	3
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**14,590,288**	**20,121,767**	**38**
Amounts due to banks, the National Governments, deposits from the National Banks and other banks, and Financial liabilities designated at fair value through profit or loss	392,706	846,158	115
Deposits from customers	11,285,085	15,522,654	38
Deposits from customers (FX adjusted[1])	**11,547,410**	**15,522,654**	**34**
o/w Retail deposits	8,435,273	11,217,326	33
Household deposits	6,972,763	9,228,802	32
SME deposits	1,462,510	1,988,524	36
Corporate deposits	3,100,793	4,290,769	38
Deposits to medium and large corporates	2,389,687	3,502,442	47
Municipal deposits	711,106	788,327	11
Accrued interest payable related to customer deposits	11,344	14,560	28
Liabilities from issued securities	417,966	393,167	(6)
o/w Retail bonds	4,732	3,237	(32)
Liabilities from issued securities without retail bonds	413,235	389,930	(6)
Other liabilities	586,445	818,561	40
Subordinated bonds and loans[2]	81,429	249,937	207
Total shareholders' equity	**1,826,657**	**2,291,288**	**25**
Indicators	2018	2019	%/pps
Loan/deposit ratio (FX adjusted[1])	78%	83%	5
Net loan/(deposit + retail bond) ratio (FX adjusted[1])	72%	79%	7
Stage 1 loan volume under IFRS 9		11,489,554	
Stage 1 loans under IFRS 9/gross customer loans		88.8%	
Own coverage of Stage 1 loans under IFRS 9		1.1%	
Stage 2 loan volume under IFRS 9	591,870	685,885	16
Stage 2 loans under IFRS 9/gross customer loans	6.8%	5.3%	(1.5)
Own coverage of Stage 2 loans under IFRS 9		10.7%	
Stage 3 loan volume under IFRS 9	753,033	766,570	2
Stage 3 loans under IFRS 9/gross customer loans	8.6%	5.9%	(2.7)
Own coverage of Stage 3 loans under IFRS 9		65.2%	
90+ days past due loan volume	551,498	541,467	(2)
90+ days past due loans/gross customer loans	6.3%	4.2%	(2.1)
Consolidated capital adequacy (Basel3)	2018	2019	%/pps
Capital adequacy ratio (consolidated, IFRS)	18.3%	16.3%	(2.0)
Tier1 ratio	16.5%	13.9%	(2.6)
Common Equity Tier1 ('CET1') capital ratio	16.5%	13.9%	(2.6)
Regulatory capital (consolidated)	1,731,970	2,321,248	34
o/w Tier1 Capital	1,565,247	1,985,666	27
o/w Common Equity Tier1 capital	1,565,247	1,985,666	27
Tier2 Capital	166,723	335,582	101
o/w Hybrid Tier2	89,935	89,935	0
Consolidated risk weighted assets (RWA) (Credit&Market&Operational risk)	9,488,916	14,262,197	50
o/w RWA (Credit risk)	7,966,050	12,529,878	57
RWA (Market & Operational risk)	1,522,866	1,732,319	14
Closing exchange rate of the HUF	2018 HUF	2019 HUF	Change %
HUF/EUR	322	331	3
HUF/CHF	285	304	7
HUF/USD	281	295	5

[1] For the FX adjustment, the closing cross currency rates for the current period were used to calculate the HUF equivalent of loan and deposit volumes in the base periods.
[2] The ICES bonds are considered as Tier2 debt, but accounting-wise they are treated as part of the shareholders' equity.

OTP BANK'S HUNGARIAN CORE BUSINESS

OTP Core Statement of profit or loss:

Main components of the Statement of recognised income	2018 HUF million	2019 HUF million	Change %
After tax profit without the effect of adjustments	180,445	190,956	6
Corporate income tax	(14,717)	(12,668)	(14)
Pre-tax profit	195,162	203,624	4
Operating profit	144,577	173,995	20
Total income	378,534	432,013	14
Net interest income	245,934	261,754	6
Net fees and commissions	107,010	126,911	19
Other net non-interest income	25,590	43,349	69
Operating expenses	(233,956)	(258,018)	10
Total risk costs	46,591	26,594	(43)
Provision for impairment on loan and placement losses	48,192	30,332	(37)
Other provisions	(1,601)	(3,737)	133
Total one-off items	3,993	3,034	(24)
Revaluation result of the treasury share swap agreement	3,993	3,034	(24)
Indicators	**2018**	**2019**	**pps**
ROE	12.2%	11.7%	(0.5)
ROA	2.2%	2.1%	(0.1)
Operating profit margin	1.8%	1.9%	0.2
Total income margin	4.64%	4.82%	0.18
Net interest margin	3.01%	2.92%	(0.09)
Net fee and commission margin	1.31%	1.42%	0.10
Net other non-interest income margin	0.31%	0.48%	0.17
Operating costs to total assets ratio	2.9%	2.9%	0.0
Cost/income ratio	61.8%	59.7%	(2.1)
Provision for impairment on loan and placement losses/average gross loans[1]	(1.60%)	(0.88%)	0.72
Effective tax rate	7.5%	6.2%	(1.3)

[1] Negative *Provision for impairment on loan and placement losses/average gross loans* ratio implies positive amount on the *Provision for impairment on loan and placement losses* line.

Main components of OTP Core's Statement of financial position:

Main components of balance sheet closing balances	2018 HUF million	2019 HUF million	Change %
Total Assets	8,563,425	9,641,692	13
Net customer loans	3,096,391	3,740,975	21
Net customer loans (FX adjusted)	**3,112,187**	**3,740,975**	**20**
Gross customer loans	3,241,345	3,883,412	20
Gross customer loans (FX adjusted)	**3,258,458**	**3,883,412**	**19**
Retail loans	1,971,206	2,376,885	21
Retail mortgage loans (incl. home equity)	1,329,600	1,383,774	4
Retail consumer loans	425,790	746,269	75
SME loans	215,816	246,842	14
Corporate loans	1,287,252	1,506,527	17
Loans to medium and large corporates	1,201,815	1,404,773	17
Municipal loans	85,437	101,754	19
Provisions	(144,954)	(142,437)	(2)
Provisions (FX adjusted)	**(146,270)**	**(142,437)**	**(3)**
Deposits from customers + retail bonds	5,967,857	6,770,161	13
Deposits from customers + retail bonds (FX adjusted)	**6,000,083**	**6,770,161**	**13**
Retail deposits + retail bonds	4,072,038	4,505,485	11
Household deposits + retail bonds	3,278,499	3,562,244	9
o/w: Retail bonds	4,732	3,237	(32)
SME deposits	793,539	943,241	19
Corporate deposits	1,928,045	2,264,676	17
Deposits to medium and large corporates	1,321,304	1,624,880	23
Municipal deposits	606,741	639,796	5
Liabilities to credit institutions	236,700	445,301	88
Issued securities without retail bonds	461,138	436,340	(5)
Total shareholders' equity	1,561,688	1,720,872	10
Loan Quality	2018	2019	%/pps
Stage 1 loan volume under IFRS 9 (in HUF million)		3,550,841	
Stage 1 loans under IFRS 9/gross customer loans		91.4%	
Own coverage of Stage 1 loans under IFRS 9		0.8%	
Stage 2 loan volume under IFRS 9 (in HUF million)		163,954	
Stage 2 loans under IFRS 9/gross customer loans		4.2%	
Own coverage of Stage 2 loans under IFRS 9		12.4%	
Stage 3 loan volume under IFRS 9 (in HUF million)	190,682	168,618	(11.6)
Stage 3 loans under IFRS 9/gross customer loans	5.9%	4.3%	(1.5)
Own coverage of Stage 3 loans under IFRS 9		55.4%	
90+ days past due loan volume (in HUF million)	147,218	123,895	(16)
90+ days past due loans/gross customer loans	4.5%	3.2%	(1.4)
Market Shares	2018	2019	pps
Loans	20.8%	22.2%	1.4
Deposits	25.7%	27.7%	2.0
Total Assets	26.2%	28.8%	2.6
Performance Indicators	2018	2019	pps
Net loans to (deposits + retail bonds) (FX adjusted)	52%	55%	3
Leverage (closing Shareholder's Equity/Total Assets)	18.2%	17.8%	(0.4)
Leverage (closing Total Assets/Shareholder's Equity)	5.5x	5.6x	0.1x
Capital adequacy ratio (OTP Bank, non-consolidated, Basel3, IFRS)	28.2%	26.6%	(1.6)
Common Equity Tier1 ratio (OTP Bank, non-consolidated, Basel3, IFRS)	26.2%	22.6%	(3.6)

- ***OTP Core's adjusted full-year after tax profit amounted to HUF 191 billion (+6% y-o-y). Regarding the structure of profit growth, a 20% improvement in operating profit was offset by smaller amounts of positive risk costs***
- ***Despite a 9 bps erosion in net interest margin, total income margin improved in 2019***
- ***Amid favourable credit quality trends the ratio of Stage 3 loans declined to 4.3%***
- ***The growth in retail loans accelerated in 2019, while corporate loan growth moderated after the outstanding expansion in 2018. Stage 1+2 loans surged by 21% y-o-y(FX-adjusted), boosted by the introduction of subsidized baby loans in July***
- ***The double-digit growth in deposit volumes was coupled with a 3 pps improvement in net loan/deposit ratio. Retail deposits continued to trend higher, even with the MÁP Plus government bond for retail customers being introduced in June***

The scope of companies comprising OTP Core has changed from 2019: OTP Real Estate Lease Ltd was moved from OTP Core to Other Hungarian Subsidiaries. At the end of December, the gross loan portfolio of OTP Real Estate Lease amounted to HUF 23.4 billion, while performing (Stage 1+2 loans under IFRS 9) *loan volumes reached HUF 22.0 billion, of which mortgage loans amounted to HUF 19.3 billion. OTP Real Estate Lease Ltd.'s adjusted after-tax profit was HUF 0.35 billion in 2019.*

Starting from 2019, OTP Ingatlanpont LLC and OTP Mobile Service Limited Liability Company were included into OTP Core. These two companies recorded a combined loss of HUF 0.6 billion in 2019.

On 30 September 2019 two companies (previously presented among other Hungarian subsidiaries) merged into Monicomp Ltd., which is part of OTP Core.

P&L developments

In 2019 **OTP Core** generated HUF 191 billion adjusted after-tax profit. The 6% y-o-y growth rate owes mainly to a 20% increase in operating profit, which was partly counterbalanced by the declining amount of positive risk costs.

The annual pre-tax profit improved by 4% y-o-y.

The annual operating profit (without one-off items) grew by 20%, largely driven by the 14% increase in total income. The full-year net interest income was up 6%, mostly owing to the continued dynamic organic growth in loan volumes, but the revenues were also boosted by the gross interest income realized from the placement of additional liquidity supported by the rise in customer deposits.

In an environment determined by low short-term interest rates and sinking long-term yields, the full-year net interest margin moderated by 9 bps y-o-y to 2.92%. The average interest rates of both the loan portfolio and liquid assets have decreased. Furthermore, the share of non-interest-bearing assets (including the investments in subsidiaries) increased within the balance sheet total.

The annual net fees and commissions increased by 19%, as the growing volumes and transactional turnover resulted in stronger card, deposit and transaction-related fee revenues. It was also positive that securities distribution fees for the whole year showed a 21% y-o-y growth after the declining trend prevailing since 2H 2017. The reason was that the Government Debt Management Agency – parallel with the amendment to the distribution fee calculation methodology – introduced a new retail government bond, the Hungarian Government Security Plus (MÁP Plus) from June 2019; its volumes have significantly increased owing to the outstanding new sales volumes.

The annual other net non-interest income (without one-offs) surged by 69% y-o-y, largely because of the higher gain on securities.

The *revaluation result of the treasury share swap agreement* (showed among the one-off revenue items) amounted to HUF 3.0 billion in 2019 (-24% y-o-y), owing predominantly to the dividend income received in the second quarter.

Operating expenses grew by 10% in 2019. Personnel expenses were shaped, among others, by the 5% rise in the average number of employees, as well as by the fact that in 3Q and 4Q 2019 part of the cumulated wage cost of the IT developers employed by OTP Bank was allocated for certain software in use, and activated for the systems developed – in the amount of HUF 2.1 billion in total. Another factor that reduced the dynamics of personnel costs was that, in accordance with the six-year wage agreement, employers pay 2 pps lower social contribution tax rate (17.5%) starting from July 2019. Moreover, amortization grew in y-o-y terms, and within other expenses, IT hardware and licence costs, facility management and telecommunications expenses, and deductible taxes have all increased.

Loan quality trends remained favourable: DPD90+ loan volumes fell by HUF 3 billion in 2019 (FX-adjusted and without problem loan sales and write-offs). In 2019 altogether HUF 16 billion problem loans were sold/written off. The decreasing trend in the share of DPD90+ loans continued: the rate dropped by 1.4 pps to 3.2% y-o-y. The share of Stage 3 loans also remained on a downward path (4.3%, -1.5 pps y-o-y); their own provision coverage stood at 55.4%.

On the total risk costs line, a positive amount of HUF 26.6 billion was recognized in 2019, mainly due to the recoveries realized on claims toward households handled by OTP Factoring, the Hungarian work-out company. The amount of positive risk costs was 43% less than in the base period.

Balance sheet trends

The continued strengthening of OTP Core's business activity was coupled with further increase in business volumes, and a steady increase of the balance sheet total.

On the asset side, gross loans surged 19% y-o-y, while performing (Stage 1+2) loans expanded by 21% (FX-adjusted), largely driven by an outstanding, 81% jump in consumer loans. Thus, the performing loan growth in 2019 exceeded the previous year's 18% level.

The quarterly rise in performing loans demonstrated an accelerating trend in 2019: a seasonally weak first quarter (q-o-q stagnation) was followed by FX-adjusted q-o-q growth rates of 5% in 2Q, 8% in 3Q, and 7% in 4Q.

The increasing growth rates seen in the second half of the year were driven by the strong demand for consumer loans, fuelled also by the introduction of the subsidized baby loans, while corporate loan growth decelerated compared to last year: in 2018 corporate and SME loans expanded by nearly 30% overall, which came down to 18% in 2019. This represents a pronounced shift in the structure of loan growth, towards retail loans.

The Hungarian Government introduced the subsidized baby loan scheme for families in July 2019, which generated significant additional loan demand. OTP Bank's clients were particularly interested in this product: nearly 22,000 loan contracts were signed in the second half of the year, with an average ticket size of HUF 9.5 million – this brings the contracted amount of baby loans between July and December 2019 to HUF 209 billion. Accordingly, OTP's respective market share was nearing 45% in the second half of the year.

In a favourable development, the introduction of baby loans did not break the increasing demand for personal loans: new cash loans granted by OTP Bank expanded by 26% in 2019 as a whole. Based on this, OTP Bank's market share in new cash loan disbursements exceeded 39% in 2019 (+0.8 pp y-o-y).

The performing personal loan volumes grew by 27% y-o-y. Based on the outstanding stock, OTP Bank's market share in cash loans stood at 33.2% at the end of December.

As a result, performing (Stage 1+2) total consumer loans jumped by 81% y-o-y.

Performing mortgage loans were up 7% y-o-y (filtering out the effect of the exclusion of OTP Real Estate Lease from OTP Core).

The performing mortgage loan portfolio consists of two product segments: housing loans, which make up 82% of the stock volumes, grew steadily by double-digit rates (+12% y-o-y). The volume of mortgage-backed consumer loans (or home equities), the weight of which is 18%, is gradually shrinking (-11% y-o-y) as amortization exceeds new disbursements.

New mortgage loan disbursements expanded by 12% y-o-y in 2019. In 2019 OTP Bank's market share in new mortgage loan contractual amounts reached 31.6%, up from 29.2% in 2018. In the second half of the year the market share gains could to a large extent be attributable to the increasing demand for subsidized housing loans – in this field OTP Bank traditionally has a strong market share.

Customers continue to prefer, almost exclusively, the more predictable fixed-rate housing loans: at OTP Bank, the share of loans with fixed interest rate for at least five years, was above 99% of all new market-based housing loan applications in 2019 (up from near-50% levels in 2017). Within that, the popularity of loans with longer-term interest rate fixation periods (for 10 and 20 years) has been gradually increasing.

OTP Bank has been actively contributing to the success of the Housing Subsidy Scheme for Families (CSOK) programme, which was expanded by the Government from July 2019. In 2019 more than 17 thousand applications for the CSOK subsidy were registered at OTP Bank with a value of HUF 74 billion.

After the outstanding dynamics in previous years, corporate loan growth lost some steam, but they continued to expand by a strong, double-digit rate (+18%) in 2019. Within that, loans to medium and large corporates surged 18%, and loans to municipalities expanded by 19%. Performing loans to micro and small enterprises expanded by 14% y-o-y (FX-adjusted).

Under the Funding for Growth Scheme Fix, which was launched at the beginning of 2019 by the National Bank of Hungary, OTP received loan requests in the amount of close to HUF 60 billion.

OTP Bank has been actively participating in the Bond Funding for Growth Scheme of the NBH. As a lead manager, in the course of 2019 OTP Bank participated in 3 already completed bond issuances with a total notional of HUF 46 billion; additionally, there were further issuances in progress at the end of the year. In the case of the 3 deals where OTP acted as lead manager, the Bank has underwritten bonds in the amount of HUF 6 billion, whereas altogether HUF 21 billion was underwritten from bonds issued under the umbrella of the Bond Funding for Growth Scheme.

Because of the recent acquisitions and capital increases at subsidiaries, on the asset side the volume of investments in subsidiaries as well as its share within the balance sheet total grew further (by 1.3 pps to 12.2% on average), strongly contributing to the rise in the share of non-interest-bearing assets within total assets.

OTP Core's deposit base (including retail bonds) grew by an FX-adjusted 13% y-o-y. Despite the launch of the popular MÁP Plus retail government bond in June, the annual growth rate of household deposits reached

11%. The expansion rate in medium and large corporate deposits reached 23% y-o-y. Municipalities' deposits grew by 5% y-o-y.

The net loan / (deposit + retail bond) ratio rose by 3 pps y-o-y to 55%, but despite the improvement, the absolute level of the ratio can still be regarded as low.

In July 2019 the Bank issued a Tier 2 capital instrument in the nominal amount of EUR 500 million, which is part of the standalone regulatory capital of OTP Bank, but it is reported in the balance sheet of the Corporate Centre. Similarly to previous years, the Bank's regulatory capital at the end of 2019 included the interim profit less proposed dividend. The Bank's standalone capital adequacy ratio (CAR) stood at 26.6% at the end of December 2019, while the CET1=Tier1 ratio reached 22.6%.

OTP FUND MANAGEMENT (HUNGARY)

Changes in assets under management and financial performance of OTP Fund Management:

Main components of P&L account	2018 HUF million	2019 HUF million	Change %
After tax profit w/o dividends and net cash transfer	4,122	15,104	266
Income tax	(403)	(1,438)	256
Profit before income tax	4,525	16,542	266
Operating profit	4,525	16,542	266
Total income	7,121	20,433	187
Net fees and commissions	7,196	19,800	175
Other net non-interest income	(75)	633	(940)
Operating expenses	(2,596)	(3,891)	50
Other provisions	0	0	
Main components of balance sheet closing balances	2018	2019	%
Total assets	16,821	33,688	100
Total shareholders' equity	14,353	24,828	73
Asset under management	2018 HUF billion	2019 HUF billion	%
Assets under management, total (w/o duplicates)[1]	**1,035**	**1,119**	**8**
Volume of investment funds (closing, w/o duplicates)	749	793	6
Volume of managed assets (closing)	286	326	14
Volume of investment funds (closing, with duplicates)[2]	982	1,073	9
bond	217	315	45
security	153	188	23
mixed	55	73	32
guaranteed	32	28	(14)
money market	129	6	(96)
other[3]	395	464	18

[1] The cumulative net asset value of investment funds and managed assets of OTP Fund Management, eliminating the volume of own investment funds (duplications) being managed in other investment funds and managed assets of OTP Fund Management.
[2] The cumulative net asset value of investment funds with duplications managed by OTP Fund Management.
[3] Other funds: absolute return, derivative and commodity market funds.

OTP Fund Management's HUF 15 billion after-tax profit in 2019 was more than three and a half times bigger than a year earlier. This outstanding result was supported by HUF 14 billion success fee revenues recognized in 4Q 2019, which exceeded the amount of total success fees received in the previous four years.

85% of the full-year success fees were related to the OTP Supra derivative investment fund's performance. OTP Supra boasted a yield of nearly 24% in 2019, and the success fee is 20% of the positive difference between the fund's yield and the ZMAX benchmark index. In addition to OTP Supra, the Company's other derivative and mixed funds also excelled.

Full-year operating costs grew by 50% y-o-y, largely as a result of the bonus payments booked in the last quarter of the year.

The market of investment funds underwent significant restructuring in 2019. First, regulatory changes that stipulate substantially stricter operating conditions prompted many fund managers to amend the investment policy of their money market funds, and even to close some of their funds, bringing about a technical shift towards bond funds. In the case of OTP Fund Management, three of the former four money market funds were transformed into short-term bond funds at the beginning of the year, and the remaining one became a money market fund without capital guarantee. Second, the strong demand for the Hungarian Government Security Plus, available since the beginning of June 2019, redirected money from investment funds, particularly from bond funds.

The assets managed by OTP Fund Management partly reflected the effect of the above developments: there was a rearrangement towards bond funds (+45% y-o-y) and equity funds (+23% y-o-y), and a previously most popular category, money market funds, were squeezed out: their volume shrank to HUF 6 billion
(-96% y-o-y) by the end of December. On the other hand, the effect of the new Hungarian Government Security Plus was offset by the positive capital inflow to the Company's derivative funds, chiefly because of OTP Supra's popularity. Overall, the closing volume of the Company's investment funds expanded by 9% y-o-y.

Increasing its market share by 1.3 pps y-o-y to 23.6% by the end of December, OTP Fund Management upheld its market leader position on the securities fund market.

MERKANTIL BANK (HUNGARY)

Performance of Merkantil Bank:

Main components of P&L account	2018 HUF million	2019 HUF million	Change %
After tax profit without the effect of adjustments	7,437	7,115	(4)
Income tax	456	(632)	(239)
Profit before income tax	6,981	7,747	11
Operating profit	6,599	7,372	12
Total income	12,983	14,369	11
Net interest income	13,131	14,013	7
Net fees and commissions	(124)	(104)	(16)
Other net non-interest income	(24)	461	
Operating expenses	(6,384)	(6,997)	10
Total provisions	382	375	(2)
Provision for impairment on loan and placement losses	256	143	(44)
Other provision	126	232	84
Main components of balance sheet closing balances	**2018**	**2019**	**%**
Total assets	404,750	491,399	21
Gross customer loans	321,353	366,064	14
Gross customer loans (FX-adjusted)	322,042	366,064	14
Retail loans	29,658	30,244	2
Corporate loans	104,058	126,422	21
Car financing loans	188,325	209,398	11
Allowances for possible loan losses	(13,853)	(10,072)	(27)
Allowances for possible loan losses (FX-adjusted)	(13,868)	(10,072)	(27)
Deposits from customers	15,180	10,414	(31)
Deposits from customer (FX-adjusted)	15,180	10,414	(31)
Retail deposits	13,307	8,051	(40)
Corporate deposits	1,873	2,364	26
Liabilities to credit institutions	337,136	420,076	25
Total shareholders' equity	37,189	44,441	19
Loan Quality	**2018**	**2019**	**%/pps**
Stage 1 loan volume under IFRS 9 (in HUF million)		345,339	
Stage 1 loans under IFRS 9/gross customer loans		94.3%	
Own coverage of Stage 1 loans under IFRS 9		0.4%	
Stage 2 loan volume under IFRS 9 (in HUF million)		7,459	
Stage 2 loans under IFRS 9/gross customer loans		2.0%	
Own coverage of Stage 2 loans under IFRS 9		4.7%	
Stage 3 loan volume under IFRS 9 (in HUF million)	14,133	13,267	(6)
Stage 3 loans under IFRS 9/gross customer loans	4.4%	3.6%	(0.8)
Own coverage of Stage 3 loans under IFRS 9		63.4%	
Provision for impairment on loan and placement losses/average gross loans	(0.08%)	(0.04%)	0.04
90+ days past due loan volume (in HUF million)	10,204	7,364	(28)
90+ days past due loans/gross customer loans	3.2%	2.0%	(1.2)
Performance Indicators	**2018**	**2019**	**pps**
ROA	1.9%	1.6%	(0.3)
ROE	24.4%	17.4%	(7.0)
Total income margin	3.38%	3.20%	(0.18)
Net interest margin	3.42%	3.12%	(0.29)
Cost/income ratio	49.2%	48.7%	(0.5)

On 30 September 2018 Merkantil Car Ltd. was merged into Merkantil Bank Ltd. and ceased to exist as a separate legal entity. The above table includes the contribution of Merkantil Car for the 2018 base periods, too.

Merkantil Bank posted HUF 7.1 billion adjusted after-tax profit in 2019 (-4% y-o-y); this is consistent with an ROE of 17.4%. Taking into account the increase in the corporate tax burden for 2019, the year-on-year pre-tax profit increase of 11% was largely due to the higher net interest income, while the twelve-month risk costs remained positive.

Net interest income for 2019 increased by 7% y-o-y. The dynamics was positively influenced by the growth of the performing loan portfolio (+15% y-o-y), which was partially offset by the narrowing net interest margin (-29 bps y-o-y). The 10% y-o-y increase in operating expenses was mainly driven by personnel expenses.

Credit quality trends continued to develop favourably: in 2019 the DPD90+ loan portfolio declined by HUF 1 billion (FX-adjusted and excluding the impact of loan sales and write-offs).

At the end of 2019, the ratio of Stage 3 loans was 3.6% (-0.8 pp y-o-y), whereas the own provision coverage of Stage 3 loans was 63.4%. In 2019 HUF 2.3 billion non-performing loans were sold/written off.

Performing (Stage 1+2) loan volumes rose by 15% y-o-y. Total new disbursements increased by 19% y-o-y, including the 19% expansion of new car loans and the 17% growth of the financing of production equipment and machinery. Merkantil Bank retained its market leading position both in terms of new disbursements and outstanding leasing volumes.

IFRS REPORTS OF THE MAIN FOREIGN SUBSIDIARIES OF OTP BANK

DSK GROUP (BULGARIA)

Performance of DSK Group:

Main components of P&L account	2018 HUF million	2019 HUF million	Change %
After tax profit without the effect of adjustments	47,293	67,879	44
Income tax	(4,308)	(7,199)	67
Profit before income tax	51,601	75,078	45
Operating profit	57,096	83,495	46
Total income	107,817	155,567	44
Net interest income	69,979	109,030	56
Net fees and commissions	30,435	42,019	38
Other net non-interest income	7,403	4,517	(39)
Operating expenses	(50,720)	(72,071)	42
Total provisions	(5,495)	(8,418)	53
Provision for impairment on loan and placement losses	(9,532)	(5,216)	(45)
Other provision	4,038	(3,201)	(179)
Main components of balance sheet closing balances	**2018**	**2019**	**%**
Total assets	2,381,275	3,669,766	54
Gross customer loans	1,343,729	2,350,694	75
Gross customer loans (FX-adjusted)	1,381,368	2,350,694	70
Retail loans	958,860	1,446,035	51
Corporate loans	422,508	863,331	104
Car financing loans		41,327	
Allowances for possible loan losses	(111,369)	(135,640)	22
Allowances for possible loan losses (FX-adjusted)	(114,487)	(135,640)	18
Deposits from customers	1,890,897	3,015,805	59
Deposits from customers (FX-adjusted)	1,946,301	3,015,805	55
Retail deposits	1,702,923	2,528,233	48
Corporate deposits	243,378	487,572	100
Liabilities to credit institutions	3,144	59,867	
Total shareholders' equity	453,891	528,759	16
Loan Quality	**2018**	**2019**	**%/pps**
Stage 1 loan volume under IFRS 9 (in HUF million)		2,081,790	
Stage 1 loans under IFRS 9/gross customer loans		88.6%	
Own coverage of Stage 1 loans under IFRS 9		1.1%	
Stage 2 loan volume under IFRS 9 (in HUF million)		99,917	
Stage 2 loans under IFRS 9/gross customer loans		4.3%	
Own coverage of Stage 2 loans under IFRS 9		8.5%	
Stage 3 loan volume under IFRS 9 (in HUF million)	141,513	168,986	19
Stage 3 loans under IFRS 9/gross customer loans	10.5%	7.2%	(3.3)
Own coverage of Stage 3 loans under IFRS 9		62.0%	
Provision for impairment on loan and placement losses/average gross loans	0.74%	0.24%	(0.51)
90+ days past due loan volume (in HUF million)	89,986	108,600	21
90+ days past due loans/gross customer loans	6.7%	4.6%	(2.1)
Performance Indicators	**2018**	**2019**	**pps**
ROA	2.3%	1.9%	(0.4)
ROE	18.4%	13.7%	(4.7)
Total income margin	5.20%	4.28%	(0.92)
Net interest margin	3.37%	3.00%	(0.37)
Cost/income ratio	47.0%	46.3%	(0.7)
Net loans to deposits (FX-adjusted)	65%	73%	8
FX rates	**2018 HUF**	**2019 HUF**	**Change %**
HUF/BGN (closing)	164.4	169.0	3
HUF/BGN (average)	163.0	166.3	2

- ***The financial closure of the Expressbank deal was completed on 15 January 2019, thus the 2019 financial statements included the full-year contribution of the Express Group***
- ***The Bulgarian banking group generated HUF 67.9 billion adjusted profit in 2019, of which Express Group's contribution amounted to HUF 17.9 billion. The return on equity ratio was 13.7%***
- ***Part of the erosion in the full-year net interest margin was due to the dilution effect of Expressbank's lower margin***
- ***Stage1+2 loans grew by an FX-adjusted 77% in 2019, of which organic growth amounted to 12%. Deposits rose by 9% organically***

The 2019 financial statements of DSK Group include the full-year contribution of Expressbank and its subsidiaries. The Bulgarian P&L account was adjusted for the one-off items directly related to the acquisition; these corrections are shown at consolidated level among the adjustment items. The balance sheet items were not adjusted for the acquisition effects.

Starting from 2019, DSK Leasing is presented as part of the Bulgarian operation. The performance in the 2018 base period does not include DSK Leasing's contribution; then DSK Leasing was presented under Foreign Leasing Companies. The adjusted after-tax profit of DSK Leasing in 2019 amounted to HUF 0.9 billion; at the end of 2019 its Stage 1+2 loan volumes amounted to HUF 20 billion, while the number of employees was 19 (on FTE basis).

In 2019, **DSK Group** posted HUF 67.9 billion after-tax profit (+44%), of which Express Group's contribution was HUF 17.9 billion in full year 2019. Thus, the Bulgarian operation's annual profit increased by 4% y-o-y even without Expressbank's contribution and the inclusion of DSK Leasing.

Based on total assets, the market share of OTP's Bulgarian operation stood at 19.5% at the end of December 2019 on *pro-forma* basis.

The total number of branches in Bulgaria has declined by 28 units (-6%) since 1Q 2019, which already included Expressbank's branches. Headcount decreased by 206 people, or 3%, since 1Q.

The y-o-y dynamics of balance sheet and P&L lines were predominantly determined by the consolidation of Expressbank and its subsidiaries.

The full-year operating profit of the Bulgarian operation jumped by 46%, or HUF 26.4 billion, practically by the same as the amount delivered by Expressbank and DSK Leasing.

Total annual income expanded by 44% (or by 2% without the inclusion of Expressbank and DSK Leasing), largely driven by net interest income (+56%, or +9% without the inclusion of Expressbank and DSK Leasing). The annual net interest margin shrank by 37 bps, partly because of the dilution effect stemming from the lower margin of the newly consolidated Express Group, and due to the continued margin erosion at DSK Bank (without Expressbank).

The reasons for the drop in full-year other net non-interest income was partially the decline in the swap result booked within other income (-HUF 2.3 billion y-o-y), as well as the deterioration in the foreign exchange result, while Expressbank and DSK Leasing generated a combined HUF 2 billion other income in 2019.

Full-year operating costs were up 5% without the acquisition and leasing inclusion effect, mostly as a result of higher personnel, real-estate-related, as well as hardware and office equipment costs.

In 2019 a total risk cost of HUF 8.4 billion weighed on the profit, 53% more than in 2018. This increase was related to other risk costs, since following the release in 2018, HUF 3.2 billion other risk cost was created in 2019, largely in connection with some off-balance sheet items. The other component of total risk costs, the provision for impairment on loan and placement losses fell by 45% in 2019 from the previous year, thus the full-year credit risk cost rate amounted to 24 bps (-51 bps y-o-y).

Credit quality indicators continued to develop favourably. The FX-adjusted DPD90+ volumes without loan sales and write-offs increased by HUF 8 billion in 2019 (on top of that, the technical effect of Expressbank's inclusion caused HUF 9 billion growth). In 2019 HUF 9 billion problem loans were sold or written off. The ratio of Stage 3 loans stood at 7.2% at the end of December, marking a 3.3 pps y-o-y improvement. The own provision coverage of Stage 3 loans was at 62.0% at the end of the year.

As a result of the acquisition, Stage 1+2 (performing) loans grew by an FX-adjusted 77% y-o-y; or, excluding the acquisition and the leasing inclusion, by 12%. In addition to the organic growth in the stock of loans, new placements also indicate that, in terms of business activity, the Bulgarian operation remained on a growth path even during the on-going integration project: without Expressbank, new cash loan sales grew by 20%, and mortgage loan disbursements rose by 3% y-o-y in the course of 2019.

Overall, deposits grew by 55% in 2019; without the Expressbank acquisition they rose by 9% (FX-adjusted). Net loan/deposit ratio (73%) was up 8 pps y-o-y, largely because of the Expressbank-related composition effect.

At the end of 2019 the capital adequacy ratio of DSK Bank, which owns Expressbank's shares, was 27.2% according to local rules.

OTP BANKA HRVATSKA (CROATIA)

Performance of OTP banka Hrvatska:

Main components of P&L account	2018 HUF million	2019 HUF million	Change %
After tax profit without the effect of adjustments	24,961	30,719	23
Income tax	(5,638)	(6,681)	19
Profit before income tax	30,599	37,400	22
Operating profit	35,456	42,925	21
Total income	78,295	85,069	9
Net interest income	54,059	56,812	5
Net fees and commissions	16,042	17,032	6
Other net non-interest income	8,194	11,225	37
Operating expenses	(42,840)	(42,144)	(2)
Total provisions	(4,857)	(5,525)	14
Provision for impairment on loan and placement losses	(3,046)	(2,835)	(7)
Other provision	(1,811)	(2,691)	49
Main components of balance sheet closing balances	**2018**	**2019**	**%**
Total assets	1,837,158	2,098,951	14
Gross customer loans	1,178,848	1,370,057	16
Gross customer loans (FX-adjusted)	1,210,053	1,370,057	13
Retail loans	680,186	741,016	9
Corporate loans	511,651	562,612	10
Car financing loans	18,217	66,428	265
Allowances for possible loan losses	(71,186)	(68,701)	(3)
Allowances for possible loan losses (FX-adjusted)	(73,019)	(68,701)	(6)
Deposits from customers	1,424,746	1,478,223	4
Deposits from customers (FX-adjusted)	1,465,168	1,478,223	1
Retail deposits	1,080,602	1,111,988	3
Corporate deposits	384,566	366,235	(5)
Liabilities to credit institutions	85,702	253,176	195
Total shareholders' equity	269,126	292,649	9
Loan Quality	**2018**	**2019**	**%/pps**
Stage 1 loan volume under IFRS 9 (in HUF million)		1,140,495	
Stage 1 loans under IFRS 9/gross customer loans		83.2%	
Own coverage of Stage 1 loans under IFRS 9		0.8%	
Stage 2 loan volume under IFRS 9 (in HUF million)		143,843	
Stage 2 loans under IFRS 9/gross customer loans		10.5%	
Own coverage of Stage 2 loans under IFRS 9		3.5%	
Stage 3 loan volume under IFRS 9 (in HUF million)	89,059	85,719	(4)
Stage 3 loans under IFRS 9/gross customer loans	7.6%	6.3%	(1.3)
Own coverage of Stage 3 loans under IFRS 9		63.6%	
Provision for impairment on loan and placement losses/average gross loans	0.26%	0.22%	(0.04)
90+ days past due loan volume (in HUF million)	65,011	51,012	(22)
90+ days past due loans/gross customer loans	5.5%	3.7%	(1.8)
Performance Indicators	**2018**	**2019**	**pps**
ROA	1.4%	1.6%	0.2
ROE	9.6%	10.9%	1.3
Total income margin	4.27%	4.35%	0.08
Net interest margin	2.95%	2.91%	(0.04)
Cost/income ratio	54.7%	49.5%	(5.2)
Net loans to deposits (FX-adjusted)	78%	88%	10
FX rates	**2018 HUF**	**2019 HUF**	**Change %**
HUF/HRK (closing)	43.4	44.4	2
HUF/HRK (average)	43.0	43.9	2

- ***The HUF 30.7 billion full-year after-tax profit, which was consistent with 10.9% ROE, was coupled with higher operating profit and improving cost efficiency***
- ***Full-year net interest income grew by 5% y-o-y, fuelled by credit growth, amid slightly eroding net interest margin***
- ***The volume of Stage 1+2 loans grew by 6% y-o-y (FX-adjusted, adjusting for the leasing inclusion), largely because of the intensifying consumer lending***

In December 2018 the integration of Splitska banka was successfully completed: Splitska banka d.d. was incorporated into OTP banka Hrvatska d.d., and the business and technology merger was accomplished.

The Croatian P&L account was adjusted for the one-off items related to the acquisition; these corrections are shown at consolidated level among the adjustment items. The balance sheet items were not adjusted for the acquisition effect

Starting from 2019, the financial statements of OTP Leasing d.d are presented as part of the OBH Group. The performance in the 2018 base period did not include the contribution of OTP Leasing d.d; then OTP Leasing d.d. was presented under Foreign Leasing Companies. The adjusted after-tax profit of OTP Leasing d.d. in 2019 was near HUF 1 billion. At the end of December 2019 the volume of Stage 1+2 loans at the leasing company totalled HUF 105 billion, and the number of employees (on FTE basis) was 121.

The **Croatian operation** posted HUF 30.7 billion after-tax profit in 2019 (+23% y-o-y), which is consistent with 10.9% return on equity. Had the Croatian leasing company been included in the 2018 base as part of the Croatian operation, the annual profit growth would have been 17%.

The full-year net interest income increased by 5% y-o-y (but dropped by 1% y-o-y compared with the basis including the leasing company). Although the FX-adjusted Stage 1+2 loans, chiefly driven by consumer loans, expanded by 6% y-o-y adjusted for the leasing inclusion, a decline in consumer loan interest rates reduced net interest margin by 5 bps y-o-y to 2.91%.

The annual net fee and commission income grew by 6% (or by 3% if the leasing was included in the 2018 base period), mostly because of a rise in bank account keeping fees and transaction commission income, as well as higher deposits and cards-related commissions.

The annual operating expenses declined by 4% y-o-y in local currency terms (compared to the basis adjusted for leasing companies, it dropped by 8% in local currency). As a result of the integration process, the average number of full-time employees dropped by 6% y-o-y (to 2,251 people by the end of December). In 2019 further 8 branches were closed within the framework of branch rationalisation, after the closure of 53 units in 2018. At the end of 2019, the network consisted of 136 units.

Overall, the Croatian operation's full-year cost/income ratio dropped by 5.2 pps y-o-y to 49.5%.

Of the HUF 5.5 billion risk cost that weighed on profit in 2019. In 2019 as a whole, provision for impairment on loan losses was 7% less than a year earlier, and the full-year credit risk cost rate declined by 4 bps y-o-y to 22 bps. The y-o-y rise in other risk costs was related to litigations and to risks costs for large corporate guarantees.

Regarding business activity, performing (Stage 1+2) loans expanded by an FX-adjusted 6% y-o-y compared with the basis adjusted for leasing companies. The new disbursement dynamics of personal loans and mortgage loans increased in y-o-y terms.

At the end of 2019, Stage 3 loans made up 6.3% of total gross loan volumes, which corresponds to 1.3 pps y-o-y improvement. The own coverage of Stage 3 loans represented 63.6%.

FX-adjusted deposit volumes stagnated in y-o-y comparison. In the large corporate segment, which makes up nearly a quarter of the total, sight deposit volumes contracted, while in the retail segment there was a shift from term to sight deposits. The FX-adjusted net loan/deposit ratio grew to 88%.

OTP BANK SERBIA

Performance of OTP Bank Serbia:

Main components of P&L account	2018 HUF million	2019 HUF million	Change %
After tax profit without the effect of adjustments	2,999	10,430	248
Income tax	(138)	459	(433)
Profit before income tax	3,137	9,970	218
Operating profit	6,227	13,143	111
Total income	30,306	43,276	43
Net interest income	20,514	30,809	50
Net fees and commissions	7,286	9,506	30
Other net non-interest income	2,507	2,962	18
Operating expenses	(24,079)	(30,133)	25
Total provisions	(3,090)	(3,173)	3
Provision for impairment on loan and placement losses	(3,146)	(1,634)	(48)
Other provision	56	(1,539)	
Main components of balance sheet closing balances	2018	2019	%
Total assets	590,166	1,659,483	181
Gross customer loans	395,217	1,199,580	204
Gross customer loans (FX-adjusted)	407,642	1,199,580	194
Retail loans	191,970	573,101	199
Corporate loans	215,671	581,658	170
Allowances for possible loan losses	(14,774)	(18,904)	28
Allowances for possible loan losses (FX-adjusted)	(15,278)	(18,904)	24
Deposits from customers	372,961	910,623	144
Deposits from customer (FX-adjusted)	384,772	910,623	137
Retail deposits	268,791	548,472	104
Corporate deposits	115,981	362,150	212
Liabilities to credit institutions	117,169	436,449	272
Subordinated debt	0	24,460	(100)
Total shareholders' equity	84,848	249,461	194
Loan Quality	2018	2019	%/pps
Stage 1 loan volume under IFRS 9 (in HUF million)		1,151,763	
Stage 1 loans under IFRS 9/gross customer loans		96.0%	
Own coverage of Stage 1 loans under IFRS 9		0.4%	
Stage 2 loan volume under IFRS 9 (in HUF million)		21,447	
Stage 2 loans under IFRS 9/gross customer loans		1.8%	
Own coverage of Stage 2 loans under IFRS 9		5.8%	
Stage 3 loan volume under IFRS 9 (in HUF million)	18,819	26,370	40
Stage 3 loans under IFRS 9/gross customer loans	4.8%	2.2%	(2.6)
Own coverage of Stage 3 loans under IFRS 9	61.7%	50.0%	
Provision for impairment on loan and placement losses/average gross loans	0.90%	0.25%	(0.65)
90+ days past due loan volume (in HUF million)	15,322	20,702	35
90+ days past due loans/gross customer loans	3.9%	1.7%	(2.2)
Performance Indicators	2018	2019	pps
ROA	0.6%	1.1%	0.6
ROE	3.7%	7.6%	3.9
Total income margin	5.84%	4.70%	(1.14)
Net interest margin	3.95%	3.35%	(0.61)
Cost/income ratio	79.5%	69.6%	(9.8)
Net loans to deposits (FX-adjusted)	102%	130%	28
FX rates	2018 HUF	2019 HUF	Change %
HUF/RSD (closing)	2.7	2.8	3
HUF/RSD (average)	2.7	2.8	2

- ***On 24 September the financial closure of the new acquisition in Serbia was completed, thus OTP became the second largest player in the local market***
- ***The Serbian banking group generated HUF 10.4 billion adjusted profit; the bank bought from Societe Générale contributed to this by HUF 5 billion in 4Q***
- ***The full-year net interest margin dropped by 61 bps y-o-y, partly reflecting the diluting effect of the lower margin of the newly acquired bank***
- ***The FX-adjusted volume of Stage 1+2 loans tripled y-o-y, within which organic growth amounted to 19% in comparison with the basis adjusted for leasing inclusion. The increase in FX-adjusted deposits reflected the effect of the acquisition***

On 24 September the financial closure of the Societe Generale banka Srbija transaction, announced on 20 December 2018, was completed. As a result, OTP Bank became 100% owner of the Serbian subsidiary of Societe Generale Group and its subsidiaries. Following the transaction, the name of the acquired bank was changed to OTP banka Srbija.
The Serbian operation's full-year 2019 consolidated financial statements include the acquired bank's figures starting from September, but only its 4Q contribution was presented in OTP Group's P&L account.

The Serbian P&L statement was adjusted for the one-off items related to the acquisitions; these corrections are presented at consolidated level, among adjustment items. The balance sheet items were not adjusted for these effects.

Starting from 2019, OTP Lizing d.o.o is presented as part of the Serbian operation. The performance in the 2018 base period did not include the contribution of OTP Lizing d.o.o.; then OTP Lizing d.o.o. was presented as part of the Foreign Leasing Companies. The full-year 2019 adjusted after-tax profit of OTP Lizing d.o.o. amounted to HUF 145 million. At the end of December 2019, Stage 1+2 loans totalled HUF 28 billion, while the number of employees was 33 (on FTE basis).

The loss recognized during the reporting period relating to the conversion of outstanding CHF mortgage loans to EUR loans at customers' request, commenced in April and closed on 19 July, was shown at consolidated level among the adjustment items.

OTP Bank Serbia (which includes the results of Vojvodjanska banka, OTP banka Srbija, as well as of OTP Factoring Serbia d.o.o. and OTP Lizing d.o.o.) generated HUF 10.4 billion after-tax profit in 2019; within that the newly acquired bank's contribution was HUF 5 billion in the fourth quarter.

Following the financial closure of the acquisition at the end of September, the Serbian operation's total market share by balance sheet total jumped to 13.7% on pro forma basis, according to the latest available data, at the end of September 2019. The acquisition added 93 units to the network, bringing the total number of branches to 240. Of the total headcount of 3,162 at the end of December, the acquired banks added 1,290 workers (on FTE basis).

The y-o-y dynamics of balance sheet lines were primarily shaped by the acquisition. At the end of December, the acquired bank's gross loan volume amounted to HUF 732 billion, its performing loans (Stage 1+2 under IFRS 9) reached HUF 723 billion, while customer deposits totalled HUF 525 billion, the balance sheet total hit HUF 998 billion. The newly consolidated bank is an active player in the retail and corporate segment, as well.

The Serbian banking group's operating profit (HUF 13 billion) doubled in y-o-y terms; the growth practically reflects the effect of the acquisition.

The annual total income surged by 43% (it stagnated without the acquisition and the inclusion of the leasing company). Net interest income jumped by 50% y-o-y, while net interest margin dropped by 61 bps, partially due the lower margin of the newly acquired bank and due to technical effect: only 3 months P&L contribution from the newly acquired bank was included in the Group, but its volumes were incorporated as at the end of September, thus the acquisition diluted the margin. Regarding the underlying processes, the erosion of the margin continued in 4Q, partly reflecting the lower interest environment in the aftermath of step-by-step cuts of the benchmark rate.

Overall, full-year operating cost level rose by one quarter, but without the effect of the acquisition and the inclusion of the leasing company, it remained at the 2018 level y-o-y.

The cost/income ratio has significantly improved in both y-o-y terms.

In 2019 altogether HUF 3 billion risk cost weighed on the profit (+3% y-o-y). Most of the full-year risk cost was recognized in 4Q, partly because the parameters for PD and LGD, as well as for the macroeconomic environment, were revised in the IFRS 9 provisioning models, which resulted in one-off additional provisioning in the fourth quarter. Other risk costs amounted to -HUF 1.5 billion, mostly because of contingent liabilities relating to litigations, mainly in the fourth quarter.

The share of Stage 3 loans dropped to 2.2% by the end of December. The coverage of Stage 3 loans dropped by 11.7 ppts to 50%. The reason for the latter, and also for the significantly declining Stage 3 ratio was that during the consolidation of the newly acquired bank, Stage 3 volumes were netted with the related provisions.

The lending activity intensified in 2019. The performing (Stage 1+2) loan volumes doubled, within that organic growth represented 16%.

On top of the 3% y-o-y organic growth, FX-adjusted deposit volumes expanded to more than 2.5 fold as a result of the acquisition.

Consequently, due to the above developments the Serbian operation's net loan/deposit ratio edged up to 130%.

SKB BANKA (SLOVENIA)

Performance of SKB Banka (Slovenia):

Main components of P&L account	2019 HUF million
After tax profit w/o dividends and net cash transfer	-
Income tax	-
Profit before income tax	-
Operating profit	-
Total income	-
Net interest income	-
Net fees and commissions	-
Other net non-interest income	-
Operating expenses	-
Total provisions	-
Provision for impairment on loan and placement losses	-
Other provision	-
Main components of balance sheet closing balances	**2019**
Total assets	1,130,871
Gross customer loans	831,139
Gross customer loans (FX-adjusted)	831,139
Retail loans	489,134
Corporate loans	225,942
Car financing loans	116,062
Allowances for possible loan losses	(4,051)
Allowances for possible loan losses (FX-adjusted)	(4,051)
Deposits from customers	880,839
Deposits from customers (FX-adjusted)	880,839
Retail deposits	773,337
Corporate deposits	107,225
Liabilities to credit institutions	94,909
Total shareholders' equity	132,667
Loan Quality	**2019**
Stage 1 loan volume under IFRS 9 (in HUF million)	822,118
Stage 1 loans under IFRS 9/gross customer loans	98.9%
Own coverage of Stage 1 loans under IFRS 9	0.4%
Stage 2 loan volume under IFRS 9 (in HUF million)	0
Stage 2 loans under IFRS 9/gross customer loans	0.0%
Own coverage of Stage 2 loans under IFRS 9	0.0%
Stage 3 loan volume under IFRS 9 (in HUF million)	9,020
Stage 3 loans under IFRS 9/gross customer loans	1.1%
Own coverage of Stage 3 loans under IFRS 9	8.7%
Provision for impairment on loan and placement losses/average gross loans	-
90+ days past due loan volume (in HUF million)	2,967
90+ days past due loans/gross customer loans	0.4%
Performance Indicators	**2019**
ROA	-
ROE	-
Total income margin	-
Net interest margin	-
Cost/income ratio	-
Net loans to deposits (FX-adjusted)	94%
FX rates	**2019 HUF**
HUF/EUR (closing)	330.5
HUF/EUR (average)	331.9

- ***The Slovenian subsidiary (SKB Banka) was consolidated in December 2019, therefore its results will be consolidated only from 1Q 2020***
- ***The Stage 3 ratio stood at 1.1% at the end of 2019***
- ***The net loan-to-deposit ratio reached 94%***

In line with the purchase agreement signed on 3 May 2019 by OTP Bank Plc. and the Societe Generale Group, the financial closure of the transaction was completed on 13 December 2019. As a result, OTP Bank has become the 99.73% owner of SKB Banka. Upon the request of the seller, OTP Bank does not disclose the purchase price.

The end-2019 balance sheet of the Slovenian bank was consolidated but its result will be presented in OTP Group's P&L account starting from 2020 (in the reporting period, the realized profit was accounted for directly against the equity).

OTP's **Slovenian** subsidiary is the fourth largest bank in Slovenia by balance sheet total, with nearly 9% market share. SKB Banka had 53 branches and had 863 employees (on FTE basis) at the end of December 2019.

The bank's balance sheet total amounted to HUF 1.131 billion, its gross loans made up HUF 831 billion, and customer deposits totalled HUF 881 billion at the end of 2019. At the end of 2019 Stage 3 loans represented 1.1% of gross loan volumes. The own provision coverage of Stage 3 loans stood at 8.7% – Stage 3 loans were netted with provisions upon the Slovenian bank's consolidation. If this netting hadn't happened, the own coverage of Stage 3 loans would have been 63.5%.

At the end of 2019 the Stage 2 loan volumes amounted to zero because in the opening balance the Stage 2 volumes were moved to Stage 1 category, and the provisioning level was also aligned with that.

OTP BANK ROMANIA

Performance of OTP Bank Romania:

Main components of P&L account	2018 HUF million	2019 HUF million	Change %
After tax profit without the effect of adjustments	3,850	6,309	64
Income tax	(1,051)	(598)	(43)
Profit before income tax	4,902	6,906	41
Operating profit	10,585	12,314	16
Total income	30,759	37,530	22
Net interest income	23,410	28,254	21
Net fees and commissions	3,563	3,180	(11)
Other net non-interest income	3,786	6,097	61
Operating expenses	(20,174)	(25,216)	25
Total provisions	(5,683)	(5,408)	(5)
Provision for impairment on loan and placement losses	(4,794)	(3,018)	(37)
Other provision	(890)	(2,390)	169
Main components of balance sheet closing balances	**2018**	**2019**	**%**
Total assets	771,968	953,345	23
Gross customer loans	577,565	708,299	23
Gross customer loans (FX-adjusted)	585,678	708,299	21
Retail loans	403,463	479,401	19
Corporate loans	182,214	216,843	19
Allowances for possible loan losses	(35,444)	(39,327)	11
Allowances for possible loan losses (FX-adjusted)	(36,141)	(39,327)	9
Deposits from customers	434,937	546,350	26
Deposits from customers (FX-adjusted)	439,305	546,350	24
Retail deposits	335,514	409,728	22
Corporate deposits	103,791	136,623	32
Liabilities to credit institutions	232,391	257,404	11
Total shareholders' equity	60,047	116,432	94
Loan Quality	**2018**	**2019**	**%/pps**
Stage 1 loan volume under IFRS 9 (in HUF million)		593,922	
Stage 1 loans under IFRS 9/gross customer loans		83.9%	
Own coverage of Stage 1 loans under IFRS 9		1.3%	
Stage 2 loan volume under IFRS 9 (in HUF million)		61,556	
Stage 2 loans under IFRS 9/gross customer loans		8.7%	
Own coverage of Stage 2 loans under IFRS 9		5.7%	
Stage 3 loan volume under IFRS 9 (in HUF million)	51,771	52,821	2
Stage 3 loans under IFRS 9/gross customer loans	9.0%	7.5%	(1.5)
Own coverage of Stage 3 loans under IFRS 9		53.7%	
Provision for impairment on loan and placement losses/average gross loans	0.85%	0.47%	(0.39)
90+ days past due loan volume (in HUF million)	29,583	35,416	19.7
90+ days past due loans/gross customer loans	5.1%	5.0%	(0.1)
Performance Indicators	**2018**	**2019**	**pps**
ROA	0.6%	0.7%	0.2
ROE	7.5%	6.6%	(0.9)
Total income margin	4.46%	4.37%	(0.09)
Net interest margin	3.39%	3.29%	(0.11)
Cost/income ratio	65.6%	67.2%	1.6
Net loans to deposits (FX-adjusted)	125%	122%	(3)
FX rates	**2018 HUF**	**2019 HUF**	**Change %**
HUF/RON (closing)	69.0	69.1	0
HUF/RON (average)	68.5	68.6	0

- ***The Romanian operation generated a profit of HUF 6.3 billion in 2019 (+64% y-o-y)***
- ***The annual operating profit improved by 16% as a result of 22% increase in total income and 25% growth of operating costs***
- ***The 23% y-o-y FX-adjusted growth of Stage 1+2 loans was supported by strong mortgage and corporate credit dynamics***
- ***As a result of dynamic deposit expansion (+24% y-o-y adjusted) the net loan-to-deposit ratio improved***

Starting from 2019, the financial statements of OTP Leasing Romania are presented as part of OTP Bank Romania. The performance in the 2018 base period does not comprise OTP Leasing Romania's contribution; it was then presented as part of Foreign leasing companies. The adjusted after-tax profit of OTP Leasing Romania in 2019 was -HUF 0.4 billion; its Stage 1+2 loan volumes amounted to HUF 27.6 billion, and the number of employees was 49 (on FTE basis) at the end of 2019.

In the 2019, **OTP Bank Romania** generated HUF 6.3 billion after-tax profit, a 64% increase compared to the base period. The annual operating profit grew by 16%, as a result of 22% increase in total income, and 25% growth in operating expenses. The 21% y-o-y improvement in net interest income was largely supported by the strong dynamics in performing (Stage 1+2) loan volumes, while the net interest margin slightly dropped (-11 bps).

The annual net fees and commissions declined by 11% y-o-y. The downtrend can be explained by the base effect of product-specific factors[3]. The twelve month other net non-interest income grew by 61%, which was driven by unrealized gains on inter-group derivative transactions and higher FX gains.

In 2019 operating costs surged by 25% y-o-y. The year-on-year and fourth-quarter cost increases were partly due to the Bank's growth strategy: higher personnel costs were driven by both general wage inflation and the 18% increase in average headcount (excluding OTP Leasing Romania +14%). In addition, the Bank paid higher sales commissions for the increased disbursements. Administrative expenses surged as a combined effect of stronger business activity, higher expert fees in relation to the implementation of the Bank's growth strategy, and charges paid to supervisory authorities.

Regarding loan quality, in 2019 DPD90+ loans (FX-adjusted, without sales and write-offs) rose by HUF 8 billion, whereas in 2018 a decrease of HUF 2 billion was registered. Large part of the deterioration was attributable to corporate loans falling into the DPD90+ category during 2Q 2019.

The ratio of Stage 3 loans to total gross loans was 7.5% (-1.5 pps y-o-y). Reasons for the lower ratio included selling and writing off of bad loans; the ratio's decline was also supported by the higher gross loan volumes.

Risk costs showed a 5% y-o-y decrease, within that provisions on loans diminished by 37%. The 2019 other risk cost figure was adversely affected by an item emerged in 3Q: in the third quarter of 2019, the Romanian factoring company, OTP Factoring SRL (which is presented as part of the Romanian operation) injected capital into some of its subsidiaries because of their negative own capital, consequently an impairment was booked which appeared in the Romanian result because these subsidiaries were out of the scope of consolidation.

The 94% y-o-y rise in shareholders' equity was attributable to fact that OTP Bank Romania received a RON 320 million (about HUF 22 billion) capital increase by its parent bank in the third quarter.

Business activity has meaningfully intensified along the Bank's organic growth strategy: mortgage lending surged by 74% y-o-y, so their FX-adjusted performing (Stage 1+2) volume increased by 21% y-o-y, while the cash loan volumes rose by 15% y-o-y. Performing (Stage 1+2) MSE loans increased by 32% y-o-y and corporate exposures by 17%.

The FX-adjusted deposit volumes increased by 24% y-o-y, driven by both the retail and corporate segments. Net loan-to-deposit ratio stood at 122% at the end of 4Q (-3 pps y-o-y).

In the fourth quarter HUF 373 million bank tax was recognized, which was presented on consolidated level among adjustments, therefore it did not appear in the Romanian adjusted income statement.

[3] Customers received bonuses, booked as fee expense, after certain banking products, if they managed to fulfil contractual conditions. In 2018 the amount of bonuses was lower due to non-fulfilment of contractual conditions, which resulted in higher fee expense y-o-y.

OTP BANK UKRAINE

Performance of OTP Bank Ukraine:

Main components of P&L account	2018 HUF million	2019 HUF million	Change %
After tax profit without the effect of adjustments	24,415	35,223	44
Income tax	(4,760)	(6,937)	46
Profit before income tax	29,175	42,160	45
Operating profit	30,095	44,353	47
Total income	47,145	67,451	43
Net interest income	33,040	48,128	46
Net fees and commissions	11,444	14,877	30
Other net non-interest income	2,661	4,446	67
Operating expenses	(17,050)	(23,098)	35
Total provisions	(920)	(2,194)	138
Provision for impairment on loan and placement losses	(1,680)	(1,433)	(15)
Other provision	760	(761)	
Main components of balance sheet closing balances	**2018**	**2019**	**%**
Total assets	391,240	646,295	65
Gross customer loans	354,258	468,715	32
Gross customer loans (FX-adjusted)	407,119	468,715	15
Retail loans	149,345	155,012	4
Corporate loans	226,925	268,800	18
Car financing loans	30,849	44,903	46
Allowances for possible loan losses	(72,753)	(69,785)	(4)
Allowances for possible loan losses (FX-adjusted)	(82,627)	(69,785)	(16)
Deposits from customers	269,832	431,944	60
Deposits from customers (FX-adjusted)	312,645	431,944	38
Retail deposits	140,346	189,125	35
Corporate deposits	172,299	242,819	41
Liabilities to credit institutions	48,197	79,331	65
Subordinated debt	4,903	5,397	10
Total shareholders' equity	57,821	109,128	89
Loan Quality	**2018**	**2019**	**%/pps**
Stage 1 loan volume under IFRS 9 (in HUF million)		345,955	
Stage 1 loans under IFRS 9/gross customer loans		73.8%	
Own coverage of Stage 1 loans under IFRS 9		0.9%	
Stage 2 loan volume under IFRS 9 (in HUF million)		41,847	
Stage 2 loans under IFRS 9/gross customer loans		8.9%	
Own coverage of Stage 2 loans under IFRS 9		8.3%	
Stage 3 loan volume under IFRS 9 (in HUF million)	88,604	80,913	(9)
Stage 3 loans under IFRS 9/gross customer loans	25.0%	17.3%	(7.7)
Own coverage of Stage 3 loans under IFRS 9		77.9%	
Provision for impairment on loan and placement losses/average gross loans	0.51%	0.34%	(0.16)
Provision for impairment on loan and placement losses/average (FX-adjusted) gross loans	0.46%	0.33%	(0.13)
90+ days past due loan volume (in HUF million)	53,534	51,913	(3)
90+ days past due loans/gross customer loans	15.1%	11.1%	(4.0)
Performance Indicators	**2018**	**2019**	**pps**
ROA	6.8%	7.0%	0.2
ROE	55.6%	42.5%	(13.1)
Total income margin	13.15%	13.38%	0.23
Net interest margin	9.21%	9.55%	0.33
Cost/income ratio	36.2%	34.2%	(1.9)
Net loans to deposits (FX-adjusted)	104%	92%	(11)
FX rates	**2018 HUF**	**2019 HUF**	**Change %**
HUF/UAH (closing)	10.1	12.4	23
HUF/UAH (average)	9.9	11.3	14

- ***The Ukrainian subsidiary posted the highest ROE within subsidiary banks across the Group (42.5%); annual profit reached HUF 35.2 billion***
- ***2019 profit after tax increased by 27% y-o-y in UAH terms mainly due to improving operating profit and moderate risk cost***
- ***The Ukrainian subsidiary excelled itself as the only bank within OTP Group posting improving annual net interest margin***
- ***The Stage 3 ratio declined a by 7.7 pps to 17.3% y-o-y on the back of non-performing asset sale and write-offs, as well as expanding gross loan volumes***
- ***Performing (Stage 1+2) loan volumes advanced by 27% y-o-y (FX-adjusted)***

The financial performance and indicators of OTP Bank Ukraine in HUF terms were affected by the HUF/UAH exchange rate moves: in 2019 the closing rate of UAH appreciated by 23% y-o-y against the HUF, while the annual average rate strengthened 14% y-o-y. As a result, there are some differences in local currency P&L and balance sheets dynamics versus those in HUF terms.

OTP Bank Ukraine posted all-time high HUF 35.2 billion after tax profit in 2019 underpinning a 44% increase against the base period (+27% in local currency terms). The annual ROE reached 42.5% the highest among subsidiary banks across the Group.

Given the significant HUF/UAH FX rate moves y-o-y, we rather analyse the P&L developments in UAH terms.

The annual operating result surged by 30% y-o-y in UAH terms as a result of the steady expansion of business volumes. Net interest income surged by 28% y-o-y, whereas net fee and commission income grew by 14% and other net non-interest income jumped one and a half times. At the same time operating expenses advanced by 19% y-o-y.

NII dynamics y-o-y were favourably affected by the fact that the average loan portfolio grew faster than the average deposit base. It was also positive, that the average interest income on credit card, leasing and large enterprise exposures improved, whereas there was a declining trend at cash loans and POS-loans. The annual NIM increased to 9.55% (+0.33 pp y-o-y): the mix of outstanding loans gradually shifted towards higher margin consumer loans, while the policy rate was cut by 4.5% during 2019 through several steps.

Annual net F&C income jumped by 14% y-o-y in 2019 supported mainly by corporate transactions and card related retail fee income, but the increase in deposit volumes had its positive effect, too.

Operating expenses in UAH terms increased by 19% y-o-y in 2019 with an average inflation of 8%. This was mainly driven by higher personnel expenses as a result of wage increase and 1.5% higher average number of employees, as well as higher operational expenses induced by stronger business activity.

Despite higher operating expenses, the cost-to-income ratio improved y-o-y and its level (34.2%) was the lowest across the Group.

Total provisions increased by 161% in UAH terms against the base period, whereas provisions for impairment on loan and placement losses declined by 19% y-o-y (in UAH). The overall credit quality is still favourable: annual risk cost rate moderated to 0.34% (-16 bps y-o-y). The DPD90+ volumes (FX-adjusted and excluding the impact of loan sales and write-offs) grew by HUF 12 billion in 2019.

During the past 12 months problem loans were sold or written-off in the amount of about HUF 21 billion. Stage 3 loans to total gross loans ratio decreased to 17.3% by end-2019 (-7.7 pps y-o-y).

The FX-adjusted Stage 1+2 loan book grew by 27% y-o-y. As for the yearly development the growth of the car financing was the strongest (+48%), but consumer lending grew rapidly, too (+40%) on the back of accelerating origination activity (+17% y-o-y). Corporate exposures expanded by 25% y-o-y.

Deposits (adjusted for the FX-effect) leaped by 38% y-o-y, so the balance sheet structure is still well-balanced: the net loan-to-deposit ratio stood at 92% at the end of December 2019 (-11 pps y-o-y).

The total outstanding net intragroup funding towards the Ukrainian operation comprised USD 118 million equivalent at the end of 2019, almost flat y-o-y.

OTP BANK RUSSIA

Performance of OTP Bank Russia:

Main components of P&L account	2018 HUF million	2019 HUF million	Change %
After tax profit w/o dividends and net cash transfer	16,420	28,127	71
Income tax	(4,614)	(8,272)	79
Profit before income tax	21,034	36,399	73
Operating profit	68,878	84,946	23
Total income	129,899	146,582	13
Net interest income	102,489	113,572	11
Net fees and commissions	26,766	31,012	16
Other net non-interest income	644	1,998	210
Operating expenses	(61,021)	(61,636)	1
Total provisions	(47,844)	(48,547)	1
Provision for impairment on loan and placement losses	(42,204)	(46,123)	9
Other provision	(5,640)	(2,424)	(57)
Main components of balance sheet closing balances	**2018**	**2019**	**%**
Total assets	707,593	908,388	28
Gross customer loans	610,355	786,241	29
Gross customer loans (FX-adjusted)	710,935	786,241	11
Retail loans	636,354	685,398	8
Corporate loans	74,471	91,497	23
Car financing loans	111	9,345	
Allowances for possible loan losses	(126,655)	(152,741)	21
Allowances for possible loan losses (FX-adjusted)	(147,436)	(152,741)	4
Deposits from customers	379,911	471,735	24
Deposits from customers (FX-adjusted)	440,409	471,735	7
Retail deposits	350,344	354,076	1
Corporate deposits	90,064	117,659	31
Liabilities to credit institutions	120,156	155,306	29
Subordinated debt	22,522	25,031	11
Total shareholders' equity	147,999	202,761	37
Loan Quality	**2018**	**2019**	**%/pps**
Stage 1 loan volume under IFRS 9 (in HUF million)		589,553	
Stage 1 loans under IFRS 9/gross customer loans		75.0%	
Own coverage of Stage 1 loans under IFRS 9		5.3%	
Stage 2 loan volume under IFRS 9 (in HUF million)		94,413	
Stage 2 loans under IFRS 9/gross customer loans		12.0%	
Own coverage of Stage 2 loans under IFRS 9		27.4%	
Stage 3 loan volume under IFRS 9 (in HUF million)	84,469	102,274	21
Stage 3 loans under IFRS 9/gross customer loans	13.8%	13.0%	(0.8)
Own coverage of Stage 3 loans under IFRS 9		93.4%	
Provision for impairment on loan and placement losses/average gross loans	7.39%	6.61%	(0.78)
Provision for impairment on loan and placement losses/average (FX-adjusted) gross loans	7.41%	6.57%	(0.84)
90+ days past due loan volume (in HUF million)	81,995	96,484	18
90+ days past due loans/gross customer loans	13.4%	12.3%	(1.2)
Performance Indicators	**2018**	**2019**	**pps**
ROA	2.4%	3.4%	0.9
ROE	10.9%	15.7%	4.8
Total income margin	19.28%	17.53%	(1.75)
Net interest margin	15.21%	13.58%	(1.63)
Cost/income ratio	47.0%	42.0%	(4.9)
Net loans to deposits (FX-adjusted)	128%	134%	6
FX rates	**2018 HUF**	**2019 HUF**	**Change %**
HUF/RUB (closing)	4.1	4.7	17
HUF/RUB (average)	4.3	4.5	4

- ***HUF 28 billion after-tax profit in 2019 (+66% y-o-y in local currency terms) with 15.7% ROE***
- ***Stage 1+2 volumes (FX-adjusted) grew by 12% underpinning a y-o-y deceleration as a result of tighter underwriting standards***
- ***Annual operating expenses fell 3% y-o-y in RUB terms, the C/I ratio dropped by 5 pps to 42%***
- ***Annual risk cost rate declined to 6.6%; Stage 3 ratio improved by 0.8 pps y-o-y to 13% partially due to balance sheet clean-up***
- ***Deposit volumes growth fell short of the loan expansion, as a result net loan-to-deposit ratio increased to 134%***

The HUF denominated financial figures of OTP Bank Russia were significantly affected by the HUF/RUB moves: by the end of 2019, the RUB closing rate appreciated by 17% y-o-y against the HUF. It strengthened 4% y-o-y on average in 2019. Therefore local currency P&L and balance sheet dynamics can be materially different from those in HUF terms.

In 2019 **OTP Bank Russia** posted HUF 28.1 billion after-tax profit, which translates into 66% y-o-y improvement in local currency and 15.7% ROE.

Due to the volatility of HUF/RUB exchange rate, it is more reasonable to analyse income dynamics in RUB terms. The annual pre-tax profit grew by 68% y-o-y, as a combined result of an 18% improvement in operating profit and a 3% decline in total provisions.

The 6% y-o-y increase in net interest income was supported by the 12% y-o-y growth of FX-adjusted performing (Stage 1+2) loans, while net interest margin (NIM) dropped by 1.6 pps, to 13.6%. Reasons for the lower NIM included the continued decline in interest rates on consumer loans and a slight increase in average deposit interest rates.

Annual net fee and commission income was up 11% y-o-y in RUB terms, benefiting from an increase of insurance fee income on cash loans with insurance policies and other products growing considerably, as well as a rise in average commission income generated by credit cards and POS loans.

In 2019 operating expenses shrank by 3% y-o-y in RUB terms: the drop in both personnel expenses and amortization, partly associated with the integration of Touch Bank, was counterbalanced by the increase in administrative costs, going up in line with increasing business volumes. On the whole, the annual cost/income ratio improved by 4.9 pps to 42% y-o-y.

In line with tightening underwriting standards annual total risk cost eroded by 3% y-o-y in RUB terms. In 2019 risk cost ratio declined by 78 bps y-o-y to 6.61%.

The DPD90+ volumes (FX-adjusted and excluding the impact of loan sales and write-offs) jumped to HUF 55 billion in 2019 underpinning almost a one and a half times expansion y-o-y. Such increase was partially attributed to the loan portfolio expansion. Over the past twelve months OTP Bank Russia sold or wrote down a gross total of HUF 52 billion in loans.

Overall, the ratio of Stage 3 loans to total gross loans declined by 0.8 pp y-o-y to 13.0% by the end of 2019. Stage 3 loans' own coverage was 93.4%.

In 2019, the FX-adjusted Stage 1+2 loan book rose by 12% y-o-y underpinning a y-o-y less pronounced volume growth. The consumer loan portfolio grew by 9% y-o-y and the corporate by 19%, respectively. POS loan volumes grew by 11% y-o-y. Cash loan disbursement conditions were tightened during the year, still, during the last twelve months the book increased by 12%. Credit card volumes increased by 5% y-o-y.

FX-adjusted total deposits increased by 7% y-o-y. Corporate deposits displayed a volatile performance, they grew by 31% y-o-y. Net loan-to-deposit ratio (134%) increased by 6% y-o-y.

CKB GROUP (MONTENEGRO)

Performance of CKB Group:

Main components of P&L account	2018 HUF million	2019 HUF million	Change %
After tax profit w/o dividends and net cash transfer	2,214	6,377	188
Income tax	(326)	(679)	108
Profit before income tax	2,540	7,056	178
Operating profit	2,605	5,692	119
Total income	10,729	16,120	50
Net interest income	7,529	11,464	52
Net fees and commissions	3,227	4,215	31
Other net non-interest income	(27)	441	
Operating expenses	(8,125)	(10,428)	28
Total provisions	(65)	1,364	
Provision for impairment on loan and placement losses	(46)	1,293	
Other provision	(19)	71	
Main components of balance sheet closing balances	**2018**	**2019**	**%**
Total assets	224,892	439,836	96
Gross customer loans	157,043	319,836	104
Gross customer loans (FX-adjusted)	161,444	319,836	98
Retail loans	75,073	161,601	115
Corporate loans	86,337	158,147	83
Car financing loans	34	88	156
Allowances for possible loan losses	(28,265)	(19,518)	(31)
Allowances for possible loan losses (FX-adjusted)	(29,057)	(19,518)	(33)
Deposits from customers	175,740	318,216	81
Deposits from customers (FX-adjusted)	180,877	318,216	76
Retail deposits	135,092	207,441	54
Corporate deposits	45,785	110,775	142
Liabilities to credit institutions	2,364	36,733	
Total shareholders' equity	38,637	66,188	71
Loan Quality	**2018**	**2019**	**%/pps**
Stage 1 loan volume under IFRS 9 (in HUF million)		283,959	
Stage 1 loans under IFRS 9/gross customer loans		88.8%	
Own coverage of Stage 1 loans under IFRS 9		1.1%	
Stage 2 loan volume under IFRS 9 (in HUF million)		12,509	
Stage 2 loans under IFRS 9/gross customer loans		3.9%	
Own coverage of Stage 2 loans under IFRS 9		4.8%	
Stage 3 loan volume under IFRS 9 (in HUF million)	33,096	23,369	(29)
Stage 3 loans under IFRS 9/gross customer loans	21.1%	7.3%	(13.8)
Own coverage of Stage 3 loans under IFRS 9		68.2%	
Provision for impairment on loan and placement losses/average gross loans	0.03%	(0.56%)	(0.59)
90+ days past due loan volume (in HUF million)	27,993	17,058	(39)
90+ days past due loans/gross customer loans	17.8%	5.3%	(12.5)
Performance Indicators	**2018**	**2019**	**pps**
ROA	1.1%	1.9%	0.9
ROE	7.3%	11.9%	4.6
Total income margin	5.09%	4.86%	(0.23)
Net interest margin	3.57%	3.45%	(0.12)
Cost/income ratio	75.7%	64.7%	(11.0)
Net loans to deposits (FX-adjusted)	73%	94%	21
FX rates	**2018 HUF**	**2019 HUF**	**Change %**
HUF/EUR (closing)	321.5	330.5	3
HUF/EUR (average)	318.9	325.3	2

- ***The financial closure of the Montenegrin acquisition was completed on 16 July, thus the full-year balance sheet and P&L figures of the Montenegrin operation already included the balance sheet and the five-months profit contribution of the acquired bank***
- ***In 2019 the Montenegrin banking group generated HUF 6.4 billion adjusted profit, of which Podgorička banka's five-month profit made up HUF 1.9 billion***
- ***The FX-adjusted performing loan volumes jumped by 133% y-o-y, or by 22% without the acquisition***
- ***The ratio of Stage 3 loans (7.3%) dropped by 13.8 pps y-o-y***

On 27 February 2019 Crnogorska komercijalna banka a.d., the Montenegrin subsidiary of OTP Bank signed an acquisition agreement on purchasing 90.56% shareholding of Societe Generale banka Montenegro a.d. ('SGM'), the Montenegrin subsidiary of Societe Generale Group. The financial closure of the transaction was completed on 16 July 2019. The new name of the acquired bank is Podgorička banka. In December 2019 minority shareholders were bought out, thus Crnogorska komercijalna banka a.d. became the 100% owner of Podgorička banka.

The Montenegrin P&L account was adjusted for the one-off items directly related to the acquisition; these corrections are shown on consolidated level among the adjustment items. The balance sheet items were not adjusted for these effects.

The Montenegrin **CKB Group** posted HUF 6.4 billion after-tax profit in 2019 (including Podgorička banka's five-months contribution of HUF 1.9 billion), exceeding that of the base period by 188%.

At the end of December 2019, the combined market share of OTP Bank's operation in Montenegro was 29.5% on *pro forma* basis. Podgorička banka's network consisted of 20 branches, and the headcount was 255 (on FTE basis) at the end of December.

The 119% jump in full-year operating profit (+49% without the acquisition) reflects a 50% surge in total income (+15% without the acquisition), while operating expenses increased by 28% (+5% without the acquisition).

Full-year net interest income surged by 52% (+11% without the acquisition): due to the strengthening business activity, Stage 1+2 loans continued their growth (+22% y-o-y without the acquisition), which was partly offset by the declining net interest margin. Full-year net fees and commissions increased by 31% y-o-y (+13% without the acquisition). The 28% y-o-y growth in operating expenses (+5% without the acquisition) is mainly attributable to an increase in the charges paid to supervisory authorities as well as to higher personnel expenses.

In 2019 as a whole HUF 1.4 billion total risk cost was released; partly because the parameters for PD and LGD, as well as for the macroeconomic environment and outlook were revised in the IFRS 9 provisioning models, and in part owing to the release of other risk cost relating to one corporate customer.

The DPD90+ ratio (5.3%) dropped by 12.5 pps y-o-y. At the end of 2019 the share of Stage 3 exposures was 7.3% (-13.8 pps y-o-y). The own coverage of Stage 3 loans stood at 68.2%.

Performing (Stage 1+2) loans grew by 133% (+22% y-o-y without the acquisition).

FX-adjusted deposit volumes surged by 76% y-o-y (11% without the acquisition). The net loan-to-deposit ratio stood at 94% at the end of the fourth quarter (+21 pps y-o-y).

Based on local calculation rules, the capital adequacy ratio of Crnogorska komercijalna banka a.d., which holds the shares of Podgorička banka, stood at 23.6% at the end of 2019.

OTP BANK ALBANIA (ALBANIA)

Performance of OTP Bank Albania:

Main components of P&L account	2019 HUF million
After tax profit w/o dividends and net cash transfer	2,616
Income tax	(459)
Profit before income tax	3,075
Operating profit	3,702
Total income	7,953
Net interest income	6,697
Net fees and commissions	1,007
Other net non-interest income	248
Operating expenses	(4,250)
Total provisions	(627)
Provision for impairment on loan and placement losses	(249)
Other provision	(379)
Main components of balance sheet closing balances	**2019**
Total assets	247,997
Gross customer loans	147,777
Gross customer loans (FX-adjusted)	147,777
Retail loans	66,593
Corporate loans	79,096
Car financing loans	2,088
Allowances for possible loan losses	(3,657)
Allowances for possible loan losses (FX-adjusted)	(3,657)
Deposits from customers	179,755
Deposits from customers (FX-adjusted)	179,755
Retail deposits	152,883
Corporate deposits	26,872
Liabilities to credit institutions	36,901
Total shareholders' equity	25,605
Loan Quality	**2019**
Stage 1 loan volume under IFRS 9 (in HUF million)	138,579
Stage 1 loans under IFRS 9/gross customer loans	93.8%
Own coverage of Stage 1 loans under IFRS 9	1.2%
Stage 2 loan volume under IFRS 9 (in HUF million)	4,593
Stage 2 loans under IFRS 9/gross customer loans	3.1%
Own coverage of Stage 2 loans under IFRS 9	10.1%
Stage 3 loan volume under IFRS 9 (in HUF million)	4,604
Stage 3 loans under IFRS 9/gross customer loans	3.1%
Own coverage of Stage 3 loans under IFRS 9	33.1%
Provision for impairment on loan and placement losses/average gross loans	0.23%
90+ days past due loan volume (in HUF million)	2,270
90+ days past due loans/gross customer loans	1.5%
Performance Indicators	**2019**
ROA	1.4%
ROE	14.1%
Total income margin	4.27%
Net interest margin	3.59%
Cost/income ratio	53.4%
Net loans to deposits (FX-adjusted)	80%
FX rates	**2019 HUF**
HUF/ALL (closing)	2.7
HUF/ALL (average)	2.6

- ***The Albanian bank was consolidated in 1Q 2019 and its results appeared in the consolidated P&L from April***
- ***The bank posted HUF 2.6 billion profit after tax profit between April-December 2019***
- ***The Stage 3 ratio was 3.1% by the end of 2019; the net loan-to-deposit ratio was 80%***

In line with the purchase agreement signed on 1 August 2018 by OTP Bank Plc. and the Societe Generale Group, the financial closure of the Albanian transaction was completed on 29 March 2019. As a result, OTP Bank has become the 100% owner of Banka Societe Generale Albania SH.A. The results of the Albanian bank were consolidated in OTP Group's P&L account starting from April 2019. Upon the request of the seller, OTP Bank does not disclose the purchase price.

The Albanian P&L account was adjusted for the one-off items directly related to the acquisition; these corrections are shown at consolidated level among the adjustment items. The balance sheet items were not adjusted for these effects.

OTP Bank Albania posted HUF 2.6 billion after-tax profit between April and December 2019.

The full-year ROE (14.1%) and net interest margin (3.59%) were below the Group's average, while the cost/income ratio (53.4%) exceeded it. The annual credit risk cost rate reached 23 bps in the period under review.

At the end of 2019 the Stage 3 loans made up 3.1% of gross loan volumes. The Stage 3 loans of the acquired bank were netted with the related provisions upon its consolidation. The own provision coverage of Stage 3 loans was 33.1%.

The net loan/deposit ratio stood at 80%, above the group's average.

MOBIASBANCA (MOLDOVA)

Performance of Mobiasbanca:

Main components of P&L account	2019 HUF million
After tax profit w/o dividends and net cash transfer	1,936
Income tax	(174)
Profit before income tax	2,110
Operating profit	2,929
Total income	5,902
Net interest income	3,959
Net fees and commissions	891
Other net non-interest income	1,052
Operating expenses	(2,974)
Total provisions	(819)
Provision for impairment on loan and placement losses	(737)
Other provision	(82)
Main components of balance sheet closing balances	**2019**
Total assets	211,043
Gross customer loans	104,763
Gross customer loans (FX-adjusted)	104,763
Retail loans	57,000
Corporate loans	46,339
Car financing loans	1,424
Allowances for possible loan losses	(1,790)
Allowances for possible loan losses (FX-adjusted)	(1,790)
Deposits from customers	161,071
Deposits from customers (FX-adjusted)	161,071
Retail deposits	110,838
Corporate deposits	50,233
Liabilities to credit institutions	12,342
Total shareholders' equity	34,518
Loan Quality	**2019**
Stage 1 loan volume under IFRS 9 (in HUF million)	102,460
Stage 1 loans under IFRS 9/gross customer loans	97.8%
Own coverage of Stage 1 loans under IFRS 9	1.0%
Stage 2 loan volume under IFRS 9 (in HUF million)	880
Stage 2 loans under IFRS 9/gross customer loans	0.8%
Own coverage of Stage 2 loans under IFRS 9	23.6%
Stage 3 loan volume under IFRS 9 (in HUF million)	1,424
Stage 3 loans under IFRS 9/gross customer loans	1.4%
Own coverage of Stage 3 loans under IFRS 9	39.7%
Provision for impairment on loan and placement losses/average gross loans	1.58%
90+ days past due loan volume (in HUF million)	383
90+ days past due loans/gross customer loans	0.4%
Performance Indicators	**2019**
ROA	2.1%
ROE	12.6%
Total income margin	6.31%
Net interest margin	4.23%
Cost/income ratio	50.4%
Net loans to deposits (FX-adjusted)	64%
FX rates	**2019 HUF**
HUF/MDL (closing)	17.1
HUF/MDL (average)	16.6

- ***The Moldavian bank was consolidated in July 2019, and its results appeared in the consolidated P&L from August***
- ***The Moldovan bank's profit contribution was HUF 1.9 billion in 2019***
- ***The Stage 3 ratio stood at 1.4% at the end of 2019; the net loan to deposit ratio was 64%***

In accordance with the purchase agreement signed on 6 February 2019 by OTP Bank and the Societe Generale Group, the financial closure of the transaction was completed on 25 July 2019, as a result of which OTP Bank acquired Mobiasbanca – Groupe Societe Generale S.A. OTP Bank's shareholding reached 98.26% at the end of 2019.

The Moldavian P&L account was adjusted for the one-off items directly related to the acquisition; these corrections are shown at consolidated level among the adjustment items. The balance sheet items were not adjusted for these effects.

Between August and December 2019 **Mobiasbanca** contributed to OTP Group's adjusted profit by HUF 1.9 billion.

The full-year ROE (12.6%) and the cost/income ratio (50.4%) were below the Group's average, while the net interest margin (4.23%) exceeded it.

The bank's balance sheet total amounted to HUF 211 billion, its gross loans made up HUF 105 billion, and customer deposits totalled HUF 161 billion at the end of 2019. Net loan-to-deposit ratio was 64%, lower than the Group’s average.

Based on its total assets, the market share of OTP’s Moldavian operation was 13.5% at the end of December 2019; this ranks it the fourth biggest bank in Moldavia. Mobiasbanca's branch network consisted of 53 units, and the bank employed 755 people (on FTE basis) at the end of December.

At the end of 2019 the ratio of Stage 3 loans to total gross loans stood at 1.4%. Stage 3 loans own provision coverage was 39.7%.

OTP BANKA SLOVENSKO (SLOVAKIA)

Performance of OTP Banka Slovensko:

Main components of P&L account	2018 HUF million	2019 HUF million	Change %
After tax profit without the effect of adjustments	44	1,575	
Income tax	(56)	(240)	328
Profit before income tax	100	1,815	
Operating profit	2,598	1,625	(37)
Total income	15,014	14,714	(2)
Net interest income	11,148	10,505	(6)
Net fees and commissions	3,536	3,884	10)
Other net non-interest income	330	325	(1)
Operating expenses	(12,416)	(13,089)	5
Total provisions	(2,498)	190	(108)
Provision for impairment on loan and placement losses	(2,579)	604	(123)
Other provision	81	(414)	(609)
Main components of balance sheet closing balances	**2018**	**2019**	**%**
Total assets	454,498	473,660	4
Gross customer loans	393,111	392,793	0
Gross customer loans (FX-adjusted)	404,127	392,793	(3)
Retail loans	350,325	336,342	(4)
Corporate loans	53,786	56,444	5
Allowances for possible loan losses	(31,582)	(24,338)	(23)
Allowances for possible loan losses (FX-adjusted)	(32,467)	(24,338)	(25)
Deposits from customers	360,069	351,722	(2)
Deposits from customers (FX-adjusted)	370,195	351,722	(5)
Retail deposits	341,065	320,907	(6)
Corporate deposits	29,130	30,815	6
Liabilities to credit institutions	22,725	50,669	123
Subordinated debt	8,691	8,933	3
Total shareholders' equity	29,382	38,078	30
Loan Quality	**2018**	**2019**	**%/pps**
Stage 1 loan volume under IFRS 9 (in HUF million)		336,650	
Stage 1 loans under IFRS 9/gross customer loans		85.7%	
Own coverage of Stage 1 loans under IFRS 9		0.7%	
Stage 2 loan volume under IFRS 9 (in HUF million)		29,307	
Stage 2 loans under IFRS 9/gross customer loans		7.5%	
Own coverage of Stage 2 loans under IFRS 9		11.7%	
Stage 3 loan volume under IFRS 9 (in HUF million)	35,916	26,836	(25)
Stage 3 loans under IFRS 9/gross customer loans	9.1%	6.8%	(2.3)
Own coverage of Stage 3 loans under IFRS 9		68.8%	
Provision for impairment on loan and placement losses/average gross loans	0.65%	(0.15%)	(0.8)
90+ days past due loan volume (in HUF million)	29,160	21,890	(24.9)
90+ days past due loans/gross customer loans	7.4%	5.6%	(1.8)
Performance Indicators	**2018**	**2019**	**pps**
ROA	0.0%	0.3%	0.3
ROE	0.2%	5.2%	5.1
Total income margin	3.32%	3.20%	(0.12)
Net interest margin	2.47%	2.29%	(0.18)
Cost/income ratio	82.7%	89.0%	6.3
Net loans to deposits (FX-adjusted)	100%	105%	4
FX rates	**2018 HUF**	**2019 HUF**	**Change %**
HUF/EUR (closing)	321.5	330.5	3
HUF/EUR (average)	318.9	325.3	2

Note: P&L lines and performance indicators are adjusted for the banking tax, Deposit Protection Fund contributions and payments into the Resolution Fund.

- ***OTP Banka Slovensko generatedHUF 1.6 billion profit in 2019***
- ***12M operating profit fell by 37% y-o-y, as a result of 2% lower income and 5% higher operating expenses***
- ***The performing (Stage 1+2) loan volumes did not change substantially in y-o-y comparison***

In 2019 **OTP Banka Slovensko** posted HUF 1.6 billion adjusted after tax profit, against the near-zero result of the base period. A significant part of the profit growth originated from favourable development in provisions: in 2019 the total provisions were in positive territory (HUF 0.2 billion), mainly owing to provision releases (+HUF 0.9 billion) booked in the third quarter, which in part stemmed from the revision of the IFRS 9 model parameters.

Total income in full-year 2019 declined by 2%. Within that, net interest income dropped by 6%, while performing (Stage 1+2) loan volumes did not change substantially in comparison with the base period. In 2019, net interest margin contracted by 18 bps to 2.29%.

Twelve-month operating expenses rose by 5% y-o-y (3% in local currency), reflecting higher personnel expenses and depreciation.

During 2019, net fees and commissions expanded by 10%, owing to a year-over-year increase in brokerage fees, largely because of a rise in investment fund and insurance fees.

Within total provisions, the provision for impairment on loan and placement losses line showed improvement compared to 2018 figures. This stemmed mostly from the release of provisions in the third quarter, partly due to the revision of the IFRS 9 model parameters. The unfavorable changes in other risk costs are due to the fact that OTP Faktoring Ltd. (Hungary) raised capital in OTP Faktoring Slovensko (presented as part of the Slovakian operation), which thereafter raised capital in its affiliated companies. As these companies had negative equity before the capital increase, and are out of the scope of consolidation, an impairment was recognized in the other provisions line of the Slovakian operation in the fourth quarter.

DPD90+ loan volumes contracted by HUF 1 billion in 2019 (FX-adjusted, without sales and write-offs). During the year, HUF 6 billion problem loans were sold/written off. The ratio of Stage 3 loans amounted to 6.8% of the gross loan volume (-2.3 pps y-o-y). The own coverage of Stage 3 loans stood at 68.8% at the end of 4Q.

The volume of performing (Stage 1+2) loans was stagnant during the year.

FX-adjusted customer deposits dropped by 5% y-o-y. This brought the loan/deposit ratio to 105% by the end of 2019.

STAFF LEVEL AND OTHER INFORMATION

	31/12/2018				31/12/2019			
	Branches	ATM	POS	Headcount (closing)	Branches	ATM	POS	Headcount (closing)
OTP Core (Hungary)	**362**	**1,931**	**77,599**	**9,631**	**361**	**1,936**	**77,962**	**10,102**
DSK Group (Bulgaria)	345	911	8,464	4,838	440	1,140	12,915	6,186
OBH (Croatia)	144	480	10,360	2,397	136	480	10,856	2,251
OTP Bank Serbia	154	248	5,554	1,996	231	338	18,424	3,162
SKB Banka (Slovenia)					53	83	3,982	863
OTP Bank Romania	95	139	4,556	1,273	95	141	5,125	1,496
OTP Bank Ukraine (w/o employed agents)	87	149	351	2,313	88	166	331	2,399
OTP Bank Russia (w/o employed agents)	134	227	905	5,052	134	223	715	5,343
CKB Group (Montenegro)	28	103	4,572	419	48	128	6,908	681
OTP Bank Albania					37	76	0	424
Mobiasbanca (Moldova)					53	145	0	755
OTP Banka Slovensko (Slovakia)	62	151	232	690	58	157	159	671
Foreign subsidiaries, total	**1,049**	**2,408**	**34,994**	**18,977**	**1,373**	**3,077**	**59,415**	**24,230**
Other Hungarian and foreign subsidiaries				924				590
OTP Group (w/o employed agents)				**29,532**				**34,922**
OTP Bank Russia - employed agents				5,306				5,083
OTP Bank Ukraine - employed agents				760				663
OTP Group (aggregated)	**1,411**	**4,339**	**112,593**	**35,599**	**1,734**	**5,013**	**137,377**	**40,668**

Notes: the y/y changes in the headcount data presented in the table were influenced by the changes in the scope of companies comprising OTP Core, the Bulgarian, Croatian, Serbian, Montenegrin and Romanian operations and in the case of other Hungarian and foreign group members. For more details, see the individual section about OTP Core, and the Bulgarian, Croatian, Serbian and Romanian performances.

Definition of headcount number: closing, active FTE (full-time employee). The employee is considered as full-time employee in case his/her employment conditions regarding working hours are in line with a full time employment defined in the Labour Code in the reporting entity's country. Part-time employees are taken into account proportional to the full time working hours being effective in the reporting entity's country.

STATEMENT ON CORPORATE GOVERNANCE PRACTICE

Corporate governance practice

OTP Bank Plc., being registered in Hungary, has a corporate governance policy that complies with the provisions on companies of the act applicable (Civil Code). As the company conducts banking operations, it also adheres to the statutory regulations pertaining to credit institutions.

In accordance with the statutory requirements and the recommendation concerned, as a listed company on the Budapest Stock Exchange (BSE), the company also makes an annual declaration on its compliance with the BSE's Corporate Governance Recommendations. After being approved by the General Meeting, this declaration is published on the website of the BSE (www.bet.hu), on the information storage system operated by National Bank of Hungary (www.kozzetetelek.hu), and on the website of the Bank (www.otpbank.hu).

The purposes of applying the Corporate Governance Recommendations of the BSE is to facilitate the transparent and efficient market operation, support the enforcement of the laws as well as harmonise the interests of the organisation, the investors and the organisation's environment.
The Recommendations contain both recommendations that are binding for all organisations and non-binding proposals. Organisations may derogate both from binding recommendations and non-binding proposals. In the event of derogation from the recommendations, organisations are required to publish and justify the derogation in their corporate governance reports ('comply or explain'). This enables organisations to take industry and company-specific requirements into account. Accordingly, even organisations derogating from the recommendations can comply with corporate governance requirements under certain circumstances. Concerning the proposals, organisations should indicate whether they apply a given guideline or not, and they can also explain any derogation from the proposals.
OTP Bank Plc. provided positive answers to all recommendations and suggestions.

System of internal controls

The main function of the internal audit system is to protect customers, the company's assets and shareholder's interests, as well as to facilitate and monitor operation in compliance with the statutory provisions.
The internal audit system extends to all of the company's organisational units, business lines and activities, including outsourced activities. To ensure effective auditing, the internal audit system consists of several modular control levels, and is also segmented in line with the departmental structure of the organisation. The elements of the internal audit system are comprised of in-process and management controls, and an independent internal audit unit and management information system.
OTP Bank Plc. has developed and applies such a uniform internal audit system consistently throughout the Bank Group that is proportionate to the size of the OTP Group and the market share of the Company, includes shareholder audits conducted at the foreign and domestic group members as well as the professional oversight of the internal audit organisations of the financial institutions that are subject to consolidated supervision as specified in the Credit Institutions Act. To this end, standardised internal audit procedures and methodologies pertaining to the operation and activities of group members' internal audit departments are developed, enhanced and applied on a continuous basis. Internal audit also liaises regularly and cooperates with external auditing bodies.

The independent internal audit unit assists in the legally compliant and effective management of assets and liabilities and the protection of property; it supports secure business operation, the effectiveness, cost-efficiency and success of internal control systems, the minimisation of risks, and – alongside the compliance unit – it detects and reports departures from the provisions of the statutory regulations and internal policies, makes recommendations for the elimination of deficiencies, and monitors the implementation of the measures. It performs its activities independently, objectively and professionally. Its independence is ensured by the fact that it is professionally overseen by the Supervisory Board, within the framework set out by the Credit Institutions Act. The independent internal audit organisation was set up in a manner that the execution of ownership controls at the Organisation, in the network and at the foreign and domestic group members, as well as the professional supervision of the foreign and domestic internal audit organisation is properly ensured.
The independent internal audit organisation has an annual audit plan which is approved by the Supervisory Board. The annual plan is prepared using a risk-based methodology and, in addition to focusing on the areas that entail regulatory, business and operational risk, and the other main risk exposures, it emphasizes especially the control of reporting and data, further, it also takes into account the company's prevailing strategic priorities.

The independent internal audit organisation has unrestricted access to information, documents and data necessary for conducting investigations, and is kept informed of changes in group structure, risks, and priorities.

The internal audit organisation makes independent reports on its auditing activities for the management bodies at quarterly and annual intervals. In its quarterly reports it gives a group-level, summary account of the audits conducted in the given quarter, the risks identified in the course of its own audits and audits conducted by the authorities, and the success of any action taken to eliminate them. In exceptional cases that require immediate intervention, it provides the management with extraordinary briefings. The audit organisation reports annually on the performance of the tasks stipulated in the group-level annual audit schedule, the audits conducted and other activities, and on the circumstances of the organisation's operation, as well as on any changes to the internal audit system.

The organisation annually prepares, for the Supervisory Board, objective and independent report in respect of the operation of risk management, internal control mechanisms and corporate governance functions, and in accordance with the Credit Institutions Act annually reports to the Supervisory Board and the Board of Directors on the regularity of internal audit tasks, professional requirements and the conduct of audit, as well as on the review of compliance with the IT and other technical requirements for audits.

The basis for effective group-level risk management is the operation of a standardised, "OTP-compatible" organisational structure as well as regulations and procedures at the subsidiaries concerned. The Company has detailed risk management rules for each of the various types of risk (liquidity, market, country, counterparty, credit, operational, compliance), and these rules are in harmony with the statutory regulations pertaining to prudential banking operations. The annual report describes the risk management practices, the limits, and compliance with these limits.
Within the Company, the Credit Approval and Risk Management Division and the Strategy and Finance Division exercise functional control over the guidelines, methodology and infrastructure of the Bank Group's risk management strategy, the purpose of which is to create a clearly defined, transparent, standardised credit, country, counterparty, market and operational risk management system at group level which complies with the expectations of the supervisory authority and local conditions. The Bank Group's Risk Strategy and the rules on risk prescribed by the Credit Institutions Act, are approved by the Bank's Board of Directors.
The Risk Strategy determines, with respect to the entire Bank Group, the framework for risk management and the principles and guidelines of risk assumption.
With respect to the cornerstones of the risk management methodologies, and the main risk topics for Bank Group members, the final decision-making competence is held by the Group members' risk committees (Credit and Limit Committee, Workout Committee, Group Operational Risk Committee).
The Bank's risk management system encompasses the identification of the risks, assessment of their impact, elaboration of the necessary action plans, and the monitoring of their effectiveness and results. The management make their business decisions in a knowledge of all the key risks. All significant risks related to internal and external operations, or to compliance with financial and legal requirements, as well as numerous other risks, are evaluated and managed using a clearly-defined and transparent internal mechanism.

In adopting its accounting policy and defining its accounting order the Bank uses its own control mechanisms and processes ensuring properly to reach the following goals: to draw up reliable financial reports, to carry out various successful and effective operations for the company, to comply with the legislation in force and to fully comply with the provisions related to the provision of data to the regulatory and supervisory bodies. All competencies of the banking units responsible for drawing up the report and the accounting control are set up in an internal regulation instrument.
The internal regulation shall define the closing competencies and data supplying necessary for drawing up the interim (monthly, quarterly and six-month) and the annual disclosure reports. It provides a complete guidance for the interim (monthly, quarterly, six-month) and the annual closing competencies, tasks and supplying of data. The internal regulation sets up deadlines and appoints responsible officers for the tasks.
The internal regulation also orders the inventory and conciliation of ledger records containing provisional registration of items which – for various reasons – could not be immediately cleared on a real account of assets/ liabilities or on the general ledger accounts serving for registration of items outside the balance sheet at the time when they emerged.
Act no. 100 of 2000 on Accounting (IFRS) provides that the report shall rest on an inventory. Internal regulation sets detailed rules of inventory tasks in order to ensure a genuine balance sheet that rests on proper definition of stocks of assets and liabilities, to check the bookkeeping and the accountancies and to reinforce this way the documentary discipline, to protect belongings, to explore inventories of decreased value and the assets out of use.

Furthermore, the Bank draws up and applies a detailed accounting system and continuously adapts new accounting measurements related the actual products and activities. Internal regulations on accounting are revised annually and updated if necessary. The legal, the internal audit and the compliance area are involved in the drafting and amending of these regulations.

General meeting, Articles of Association

The General Meeting is the supreme governing body of OTP Bank Plc. The regulations pertaining to its operation are set forth in the Company's Bylaws, and comply fully with both general and special statutory requirements. Information on the General Meeting is available in the Corporate Governance Report.

Regulations and information to be presented in the Business Report concerning securities conferring voting rights issued by the Company and senior officials, according to the effective Articles of Association, and ownership structure

The Company's registered capital is HUF 28,000,001,000, that is twenty-eight thousand million one thousand Hungarian forint, divided into 280,000,010 that is Two hundred and eighty million and ten dematerialised ordinary shares with a nominal value of HUF 100 each, and a total nominal value of HUF 28,000,001,000, that is twenty eight billion one thousand Hungarian forint.

The ordinary shares of the Company specified all have the same nominal value and bestow the same rights in respect of the Company.

There are no restrictions in place concerning the transfer of issued securities constituting the registered capital of the Company.

No securities with special control rights have been issued by the Company.

The Company does not run control systems prescribed by an employee ownership program, where control rights are not exercised directly by the employees.

Rules on the restrictions of the voting rights:

The Company's ordinary shares confer one vote per share.

An individual shareholder or group of shareholders may not exercise voting rights in respect of in an extent exceeding 25%, or – if the voting rights of another shareholder or group of shareholders exceed 10% – exceeding 33% of the total voting rights represented by the shares conferring voting rights at the Company's General Meeting.

The shareholder is obliged to notify the Company's Board of Directors without delay if the shareholder directly or indirectly, or together with other shareholders in the same group of shareholders, holds more than 2% of the voting rights represented by the shares conferring voting rights at the Company's General Meeting. Concurrently with this, the shareholder is obliged to designate the shareholders through which the indirect voting right exists, or the members of the group of shareholders. In the event of a failure to provide such notification, or if there are substantive grounds for assuming that the shareholder has made a misleading declaration regarding the composition of the shareholder group, then the shareholder's voting right shall be suspended and may not be exercised until the shareholder has met the above obligations. The notification obligation stipulated in this paragraph and the related legal consequences are also incumbent upon individuals who are classified or may be classified as the Company's shareholders under Article 61 of the Capital Markets Act. The Company must also be provided with proof of the conditions for exemption from the notification obligation in accordance with Section 61 (7)-(8) and Section 61 (10)-(11)-(12), of the Capital Markets Act.

Shareholder group: the shareholder and another shareholder, in which the former has either a direct or indirect shareholding or has an influence without a shareholding (collectively: a direct and/or indirect influence); furthermore: the shareholder and another shareholder who is exercising or is willing to exercise its voting rights together with the former shareholder, regardless of what type of agreement between the participants underlies such concerted exercising of rights.

For determining the existence and extent of the indirect holding, the rules of the Credit Institutions Act relating to the calculation of indirect ownership shall be applied.

If the voting rights that may be exercised by a shareholder group exceed the threshold stipulated in the first paragraph of this section, the voting rights shall be reduced in such a way that the voting rights relating to the shares most recently acquired by the group of shareholders shall not be exercisable.

If there are substantive grounds to presume that the exercising of voting rights by any shareholder or shareholders might result in a breach of the rules of the Capital Markets Act relating to the acquisition of a controlling interest, the Board of Directors' authorised representative responsible for the registration of shareholders at the venue of the General Meeting, or the Chairman of the General Meeting, may exclude the affected shareholders from attending the General Meeting or exercising voting rights.

The General Meeting has exclusive authority with respect to the decision regarding the delisting of the shares (qualified majority). When making the decisions, shares embodying multiple voting rights shall represent one share.

The Company is not aware of any kind of agreements among the owners that could give rise to the restriction of the transfer of issued securities and/or the voting rights.

Rules on the appointment and removal of executive officers, and rules on amendment of the Articles of Association:

The Board of Directors has at least 5, and up to 11 members.

When making the decisions, shares embodying multiple voting rights shall represent one share.The members of the Board of Directors are elected by the General Meeting based on its decision uniformly either for an indefinite period or for five years; in the latter case the mandate ends with the General Meeting concluding the fifth financial year following the election. The mandate of a member elected during this period expires together with the mandate of the Board of Directors.

The Board of Directors elects a Chairman and, may elect one or more Deputy Chairmen, from among its own members, whose period of office shall be equal to the mandate of the Board of Directors. The Chairman of the Board of Directors is also the Chief Executive Officer (Chairman & CEO) of the Company, unless the Board of Directors decides within its competence that the position of Chairman of the Board of Directors and the Chief Executive Officer of the Company are held by separate persons.

The membership of the Board of Directors ceases to exist by

a. expiry of the mandate,
b. resignation,
c. recall,
d. death,
e. the occurrence of grounds for disqualification as regulated by law.
f. termination of the employment of internal (executive) Board members.

The General Meeting has exclusive authority with respect to the following matters:

- the recall of members of the Board of Directors, the Supervisory Board and Audit Committee, and of the auditor; (qualified majority)
  More than one third of the members of the Board of Directors and the non-executive members of the Supervisory Board may be recalled within a 12-month period only if any shareholder holds more than 33% of the shares issued by the Company, which have been obtained by the shareholder by way of a public purchase offer.
- except in the cases referred by these Articles of Association to the authority of the Board of Directors, the establishment and amendment of the Articles of Association; (qualified majority); the General Meeting decides on proposals concerning the amendment of the Articles of Association – based on a resolution passed by shareholders with a simple majority – either individually or en masse.

The Board of Directors is exclusively authorised to make decisions regarding any change in the Company's name, registered office, permanent establishments and branches, and in the Company's activities – with the exception of its core activity – and, in relation to this, to modify the Articles of Association should it become necessary to do so on the basis of the Civil Code or the Articles of Association.

The Board of Directors is obliged to

- prepare the Company's financial statements in accordance with the Accounting Act, and make a proposal for the use of the profit after taxation;
- prepare a report once a year for the General Meeting, and once every three months for the Supervisory Board, concerning management, the status of the Company's assets and business policy;
- provide for the proper keeping of the Company's business books;
- perform the tasks referred to its authority under the Credit Institutions Act, in particular:
  - ensuring the integrity of the accounting and financial reporting system;

- elaborating the appropriate strategy and determining risk tolerance levels for each business unit concerned;
- setting risk assumption limits;
- providing the necessary resources for the management or risk, the valuation of assets, the use of external credit ratings and the application of internal models.

The following, in particular, come under the exclusive authority of the Board of Directors:

- election of the Chairman & Chief Executive Officer of the Company, and exercising employer's right in respect thereof;
- election of one or more Deputy Chairmen of the Board of Directors;
- determination of the annual plan;
- the analysis and assessment of the implementation of business-policy guidelines, on the basis of the Company's quarterly balance sheet;
- decisions on transactions referred to the authority of the Board of Directors by the Company's organisational and operational regulations;
- decision on launching, suspending, or terminating the performance of certain banking activities within the scope of the licensed activities of the Company;
- designation of the employees entitled to sign on behalf of the Company;
- decision on the increasing of registered capital at the terms set out in the relevant resolution of the General Meeting;
- decision to acquire treasury shares at the terms set out in the relevant resolution of the General Meeting;
- decision on approving internal loans in accordance with the Credit Institutions Act;
- decision on the approval of regulations that fundamentally determine banking operations, or are referred to its authority by the Credit Institutions Act. The following shall qualify as such regulations:
  - the collateral evaluation regulations,
  - the risk-assumption regulations,
  - the customer rating regulations,
  - the counterparty rating regulations,
  - the investment regulations,
  - the regulations on asset classification, impairment and provisioning,
  - the organisational and operational regulations, which contain the regulations on the procedure for assessing requests related to large loans,
  - the regulations on the transfer of signatory rights;
- the decision on approving the Rules of Procedure of the Board of Directors;
- decision on steps to hinder a public takeover procedure;
- decision on the acceptance of a public purchase offer received in respect of treasury shares;
- decision on the commencement of trading in the shares in a regulated market (flotation);
- decision on the cessation of trading in the shares in a given regulated market, provided that the shares are traded in another regulated market (hereinafter: transfer).

The Board of Directors is exclusively authorised to:

- decide, in the cases specified in the Civil Code, on acceptance of the Company's interim balance sheet, subject to the prior approval of the Supervisory Board;
- decide, instead of the General Meeting, to pay an advance on dividends, subject to the preliminary approval of the Supervisory Board;
- make decisions regarding any change in the Company's name, registered office, permanent establishments and branches, and in the Company's activities – with the exception of its core activity – and, in relation to this, to modify the Articles of Association should it become necessary to do so on the basis of the Civil Code or the Articles of Association;
- make decision on mergers (if, according to the provisions of the law on the transformation, merger and demerger of legal entities, the approval of the General Meeting is not required in order for the merger to take place).

The Board of Directors directly exercises employer's rights in respect of the Chairman & CEO. The person affected by a decision may not participate in the decision making. Employer rights in respect of the executive directors of the Company are exercised by the Board of Directors through the Chairman & CEO, with the proviso that the Board of Directors must be notified in advance of the appointment and dismissal of the Deputy CEOs. With regard to issues related to the exercising of employer's rights in respect of employees, the Company is represented by the Chief Executive Officer and by the senior company employees defined in the Organisational and Operational Regulations of the Company, in accordance with the delegation of authority approved by the Board of Directors. If the Chairman of the Board of Directors and the CEO are different persons, the employer rights in respect of the other executive directors of the Company (CEO, deputy CEOs) are exercised by the Board of Directors through the Chairman of Board of Directors, with the proviso that the Board of Directors shall be notified in advance of the appointment and dismissal of the CEO and Deputy CEOs. With regard to issues related to the exercising of employer's rights in respect of employees, the Company is represented by the persons defined in the Organisational and Operational Regulations of the Company, in accordance with the delegation of authority approved by the Board of Directors.

The Board of Directors may delegate, to individual members of the Board of Directors, to executive directors employed by the Company, and to the heads of the individual service departments, any task that does not come under the exclusive authority of the Board of Directors in accordance with these Articles of Association or a General Meeting resolution.

The Company may acquire treasury shares in accordance with the rules of the Civil Code. The prior authorisation of the General Meeting is not required for the acquisition of treasury shares if the acquisition of the shares is necessary in order to prevent a direct threat of severe damage to the Company (this provision is not applicable in the event of a public purchase offer aimed at buying up the Company’s shares), as well as if the Company acquires the treasury shares in the context of a judicial procedure aimed at the settlement of a claim to which the Company is entitled, or in the course of a transformation.

The Company has not made agreements in the meaning of points (j) and (k) in paragraph 95/A of Act No. C of 2000 on Accounting.

Ownership structure of OTP Bank Plc.

Description of owner	Total equity					
	1 January 2019			31 December 2019		
	Ownership share	Voting rights[1]	Quantity	Ownership share	Voting rights[1]	Quantity
Domestic institution/company	19.32%	19.47%	54,092,340	18.84%	18.86%	52,750,611
Foreign institution/company	60.01%	60.49%	168,017,080	77.01%	77.10%	215,635,699
Domestic individual	3.53%	3.56%	9,896,546	2.98%	2.98%	8,344,202
Foreign individual	0.10%	0.10%	278,348	0.13%	0.13%	356,377
Employees, senior officers	0.85%	0.86%	2,376,450	0.80%	0.80%	2,240,465
Treasury shares[2]	0.80%	0.00%	2,242,143	0.12%	0.00%	323,520
Government held owner	0.08%	0.08%	219,072	0.08%	0.08%	219,372
International Development Institutions	0.05%	0.05%	143,308	0.04%	0.04%	122,218
Other[3]	15.26%	15.39%	42,734,723	0.00%	0.00%	7,546
TOTAL	**100.00%**	**100.00%**	**280,000,010**	**100.00%**	**100.00%**	**280,000,010**

[1] Voting rights in the General Meeting of the Issuer for participation in decision-making.
[2] Treasury shares do not include the OTP shares held by ESOP (OTP Bank Employee Stock Ownership Plan Organization). Pursuant to Act V of 2013 on the Civil Code, OTP shares held by the ESOP are not classified as treasury shares, but the ESOP must be consolidated in accordance with IFRS 10 Consolidated Financial Statements standard. On 31 December 2019 ESOP owned 2,963,204 OTP shares.
[3] Non-identified shareholders according to the shareholders’ registry.

Number of treasury shares held in the year under review (2019)

	1 January	31 March	30 June	30 September	31 December
OTP Bank	168,583	159,961	443,966	336,795	323,520
Subsidiaries	2,073,560	2,073,560	0	0	0
TOTAL	2,242,143	2,233,521	443,966	336,795	323,520

Shareholders with over/around 5% stake as at 31 December 2019

Name	Number of shares	Ownership[1]	Voting rights[1,2]
MOL (Hungarian Oil and Gas Company Plc.)	24,000,000	8.57%	8.58%
KAFIJAT Ltd.	19,278,248	6.89%	6.89%
OPUS Securities S.A.	14,496,476	5.18%	5.18%
Groupama Group	14,335,745	5.12%	5.13%

[1] Rounded to two decimals
[2] Voting rights in the General Meeting of the Issuer for participation in decision-making.

Committees[4]

Members of the Board of Directors
Dr. Sándor Csányi – Chairman
Mr. Tamás Erdei – Deputy Chairman
Mr. Antal György Kovács
Mr. László Wolf
Mr. Mihály Baumstark
Dr. Tibor Bíró
Dr. István Gresa
Dr. Antal Pongrácz
Dr. László Utassy
Dr. József Vörös

Members of the Supervisory Board
Mr. Tibor Tolnay – Chairman
Dr. Gábor József Horváth – Deputy Chairman
Mr. Olivier Péqueux
Dr. Márton Gellért Vági
Ms. Klára Bella
Mr. András Michnai

Members of the Audit Committee
Dr. Gábor József Horváth – Chairman
Mr. Tibor Tolnay
Mr. Olivier Péqueux
Dr. Márton Gellért Vági

The résumés of the committee and board members are available in the Corporate Governance Report/Annual Report.

Personal and organizational changes

Mrs. Ágnes Rudas resigned from the membership of the Supervisory Board with effect from 12 April 2019.

The Annual General Meeting elected Mrs. Klára Bella as member of the Supervisory Board of the Company until the Annual General Meeting of the Company closing the 2019 business year but not later than 30 April 2020.

Concerning the audit of OTP Bank Plc.'s separate and consolidated annual financial statements in accordance with International Financial Reporting Standards for the year 2019, the Annual General Meeting is elected Deloitte Auditing and Consulting Ltd. (000083, H-1068 Budapest, Dózsa György út 84/c) as the Bank's auditor from 1 May 2019 until 30 April 2020.

According to the decision of Board of Directors of OTP Bank Mr. Tamás Erdei, member of the Board of Directors, was elected as Deputy Chairman of the Board of Directors with effect from 12 April 2019.

Operation of the executive boards

OTP Bank Plc. has a dual governance structure, in which the Board of Directors is the Company's executive body, while the Supervisory Board performs oversight tasks. The effective operation of Supervisory Board is supported by the Audit Committee.

In order to assist the performance of the governance functions the Board of Directors founded and operates, as permanent or special committees, such as the Management Committee or the Remuneration Committee, the Nomination Committee and the Risk Assumption and Risk Management Committee. To ensure effective operation OTP Bank Plc. also has a number of other permanent and special committees.

OTP Bank Plc. gives an account of the activities of the executive boards and the committees every year in its Corporate Governance Report.

The Board of Directors held 7, the Supervisory Board held 7 meetings, while the Audit Committee gathered 2 times in 2019. In addition, resolutions were passed by the Board of Directors on 145, by the Supervisory Board on 68 and by the Audit Committee on 20 occasions by written vote.

[4] Personal changes can be found in the „Personal and organizational changes" chapter.

Policy of diversity

OTP Bank Plc. determines and regulates the criteria for the selection of senior executives in line with European Union as well as domestic legal requirements and directives fundamentally determining the operation of credit institutions.

When designating members of the management bodies (Board of Directors, Supervisory Board) as well as appointing members of the Board of Directors and administrative members (Management), OTP Bank Plc. considers the existence of professional preparation, the high-level human and leadership competence, the versatile educational background, the widespread business experience and business reputation of the utmost importance, at the same time, it is also highly committed to taking efficient measures in order to ensure diversity with regard to corporate operation, including the gradual improvement in women's participation rate.

With this in mind, OTP Bank Plc.'s Nomination Committee continuously keeps tracking the European Union and domestic legislation relating to women's quota on its agenda, in that when unambiguously worded expectations are announced, it promptly takes the necessary measures.

It is important to note, however, that, as a public limited company, the selection of the members of the management bodies falls within the exclusive competence of the General Meeting upon which – beyond its capacity to designate enforcing the above aspects to maximum effect – OTP Bank Plc. has no substantive influence.

For the purposes of OTP Bank Plc.'s Articles of Association, a Board of Directors comprising 5-11 members and a Supervisory Board comprising 5-9 members are set up at the Bank. The Board of Directors in its current form operates with 10 members and has no female member, while the Supervisory Board comprises 6 members and has one female member as of 12 April, 2019. The management of OTP Bank Plc. currently comprises 7 members and has no female member.

ENVIRONMENTAL POLICY, ENVIRONMENTAL PROJECTS

Environmental protection principles

OTP Group is committed to the protection of the environment and the preservation and low-impact use of natural resources. OTP Bank's environmental activities are regulated in its Environmental Regulation. The Regulation both ensures legal compliance, and aims to consider environmental criteria and integrate them into the Bank's business operations in order to minimize the environmental impacts of operating and maintaining the Bank's organisation. The Regulation also sets out the rules on implementing the principles of sustainable procurement. OTP Group members operate in full compliance with environmental legislation, and have not been subject to fines in 2019 either. In CDP's Climate Change questionnaire, OTP Bank achieved a rating of C.

Environmental protection in relation to the provision of banking services

In its lending, our banking group expects – and always verifies – compliance with the applicable environmental regulations. At the time of the internal approval by the bank of the financing of a project and before the first disbursement, the availability of the required permits and authorisations and compliance with their provisions is always verified by one or more external consultants (legal and/or technical experts); the Bank subsequently ensures compliance by obtaining regular declarations from the customer and conducting its own monitoring. Any violations of undertakings/requirements are sanctioned in the credit limit agreements. The long-term sustainability of environmental impacts is taken into consideration as a subjective factor in the credit ratings of large corporate clients.

With regards to project financing, our group's lending policy gives a high priority to financing projects aimed at the utilisation of renewable energy sources. In 2019, we financed the construction of 2 solar plants, and provided refinancing for a wind farm. Our decisions on the financing of renewables projects are made at the group level; all projects implemented in 2019 are located in Hungary. Renewables projects represented approximately 50% of our 2019 project financing. Within our project financing, we also give special attention and priority to office building projects with sustainability / environmental qualifications.

OTP Bank leads the consortium offering products of the Hungarian Development Bank (MFB), including both EU-refinanced and those of MFB's own origination, at the MFB Points set up in our branches. Environmental protection has been a priority for our available credit lines since 2017. Households and businesses can access preferential terms under these loan products to implement energy projects (improving energy efficiency and increasing the reliance on renewables). The SME Energy Loan developed for businesses (GINOP-8.4.1/B-16) was especially successful; the only reason we stopped selling it was because the credit line was depleted. By the end of 2019, we had disbursed HUF 4.7 billion of this loan product. We disbursed HUF 14.6 billion to retail customers by 2019; that product will be available in 2020 as well.

Our efforts to reduce the direct environmental impact of the banking group's operations are centered around improving its energy efficiency and reducing its paper usage. The banking group analyses and manages the environmental risks associated with its operations within its operational risk management process. Potential risks are identified in the course of the annual process-based self-assessment.

Energy consumption and business travel

OTP Group uses state-of-the-art technology in new construction and renovation projects; we also continue to expand our use of LED technology. At OTP Bank, the renovation of branches includes the refurbishment of heat centres and the use of LED lighting at all locations. As part of the renovation process, we are also replacing air conditioning units, ensuring that the new units use environmentally friendly coolants. In 2019, we refurbished 16 branches of our parent bank. At several members of our banking group, computers are switched off centrally after extended periods of being idle; we also remind our employees of the importance of switching them off.

We are intensifying our reliance on renewable energy, taking financial considerations into account. Whenever a branch of the parent bank is renovated, we always examine the possibility of installing solar panels and heat pumps. In 2019, we installed solar panels at one branch, and heat pumps at two branches. As a result, our systems generated a total of 2051 GJ energy from solar power. The central archives facility owned by Monicomp Zrt has been using geothermal energy for several years. The solar panels of OTP banka Hrvatska in Croatia generated a total of 144 GJ of solar power in 2019.

The number of business trips and the size of the vehicle fleet is determined by the changes in business activities; we have made it standard practice to find cost-effective solutions for trips. As before, OTP Bank's vehicle policy stipulated carbon dioxide limits in 2019 as well; all of our available car categories now also include environmentally friendly models. By the end of 2019, OTP Bank's fleet included 2 electric cars and 5 hybrid cars. Both the number of vehicles and the total distance travelled increased by 4% during the year, due company cars having been made available to a larger segment of our workforce once more, as a type of employment benefit.

It will be possible to cut down on the amount of business travel by using video conferencing, an option that we are using more and more each year. We have continued to expand the number of video conferencing rooms available to us in 2019. Our existing bicycle storage facilities continued to be available to both customers and employees in 2019. Among our new subsidiaries, Mobiasbanca offers bicycle storage facilities.

We present the energy consumption figures of OTP Bank. The bank's overall energy consumption decreased by 5% compared to the previous year. However, due to our workforce expansion, this represents an 11% reduction in per-capita energy consumption.

Energy consumption quantities, OTP Bank	2019
Total energy consumption (GJ)	251,155
Per-capita energy consumption (GJ)	28.20

Energy consumption data are derived from readings; the measured consumption quantities are converted to energy using the local average calorific values.
The denominator for the per-capita figure is the average statistical headcount.

Efforts to reduce paper use

OTP Group has been making a consistent effort to reduce paper use and printing. In 2019, we set ourselves the goal of maintaining our earlier achievements and to further expand the use of recycled paper at OTP Bank. We managed to deliver on this commitment in part; our use of office paper rose by 2%, whereas our total paper use increased by 4% year-on-year. Nevertheless, our percentage of recycled paper to total office paper usage increased to 7%, and we plan to increase that figure even further in the future. OTP Bank has been using recycled paper for its account statements and marketing publications for several years. Having significantly cut its paper use in the previous year, our subsidiary in Croatia achieved an additional reduction of 5% in its paper consumption in 2019, and continues to use recycled paper almost exclusively.

Paper usage, OTP Bank	2019
Total amount of paper used (tons) (office, packaging, indirect)	764
Per capita paper use (kg)[1]	86

[1] *The denominator is the average statistical headcount.*

Sustainable use and waste management

We follow a principle of using all our equipment, devices and machines for the longest reasonably possible time. We explicitly aim to use furniture until the end of its lifecycle, reusing it multiple times and ensuring the compatibility of replacements. OTP Bank, DSK Bank, OTP Bank Romania and OTP banka Srbija all follow the practice of making charitable donations of any furniture no longer used but in good condition, alongside functioning IT equipment (mostly computers and laptops) to institutions and organisations in need.

In order to cut the use of plastics in its archiving practices, our parent bank replaced ethylene bags and plastic wallets with paper products in 2019. We plan to roll out the use of recycled plastic stamps in 2020. In 2019, we installed filtered water dispensers in the head office buildings; as a result, the volume of selectively collected PET bottles fell by approximately 20%. Since 2019, OTP Bank has been using only ECO Label personal hygiene products.

Our subsidiaries in Montenegro and Slovakia use toner refills to reduce toner and ink cartridge waste.

Waste collection remained unchanged in most respects in 2019. All members of OTP Group collect and manage hazardous waste and paper containing business secrets selectively, in compliance with the relevant laws and regulations. The selective collection of non-confidential paper waste, PET bottles and – in a number of locations – glass is available in the head office buildings of OTP Bank. Our Serbian subsidiary collects used toner cartridges and paper waste selectively in its branches and head office buildings. Our Romanian subsidiary collects all paper, metal, glass and plastic selectively. Our Ukrainian subsidiary operates selective paper collection at its head office building. Our Croatian subsidiary has collected waste selectively for years, whereas the Slovak subsidiary does so at locations facilitated by the municipality. DSK Bank operates selective waste collection at its sites in Sofia and Varna.

Attitude shaping

Several members of our Banking Group have a tradition of raising awareness and taking joint action to protect environmental and natural resources.

- In 2019, OTP Bank continued to support the Hungarian Hikers' Association's efforts to popularise hiking.
- The head office of DSK Bank has been active for years in the national PET bottle cap collection scheme; the caps are used for producing wheelchairs. In 2019, 100 volunteers from DSK Bank and Expressbank planted 1000 trees to contribute towards cleaner air in Budapest.
- Volunteers from our Romanian subsidiary participated in the "Let's Do It, Romania!" cleanup day.
- In 2019, CKB of Montenegro has once again participated in nationwide forestation and environmental protection campaigns.

NON-FINANCIAL STATEMENT – OTP BANK PLC. (SEPARATE)

The social, environmental and wider economic performance and impacts of OTP Group are reported primarily in its Sustainability Report. The Sustainability Report for 2019 is a group-level report that meets the GRI (Global Reporting Initiative) Standard, and is certified by an independent third party. It is available in a digital version on OTP Bank's website (https://www.otpfenntarthatosag.hu/hu/jelentesek). The information in this chapter is provided for the purpose of compliance with the relevant provisions in the Accounting Act, while also adhering to the principle of keeping the duplication of information to the minimum. Some of the information concerning environmental protection is provided in the chapter on Environmental Policy and Environmental Protection Measures.

Our products and services are aimed at helping our customers meet their needs and achieve their financial goals. Our bank is committed to ethical business conduct in all respects; our principles are set out in our Code of Ethics, which is binding for all our employees and agents. Our operations and services have significant social and environmental impacts; our objective is to manage risks responsibly while taking advantage of opportunities and delivering positive outcomes.

Providing responsible financial services and managing credit risk

Transparent and prudent operations are the cornerstone of all our activities, and maintaining the stability of the Banking Group remains a high priority. Our Compliance Policy formulates our principles and guidelines for the fair treatment of customers, as well as our compliance with consumer protection requirements. We follow the principles of ethical product design when designing our products, and our New Product Policy requires
– among other things – that we investigate any potential risks affecting consumers.

We fulfil our role as financial intermediary in a way that guarantees the security of our customers' savings through the entire process. Our rules ensure that we comply with the responsible lending standards concerning the prevention of excessive debt, the provision of fair, clear, comprehensive and easily visible information, and the recommendation of appropriate products. In addition to all of the above, our debtor protection programmes remained in place in 2019 as well, helping customers facing payment difficulties.

We invest and lend the money deposited with us, ensuring that it will not serve illegal purposes, or those contrary to the values of society. OTP Bank will not finance

- customers whose financing is forbidden by international accords, EU acts or national laws;
- those whose activity is likely to violate public morals or social value systems, or is connected to crime;
- those who are connected, directly or indirectly, to criminal activities or to the deliberate violation or evasion of legal regulations;
- transactions classified as prohibited business sectors (e.g. illegal arms trade, prohibited gambling, drug trade, or any other illegal activity);
- transactions that fail to meet environmental standards.

We ensure adherence to our principles, and maintain this balance through:

- our strict Risk Management Policy,
- our annually revised Lending Policy,
- our continuously developed credit approval system.

Our Lending Policy clearly defines the industries, business lines and activities in which we pursue active business operations, as well as the areas where we do not wish to assume risks.

We offer our customers banking options to suit their individual needs, and provide our services at the highest standard of quality, while continuing to improve and innovate.

Our objective is to provide equal access for persons living with disability, through services adapted to their special needs. We are working towards accomplishing this goal, in line with OTP Bank's Accessibility Strategy. Accessibility is integrated into our website, which supports one-handed use, and provides accessibility options including text-to-speech software and video content transcripts. In 2019, physical accessibility was provided in all our branches but one. Tactile guide strips are available in 41% of our branches. For several years now, our customers have been able to request special-needs services at the queue management machine, with physical push buttons and tactile strips also assisting them in using the device. We introduced KONTAKT Interpreter Services at 120 additional branches in 2019; this is a service allowing a sign language interpreter to assist with administration tasks through live video chat. Induction loop amplifier systems are also available (in 109 branches), while 25 of our high-traffic branches have employees who can serve customers using sign language. We have made text-to-speech software available on 600 of our ATMs.

OTP Bank's stated objective is to serve its customers faultlessly. In order to improve the satisfaction of our customers, we are also continually improving our complaint management practices. Our Complaint Management Regulation and Complaint Management Policy are available to view in our branches, as well as on our website.

Complaints in 2019 concerned mostly external fraud, cash withdrawal at ATMs, fees and charges. Business lines mostly received complaints regarding retail bank accounts and electronic services, as well as consumer loans.

Customer complaint data, OTP Bank[1]	2019
Number of warranted complaints	125,242
Percentage of warranted complaints	66%
Compensation paid (HUF million)	144

[1] *Including OTP Building Society and OTP Mortgage Bank data.*

We use TRI*M methodology to measure the satisfaction of our retail customers. OTP Bank's client retention power stood at 74 points in 2019, which was somewhat below its level in the preceding six-month period, but is still a good result, comparable to the average of other banks in Central Europe (76 points).

Security and data protection

Security is a top concern for us. The principles and main guidelines concerning security at the bank are set forth in the Security Policy, which is approved by the Board of Directors. The Policy covers all aspects of security, including IT and cyber security, which have become increasingly important. The processing and protection of personal data is covered by the Compliance Policy, which is also approved by the Board of Directors. Both Policies prescribe the regular evaluation of risks, and the need for maintaining and enhancing awareness. The Deputy CEO responsible for the IT Division is in charge of the bank's data processing and the protection of customers' personal data.

We prioritise the use of increasingly advanced security systems and raising awareness among our employees and customers. In 2019, we provided information about phishing attacks to our customers on our website and through the SmartBank application; we also published awareness-raising articles in the media, discussing the topics of information security and card security. We joined the European Cyber Security Month by running an in-house cyber and information security campaign and scheduling our mandatory e-learning courses about security awareness, anti-money laundering and terrorism financing, and general bank security for this period; all employees must complete these courses and pass an examination on them every year. Our sales partners have also received training. We have completed the preparations for our Security Operations Center (SOC) in 2019, and will launch it in 2020.

Fight against corruption and against the practice of bribery

The Code of Ethics and the Anti-Corruption Policy of OTP Bank contains provisions on the fight against corruption and against the practice of bribery, also on the acceptance of individual differences and the denial of discrimination (https://www.otpbank.hu/portal/en/EthicalDeclaration, https://www.otpbank.hu/static/portal/sw/file/OTP_EtikaiKodex_EN.pdf, https://www.otpbank.hu/static/portal/sw/file/OTP_Anti_Corruption_Policy.pdf). As it can be read in the foreword of the Code and the Anti-Corruption Policy as well, the Bank and its management have adopted the principle of zero tolerance towards corruption and bribery, taking a definite stance against all forms of corruption and giving full support to the fight against corruption. In addition, the Code states that "As an ethical and compliant institution, the Bank and its management are fully committed to ensuring observance of all relevant legislation, including anti-corruption statutes."

The Bank has set up an ethics reporting system (whistleblowing), which is for the reporting and the handling of the reports on suspected or actual violation of the values set forth in the Code of Ethics, where anonymous reporting of ethics issues is also possible. The Bank conducts inquiries for the purpose of detecting, preventing anomalies in connection with reports made or anomalies it became aware of otherwise.

Through the Bank's ethics reporting system a total of 14 reports were received in 2019, six of them was reclassified as complaints and two case's investigation resulted in declaring ethics offense – though not due to corruption, bribery or discrimination.

The Bank has created and maintains its Code of Ethics to keep reputational risk and financial losses, which may incur in relation to corruption, bribery and discrimination, on a minimum level. Both employees and newcomers receive education on the Code of Ethics, and in addition, the acceptance to be bound by it is a prerequisite for their employment.

Any requests from third parties affecting human rights are treated by the Bank as a priority.

We manage the risks regarding the fight against corruption and bribery within the framework of our operational risk management process. Our quarterly compliance reports cover the changes in risks as well as the steps necessary steps to manage them. The reports are presented to the Management Committee and the Board of Directors; the annual report is also submitted to the Supervisory Board.

Citizenship

OTP Bank is one of the most generous charitable donors in Hungary. In 2019, we gave close to HUF 3.5 billion in charitable donations. We aim to provide genuine and effective help by supporting programmes and causes that serve the interests of society as a whole. In order to efficiently and productively use available resources, we cooperate with a number of local non-governmental organisations in addition to our own foundations, concentrating our donated funds and monitoring their usage and the results achieved. We continue to focus our efforts primarily on:

- developing financial literacy, attitude-shaping (52%);
- sponsoring culture and the arts: creating and preserving values;
- empowerment: helping the disadvantaged and those in need; and
- sports.

The Humanitas Social Foundation supports vulnerable communities and individuals with a focus on healthcare and education; donation recipients are selected through an application process.

The OTP Fáy András Foundation provides financial and economic education services, a key element of which is operating the OK Educational Centre. The Centre offers free financial and economic education and career programmes to between 20,000 to 25,000 primary and secondary school students each year. Our centres in Budapest and Nyíregyháza use innovative teaching techniques and methodologies to provide knowledge sharing through compelling experiences. The Centre also plays an important role in raising financial awareness at festivals, exhibitions and road shows. Making the Centre available to more and more people is a key priority: in addition to running a club for educators and working with ELTE University to provide advanced teacher training, we have also produced training materials for adults and developed new digital content, including the BanKing educational card game. Over recent years, our courses and methodologies have received numerous awards and certifications; in 2019, we were granted the right to become a partner organisation to OECD – INFE (International Network on Financial Education).

In addition to our charitable donations, we also believe in the importance of shaping social attitudes; in 2019, we highlighted the problems of overconsumption. As part of our campaign, we have supplemented our awareness-raising activities with publishing the results of our research into the characteristics of overconsumption on our website, with a psychologist offering expert advice on how to avoid unnecessary spending.

In 2019, our OTP Local Value (OTP Helyi Érték) programme received the Corporate Volunteering Programme of the Year award from Volunteering Hungary - Centre of Social Innovation (ÖKA). In addition to the programmes implemented with application funding, we have also organised volunteering events, with a over 2000 employees taking part in volunteer programmes.

Responsible employment

Our employees play a key role in OTP Bank's success. Ethical conduct and compliance with the law remain core principles in our human resource management as well. OTP Bank analyses and manages the risks pertaining to employment within its operational risk management process. The interests of our employees are represented by their trade union, with a Collective Agreement setting out the rights and obligations of every employee.

OTP Bank's employees (31 December 2019)	Total	Men	Women
Employees[1], total	9,318	2,975	6,343
Distribution by gender	100%	31.9%	68.1%
Turnover rate[2]	13.0%	13.2%	12.8%

[1] Definition: closing statistical number of active employees, i.e. exluding employees on permanent leave. Part-time employees are counted as one employee.
[2] Compared to the end-of-year headcount; includes termination of employment both by employee and by employer, as well as retirement.

In our Code of Ethics, our Bank declares its commitment to providing a safe and healthy working environment and states its expectation of mutual respect between executive officers and employees, including the prohibition of discrimination and harassment. We consistently employ the principle of "equal pay for equal work," including providing equal pay to men and women for the same position and performance. Within the objective limitations of specific job descriptions, we allow for flexible working hours and part-time employment options. Home office arrangements are available at all our central departments. We encourage healthy lifestyle choices, offering a complex health insurance package, and subsidizing recreation and sports activities.

Adopted in 2019, the core objectives of our human resource strategy are to improve employee experience and commitment. Our stated priorities are leadership development, talent and succession planning and improved performance management, as well as supporting a culture of feedback. We believe it is vital to have a fair and uniform assessment system focusing on core competencies, and to provide career opportunities based on fully transparent principles and requirements. The growth and development of our employees is a priority for us. All our employees attend professional training courses and competency development, based on their performance assessments; we also operate a talent programme.

We regularly measure employee satisfaction. In 2019, we performed a joint assessment of satisfaction and loyalty, in order to evaluate our bank's ability to retain its employees. Our retention index was calculated as 64 points , which is within the range considered optimal.

Short description of the business model of the company

OTP Bank is the market-leading credit institution in Hungary. As for its business model, the Bank offers high-quality financial services to retail, private banking, micro and small business, medium and large corporate, as well as municipality clients through both its branch network and its steadily developing digital channels. The Bank provides comprehensive retail and corporate banking services: its activities include deposit collection from customers and raising money from the money and capital markets. On the asset side, OTP Bank offers mortgage loans, consumer credits, working capital and investment loans to companies, as well as loans to municipalities, whereas its liquidity reserves are invested in money and capital market instruments. Moreover, the Bank provides a wide range of state-of-the-art services, including the areas of wealth management, investment services, payment services, treasury and other services.

In addition, OTP Bank's Hungarian subsidiaries deliver a wide range of further financial services. The Bank owns foreign subsidiaries in many countries of Central and Eastern Europe through capital investments.

Non-financial performance indicators

- Internal audit: 196 closed investigations, 1,213 proposals, 1,213 accepted proposals;
- Compliance with Budapest Stock Exchange (BSE) Recommendations (yes/no ratio): 85 yes, 0 no;
- Compliance: 10 closed consumer protection related investigations, 3,374 reports due to suspicion of money laundering;
- Bank security: expected damages arising from crimes detected: HUF 530.0 million, prevented damages: HUF 640.9 million; reported criminal charges: 233; the ratio of bank card abuses 0.0073% which is better than the European average (OTP Bank 0.03025%, European average 0.0416%);
- Ethics issues: 14 ethics reports, establishing ethics offense in 2 case.

LIST OF NON-AUDIT SERVICES BY SERVICE CATEGORIES USED BY THE BANK

The statutory audit of OTP Bank is carried out by Deloitte Auditing and Consulting Ltd., in addition to which the following services were contracted:

- Assurance engagements other than audits or reviews of historical financial information (ISAE 3000);
- Engagements to perform agreed-upon procedures regarding financial information (AUP according to ISRS 4400);
- Reviewing the internal processes and compliance with laws and regulations.

SUPPLEMENTARY DATA

FOOTNOTES TO THE TABLE 'CONSOLIDATED NET PROFIT BREAKDOWN BY SUBSIDIARIES (IFRS)'

General note: regarding OTP Core and other subsidiaries, profit after tax is calculated without received dividends and net cash transfers (and other adjustment items). Dividends and net cash transfers received from non-group member companies are shown on a separate line in one sum in the table, regardless to the particular receiver or payer group member company.

(1) Aggregated adjusted after tax profit of OTP Core, Corporate Centre and foreign banks.

(2) OTP Core is an economic unit for measuring the result of core business activity of OTP Group in Hungary. Financials of OTP Core are calculated from the partially consolidated IFRS financial statements of certain companies engaged in OTP Group's 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; OTP Bank Employee Stock Ownership Plan Organization was included from 4Q 2016; OTP Card Factory Ltd., OTP Facility Management Llc., MONICOMP Ltd. and OTP Real Estate Lease Ltd. were included from 1Q 2017 (from 1Q 2019 OTP Real Estate Lease Ltd. was eliminated from OTP Core); OTP Mobile Service Llc. and OTP Ingatlanpont Llc. were included from 1Q 2019. The consolidated accounting results of these companies are segmented into OTP Core and Corporate Centre. Latter is a virtual entity.

(3) Within OTP 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 OTP 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 Bank 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 Car Ltd, Merkantil Leasing Ltd, OTP Fund Management Ltd, OTP Real Estate Fund Management Ltd, OTP Life Annuity Ltd; foreigners: banks, leasing companies, factoring companies.

(4) The result and balance sheet of OTP Factoring Bulgaria EAD is included. From 1Q 2019 Expressbank AD and its subsidiaries, OTP Leasing EOOD and Express Factoring EOOD (altogether: Express Group) were included into the Bulgarian operation. From 1Q 2019 the statement of recognised income and balance sheet of DSK Leasing AD was included.

(5) Splitska banka and its subsidiaries were consolidated into OBH's results from 2Q 2017. From 1Q 2019 the statement of recognised income and balance sheet of OTP Leasing d.d. and SB Leasing d.o.o. was included.

(6) Including the financial performance of OTP Factoring Serbia d.o.o from 4Q 2010. Vojvodjanska banka has been consolidated from 4Q 2017. From 1Q 2019 the statement of recognised income and balance sheet of OTP Lizing d.o.o and OTP Services d.o.o. was included. The balance sheet of the newly acquired OTP banka Srbija was included in 3Q 2019, its P&L from 4Q 2019.

(7) From 2Q 2010 the statement of recognised income and balance sheet of OTP Faktoring SRL was included. From 1Q 2019 the statement of recognised income and balance sheet of OTP Leasing Romania IFN S.A. was included.

(8) From 4Q 2008 figures are based on the aggregated financial statements of OTP Bank JSC and LLC OTP Leasing Ukraine, from 4Q 2009 the result of OTP Factoring Ukraine LLC was also aggregated.

(9) From 1Q 2015 to 4Q 2017 the performance of OTP Bank Russia does not contain the volumes and financial result of Touch Bank. From 1Q 2015 the statement of recognised income and balance sheet of LLC MFO "OTP Finance" was included in the Russian performance.

(10) Including the financial performance of OTP Factoring Montenegro d.o.o. (merged into CKB Bank in 4Q 2018). From 3Q 2019 the statement of recognised income and balance sheet of Podgoricka banka was included.

(11) From 2012 on P&L data and related indices are adjusted for the special banking tax and the Slovakian Deposit Protection Fund contributions being introduced again in 2014, as well as the contribution into the Resolution Fund. Including the financial performance of OTP Faktoring Slovensko s.r.o.

(12) After tax profit of Merkantil Bank without dividends, net cash transfer, other adjustment items and provisioning for investments in subsidiaries. Merkantil Car was merged into Merkantil Bank in 3Q 2018. For the 2018 base periods the aggregated after tax profit of Merkantil Bank and Car was presented.

(13) Companies comprising Foreign Leasing in previous periods (OTP Leasing Romania IFN S.A. (Romania), OTP Leasing d.d. and SB Leasing d.o.o. (Croatia), DSK Leasing AD (Bulgaria), OTP Lizing d.o.o, OTP Services d.o. (Serbia)) were presented as part of the operations in the given countries starting from 1Q 2019.

(14) LLC AMC OTP Capital, OTP Asset Management SAI S.A. (Romania), DSK Asset Management EAD (Bulgaria).

(15) OTP Buildings s.r.o. (Slovakia), Velvin Ventures Ltd. (Belize), R.E. Four d.o.o., Novi Sad (Serbia), SC Aloha Buzz SRL, SC Favo Consultanta SRL, SC Tezaur Cont SRL (Romania), Cresco d.o.o. (Croatia), OTP Osiguranje d.d. (Croatia), OTP Solution Fund (Ukraine).

(16) Total Hungarian subsidiaries: sum of the adjusted after tax results of Hungarian group members, Corporate Centre and related eliminations.

(17) Total Foreign subsidiaries: sum of the adjusted after tax profits of foreign subsidiaries.

CALCULATION OF THE ADJUSTED LINES OF IFRS PROFIT AND LOSS STATEMENTS, AS WELL AS THE ADJUSTED BALANCE SHEET LINES PRESENTED IN THE BUSINESS REPORT, AND THE METHODOLOGY FOR CALCULATING THE FX-ADJUSTED VOLUME CHANGES

In order to present Group level trends in a comprehensive way in the Report, the presented consolidated and separate profit and loss statements of this report were adjusted in the following way, and the adjusted P&Ls are shown and analysed in the Report. Consolidated accounting figures together with Separate accounting figures of OTP Bank are still disclosed in the Financial Data section.

Adjustments affecting the income statement:

- The after tax effect of adjustment items (certain, typically non-recurring items from banking operations' point of view) are shown separately in the Statement of Recognised Income. The following adjustment items emerged in the period under review and the previous year: received dividends, received and paid cash transfers, the effect of goodwill/investment impairment charges, special tax on financial institutions, the impact of fines imposed by the Hungarian Competition Authority, the effect of acquisitions, the initial NPV gain on the monetary policy interest rate swap (MIRS) deals, and the one-off impact of regulatory changes related to FX consumer contracts in Serbia.

  Beside the Slovakian banking levy, the total amount of the special banking tax includes and the Slovakian Deposit Protection Fund contributions being introduced again in 2014, and the contribution into the Resolution Fund in Slovakia, too. Within banking taxes, the special tax booked by the Romanian subsidiary was also included in 4Q 2019.
- Until 4Q 2017 other non-interest income elements stemming from provisioning release in connection with provisions on loans originated before the acquisitions of the subsidiaries have been reclassified to and deducted from the volume of *Provision for impairment on loan and placement losses* line in the income statement. Starting from 1Q 2018 this income from the release of pre-acquisition provisions was presented amongst the *Provision for impairment on loan and placement losses* line both in the accounting and adjusted P&L structure.
- In 4Q 2019 the following items have been moved – even retroactively for the 2018 base periods – from the Other operating expenses line among the Net interest income after loss allowance, impairment and provisions line: *Release of loss allowance on securities at fair value through other comprehensive income and on securities at amortized cost*, *Provision for commitments and guarantees given*, *Release of impairment of assets subject to operating lease and of investment properties*. In the adjusted P&L structure these items are presented amongst the *Other provisions (adj.)* line (through the *Structural correction between Provision for loan losses and Other provisions* adjustment line).
- Other non-interest income is shown together with Gains and losses on real estate transactions, Net insurance result (appearing in the accounting P&L structure from 3Q 2017), Gains and losses on derivative instruments, and Gains and losses on non-trading loans mandatorily at fair value through profit or loss lines, but without the above mentioned income from the release of pre-acquisition provisions and without received cash transfers. However other non-interest expenses stemming from non-financial activities are added to the adjusted net other non-interest income line, therefore the latter incorporates the net amount of other non-interest income from non-financial activities.
- From 2Q 2014 OTP Bank's share in the change in the shareholders' equity of companies consolidated with equity method is reclassified from the After tax dividends and net cash transfers line to the Net other non-interest result (adj.) without one-offs line. In the addition to this, OTP Bank has changed the way how private equity funds managed by PortfoLion are recorded. As a result of this, as opposed to the previous method of recording the funds at book value (initial book value less impairments), starting from 3Q 2019 the funds are evaluated based on their net asset value. The change in the carrying value was reclassified to the Net other non-interest result (adj.) without one-offs line in the adjusted P&L structure. Furthermore, received cash transfers within the framework of the subsidy programme targeting the expansion of POS network in Hungary were reclassified from the After tax dividends and net cash transfers line to the Net other non-interest result (adj.) without one-offs line.
- Other provisions are separated from other expenses and shown on a separate line in the adjusted profit or loss statement.
- Other administrative expenses have been adjusted in the following way in order to create a category comprising administrative cost items exclusively. Other costs and expenses and other non-interest expenses were included into the adjusted Other non-interest expenses. At the same time, the following cost items were excluded from adjusted other non-interest expenses: paid cash transfers (except for movie subsidies and cash transfers to public benefit organisations, whereas from 1Q 2019 certain part of cash transfers to public benefit organizations was presented amongst net fees and commissions), Other other non-interest expenses stemming from non-financial activities, and special tax on financial institutions.
- Tax deductible transfers (offset against corporate taxes) paid by Hungarian group members from 3Q 2012 were reclassified from Other non-interest expenses to Corporate income tax. As a result, the net P&L effect of these transfers (i.e. the paid transfer less the related corporate tax allowances) is recognised in the corporate income tax line of the adjusted P&L. The amount of tax deductible transfers offset against the special tax on financial institutions is shown on a net base on the special tax on financial institutions line.
- The financial transaction tax paid from the beginning of 2013 in Hungary is reclassified from other (administrative) expenses to net fee and commission income, both on consolidated and OTP Core level.

- OTP Group is hedging the revaluation result of the FX provisions on its FX loans and interest claims by keeping hedging open FX positions. In the accounting statement of recognized income, the revaluation of FX provisions is part of the risk costs (within line "Provision for loan losses"), other provisions and net interest income lines, whereas the revaluation result of the hedging open FX positions is made through other non-interest income (within line "Foreign exchange result, net"). The two items have the same absolute amount but an opposite sign. As an adjustment to the accounting statement of income, these items are eliminated from the adjusted P&L. By modifying only the structure of the income statement, this correction does not have any impact on the bottom line net profits.
- The Compensation Fund (established in Hungary in order to indemnify the victims of Quaestor and Hungarian Securities Ltd.) contributions booked from 1Q 2017 are recognized on the Other administrative expenses line of the accounting income statement, and are presented on the financial transaction tax and/or Special tax on financial institutions line the in the adjusted P&L structure (due to the tax deductibility).
- In case of OTP Banka Slovensko and OTP Bank Romania the total revaluation result of intra-group swap deals – earlier booked partly within the net interest income, but also on the Foreign exchange gains and Net other non-interest result lines within total Other non-interest income – is presented on a net base on the net interest income line starting from 1Q 2016.
- Due to the introduction of IFRS16 from 2019, certain items previously presented on the Other non-interest expenses line (rental fees) were moved to the interest expenses and depreciation lines in the accounting income statement. These items were shifted back to the Other non-interest expenses line in the adjusted P&L structure.
- Performance indicators (such as cost/income ratio, net interest margin, risk cost to average gross loans as well as ROA and ROE ratios, etc.) presented in this report are calculated on the basis of the adjusted profit and loss statement excluding adjustment items (unless otherwise indicated). Adjustment items include received dividends and net cash transfers, the effect of goodwill/investment impairment charges, special tax on financial institutions, the impact of fines imposed by the Hungarian Competition Authority, the effect of acquisitions, and the initial NPV gain on the monetary policy interest rate swap (MIRS) deals.
- Within the report, FX-adjusted statistics for business volume developments and their product breakdown are disclosed, too. For FX adjustment, the closing cross currency rates for the current period were used to calculate the HUF equivalent of loan and deposit volumes in the base periods. Thus the FX-adjusted volumes will be different from those published earlier.

Adjustments affecting the balance sheet (as well):

- On 17 February 2020 OTP Bank announced the signing of the sale agreement of its Slovakian subsidiary. According to IFRS 5 the Slovakian bank was presented as a discontinued operation in the consolidated income statement and balance sheet. With regards to the consolidated accounting balance sheet, all assets and liabilities of the Slovakian bank was shown on one-one line of the 2019 balance sheet (there was no change in the 2018 closing balance sheet structure). As for the consolidated accounting income statement, the Slovakian contribution for both 2018 and 2019 was shown separately from the result of continued operation, on the Loss from discontinued operation line, i.e. the particular P&L lines in the 'continuing operations' section of the accounting P&L don't incorporate the contribution from the Slovakian subsidiary. As opposed to this, the adjusted financial statements presented in this Summary incorporated the Slovakian banks' balance sheet and P&L contribution in the relevant respective lines, in line with the structure of the financial statements monitored by the management. Therefore, new adjustment lines have been inserted in the tables reconciling the accounting income statement and balance sheet lines with the adjusted ones.
- Starting from 3Q 2017, in the adjusted balance sheets presented in the analytical section of the report, the total amount of accrued interest receivables related to DPD90+ loans (until 4Q 2018) and Stage 3 loans under IFRS 9 (from 1Q 2019) were netted with the provisions created in relation to the total exposure toward those particular clients, in case of the affected Group members. Therefore, this adjustment made on the accounting balance sheet has an impact on the consolidated gross customer loans and allowances for loan losses.

ADJUSTMENTS ON THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (IFRS)

	2019 HUF million	2018 HUF million
Net interest income	**697,049**	**613,385**
(-) Revaluation result of FX provisions	30	(44)
(+) Presentation of the revaluation result of intra-group swaps on the net interest income line realized at the Romanian and Slovakian operations	76	(116)
(-) Netting of interest revenues on DPD90+ loans with the related provision (booked on the Provision for loan losses line) at OTP Core and CKB	3,135	3,340
(-) Effect of acquisitions	1,583	795
(-) Initial NPV gain on the monetary policy interest rate swap (MIRS) deals	0	20,685
(-) Reclassification due to the introduction of IFRS16	(1,652)	
(-) Netting of the interest subsidy repaid by OTP Mortgage Bank to the State by the already created other provision for that purpose (and other related items) in 3Q 2019	(1,535)	
(+) Presentation of the contribution from discontinued operation on the adjusted P&L lines	10,733	11,338
Net interest income (adjusted)	**706,298**	**599,832**
Net fees and commissions	**340,445**	**274,136**
(+) Financial Transaction Tax	(61,920)	(56,958)
(-) Effect of acquisitions	(42)	(14)
(+) Shifting of certain cash transfers to public benefit organisations to the Net fees and commissions line	0	
(-) Netting of the interest subsidy repaid by OTP Mortgage Bank to the State by the already created other provision for that purpose (and other related items) in 3Q 2019	(30)	
(+) Presentation of the contribution from discontinued operation on the adjusted P&L lines	3,906	3,539
Net fees and commissions (adjusted)	**282,504**	**220,731**
Foreign exchange result	**39,470**	**33,893**
(-) Revaluation result of FX positions hedging the revaluation of FX provisions	(5,166)	3,153
(-) Presentation of the revaluation result of intra-group swaps on the net interest income line realized at the Romanian and Slovakian operations	(477)	(2,598)
(-) Effect of acquisitions	1	34
(+) Presentation of the contribution from discontinued operation on the adjusted P&L lines	66	265
Foreign exchange result (adjusted)	**45,177**	**33,568**
Gain/loss on securities, net	**11,611**	**1,345**
(-) Shifting of Non-trading securities mandatorily at fair value through profit or loss line to Net other non-interest income from 1Q 2019	1,914	
Gain/loss on securities, net (adjusted) with one-offs	**9,697**	**1,345**
(-) Revaluation result of the treasury share swap agreement (booked as Gain on securities, net (adj) at OTP Core)	(2,675)	(1,117)
Gain/loss on securities, net (adjusted) without one-offs	**12,373**	**2,461**
Result of discontinued operation	**(4,668)**	**(586)**
(-) Effect of acquisitions	(6,037)	
Result of discontinued operation (adjusted)	**1,369**	**(586)**
Gains and losses on real estate transactions	**8,231**	**1,890**
Result of discontinued operation (adj)	**1,369**	**(586)**
(+) Other non-interest income	**102,015**	**23,309**
(+) Gains and losses on derivative instruments	**1,048**	**6,459**
(+) Net insurance result	**849**	**673**
(+) Losses on loans measured mandatorily at fair value through other comprehensive income and on securities at amortized cost	**1,282**	**597**
(-) Received cash transfers	174	575
(+) Received cash transfers within the framework of the subsidy programme targeting the expansion of POS network in Hungary	0	480
(+) Other other non-interest expenses	(6,778)	(6,510)
(+) Change in shareholders' equity of companies consolidated with equity method, and the change in the net asset value of the private equity funds managed by PortfoLion	1,862	246
(-) Investment impairment in relation to the sale of Express Life Bulgaria (presented on the *Goodwill/investment impairment charges* adjustment line on consolidated level)	(163)	
(-) Effect of acquisitions	79,538	0
(-) Presentation of the revaluation result of intra-group swaps on the net interest income line realized at the Romanian and Slovakian operations	553	2,482
(-) One-off impact of regulatory changes related to CHF consumer contracts in Croatia	0	(26)
(-) One-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania	(277)	(375)
(-) Impact of fines imposed by the Hungarian Competition Authority	0	0
(-) Netting of refunds related to legal cases (accounted for on the Net other non-interest result line) with the release of provisions created earlier for these cases (accounted for on the Other provisions line) from 1Q 2017 at OTP Bank Romania	(483)	(630)
(+) Shifting of Non-trading securities mandatorily at fair value through profit or loss line to Net other non-interest income from 1Q 2019	1,914	
(+) Presentation of the contribution from discontinued operation on the adjusted P&L lines	(1,072)	602
Net other non-interest result (adjusted) with one-offs	**31,376**	**25,134**
(-) Gain on the repurchase of own Upper and Lower Tier2 Capital (booked as Net other non-interest result (adj) at OTP Core and at the Corporate Centre)	0	0
Net other non-interest result (adjusted) without one-offs	**31,376**	**25,134**
Provision for impairment on loan and placement losses	**(49,120)**	**(22,616)**
(+) Loss allowance on securities at fair value through other comprehensive income and on securities at amortized cost	**9**	**607**
(+) Provision for commitments and guarantees given	**(7,995)**	**(6,481)**
(+) Impairment of assets subject to operating lease and of investment properties	**280**	**(326)**
(-) Revaluation result of FX provisions	5,176	(3,088)
(-) One-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania	263	(37)
(+) Netting of interest revenues on DPD90+ loans with the related provision (booked on the Provision for loan losses line) at OTP Core and CKB	3,135	3,340
(-) Effect of acquisitions	(19,868)	(33)
(-) One-off impact of regulatory changes related to FX consumer contracts in Serbia	(2,127)	
(-) Structural correction between Provision for loan losses and Other provisions	(7,705)	(6,200)
(+) Presentation of the contribution from discontinued operation on the adjusted P&L lines	(46)	(3,164)
Provision for impairment on loan and placement losses (adjusted)	**(29,474)**	**(19,283)**
Dividend income	**7,955**	**5,733**
(+) Received cash transfers	174	575
(+) Paid cash transfers	(13,195)	(9,465)
(-) Sponsorships, subsidies and cash transfers to public benefit organisations	(13,139)	(9,449)
(-) Received cash transfers within the framework of the subsidy programme targeting the expansion of POS network in Hungary	0	480
(-) Dividend income of swap counterparty shares kept under the treasury share swap agreement	5,710	5,111
(-) Change in shareholders' equity of companies consolidated with equity method, and the change in the net asset value of the private equity funds managed by PortfoLion	1,862	246
(+) Presentation of the contribution from discontinued operation on the adjusted P&L lines	3	3
After tax dividends and net cash transfers	**505**	**457**
Depreciation and goodwill impairment	**(81,935)**	**(56,100)**
(-) Goodwill impairment charges	(4,887)	(5,962)
(-) Effect of acquisitions	(7,881)	(3,266)

	2019 HUF million	2018 HUF million
(-) Reclassification due to the introduction of IFRS16	(14,280)	
(+) Presentation of the contribution from discontinued operation on the adjusted P&L lines	(1,495)	(1,337)
Depreciation (adjusted)	**(56,383)**	**(48,210)**
Personnel expenses	**(276,754)**	**(244,600)**
(-) Effect of acquisitions	(3,777)	(1,594)
(+) Presentation of the contribution from discontinued operation on the adjusted P&L lines	(7,024)	(6,441)
Personnel expenses (adjusted)	**(280,002)**	**(249,447)**
Income taxes	**(49,902)**	**(34,000)**
(-) Corporate tax impact of goodwill/investment impairment charges	(3,378)	1,233
(-) Corporate tax impact of the special tax on financial institutions	1,623	1,562
(+) Tax deductible transfers (offset against corporate taxes)	(3,802)	(2,057)
(-) Corporate tax impact of the effect of acquisitions	(5,713)	573
(-) Corporate tax impact of the one-off impact of regulatory changes related to FX consumer contracts in Serbia	483	0
(-) Corporate tax impact of the initial NPV gain on the monetary policy interest rate swap (MIRS) deals	0	(1,862)
(-) Netting of the interest subsidy repaid by OTP Mortgage Bank to the State by the already created other provision for that purpose (and other related items) in 3Q 2019 (corporate tax impact)	146	
(+) Presentation of the contribution from discontinued operation on the adjusted P&L lines	(56)	163
Corporate income tax (adjusted)	**(46,921)**	**(37,400)**
Other operating expense	**(44,758)**	**(19,173)**
(-) Other costs and expenses	(9,172)	(7,080)
(-) Other non-interest expenses	(19,973)	(15,975)
(-) Effect of acquisitions	(7,575)	1,606
(-) Revaluation result of FX provisions	(40)	(21)
(-) One-off impact of regulatory changes related to CHF consumer contracts in Croatia	0	26
(-) One-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania	14	411
(-) Impact of fines imposed by the Hungarian Competition Authority	0	2,000
(-) Netting of refunds related to legal cases (accounted for on the Net other non-interest result line) with the release of provisions created earlier for these cases (accounted for on the Other provisions line) from 1Q 2017 at OTP Bank Romania	483	630
(-) Netting of the interest subsidy repaid by OTP Mortgage Bank to the State by the already created other provision for that purpose (and other related items) in 3Q 2019	1,420	
(+) Structural correction between *Provision for loan losses* and *Other provisions*	(7,705)	(6,200)
(+) Presentation of the contribution from discontinued operation on the adjusted P&L lines	(12)	85
Other provisions (adjusted)	**(17,633)**	**(6,885)**
Other administrative expenses	**(282,528)**	**(259,823)**
(+) Other costs and expenses	(9,172)	(7,080)
(+) Other non-interest expenses	(19,973)	(15,975)
(-) Paid cash transfers	(13,195)	(9,465)
(+) Film subsidies and cash transfers to public benefit organisations	(13,139)	(9,449)
(-) Shifting of certain cash transfers to public benefit organisations to the Net fees and commissions line	0	
(-) Other other non-interest expenses	(6,778)	(6,510)
(-) Special tax on financial institutions (recognised as other administrative expenses)	(17,792)	(16,848)
(-) Tax deductible transfers (offset against corporate taxes)	(3,802)	(2,057)
(-) Financial Transaction Tax	(61,920)	(56,958)
(-) Impact of fines imposed by the Hungarian Competition Authority	0	(1,435)
(-) Effect of acquisitions	(10,963)	(4,945)
(+) Reclassification due to the introduction of IFRS16	(15,933)	
(+) Presentation of the contribution from discontinued operation on the adjusted P&L lines	(5,003)	(5,052)
Other non-interest expenses (adjusted)	**(231,298)**	**(199,161)**

ADJUSTMENTS OF CONSOLIDATED IFRS BALANCE SHEET LINES

	2019 HUF million	2018 HUF million
Cash, amounts due from Banks and balances with the National Banks	1,784,378	1,547,272
(+) Allocation of *Assets classified as held for sale* among balance sheet lines	57,586	
Cash, amounts due from Banks and balances with the National Banks (adjusted)	1,841,963	1,547,272
Placements with other banks, net of allowance for placement losses	410,079	420,606
(+) Allocation of *Assets classified as held for sale* among balance sheet lines	354	
Placements with other banks, net of allowance for placement losses (adjusted)	410,433	420,606
Securities at fair value through other comprehensive income	2,426,779	1,883,849
(+) Allocation of *Assets classified as held for sale* among balance sheet lines	759	
Securities at fair value through other comprehensive income (adjusted)	2,427,537	1,883,849
Gross customer loans (incl. accrued interest receivables related to loans)	12,585,969	8,751,955
(-) Accrued interest receivables related to DPD90+ / Stage 3 loans	35,450	32,613
(+) Allocation of *Assets classified as held for sale* among balance sheet lines	391,490	
Gross customer loans (incl. accrued interest receivables related to loans) (adjusted)	12,942,009	8,719,342
Allowances for loan losses	(706,907)	(685,364)
(-) Allocated provision on accrued interest receivables related to DPD90+ / Stage 3 loans	(35,450)	(32,613)
(+) Allocation of *Assets classified as held for sale* among balance sheet lines	(23,033)	
Allowances for loan losses (adjusted)	(694,490)	(652,751)
Securities at amortized costs	1,968,072	1,740,520
(+) Allocation of *Assets classified as held for sale* among balance sheet lines	27,555	
Securities at amortized costs (adjusted)	1,995,627	1,740,520
Tangible and intangible assets, net	595,128	420,484
(+) Allocation of *Assets classified as held for sale* among balance sheet lines	10,545	
Tangible and intangible assets, net (adjusted)	605,673	420,484
Other assets	785,456	312,018
(+) Allocation of *Assets classified as held for sale* among balance sheet lines	(465,255)	
Other assets (adjusted)	320,201	312,018
Amounts due to banks, the National Governments, deposits from the National Banks and other banks, and Financial liabilities designated at fair value through profit or loss	844,261	392,706
(+) Allocation of *Liabilities directly associated with assets classified as held-for-sale* among balance sheet lines	1,898	
Amounts due to banks, the National Governments, deposits from the National Banks and other banks , and Financial liabilities designated at fair value through profit or loss (adjusted)	846,158	392,706
Deposits from customers	15,171,308	11,285,085
(+) Allocation of *Liabilities directly associated with assets classified as held-for-sale* among balance sheet lines	351,346	
Deposits from customers (adjusted)	15,522,654	11,285,085
Other liabilities	1,171,805	586,445
(+) Allocation of *Liabilities directly associated with assets classified as held-for-sale* among balance sheet lines	(353,244)	
Other liabilities (adjusted)	818,561	586,445

STATEMENT OF PROFIT OR LOSS OF OTP BANK PLC., ACCORDING TO IFRS STANDARDS AS ADOPTED BY THE EUROPEAN UNION (SEPARATE)[1]

	2019 HUF million	2018 HUF million	Change %
Interest income accounted for using the effective interest rate method	239,395	214,821	11
Income similar to interest income accounted for not using the effective interest rate method	83,111	75,912	9
Interest incomes	***322,506***	***290,733***	***11***
Interest expenses	***(119,384)***	***(83,778)***	***43***
NET INTEREST INCOME	**203,122**	**206,955**	**(2)**
Loss allowance on loans, placements and financial lease receivables	(39,121)	(9,978)	292
NET INTEREST INCOME AFTER RISK COST	**164,001**	**196,977**	**(17)**
Income from fees and commissions	238,995	212,556	12
Expense from fees and commissions	(35,591)	(34,339)	4
Net profit from fees and commissions	**203,404**	**178,217**	**14**
Foreign exchange gains, net	13,247	9,510	39
Gains on securities, net	8,188	1,960	318
Gains on financial assets /liabilities measured at fair value through profit or loss	1,890	625	202
Gains on deivative instruments, net	4,715	3,706	27
Dividend income	78,887	68,481	15
Other operating income	7,505	5,179	45
Other operating expense	26,515	(2,867)	-
Net operating gain	**140,947**	**86,594**	**63**
Personnel expenses	(115,035)	(104,819)	10
Depreciation and amortization	(29,925)	(21,232)	41
Other administrative expenses	(160,198)	(151,104)	6
Other administrative expenses	**(305,158)**	**(277,155)**	**10**
PROFIT BEFORE INCOME TAX	**203,194**	**184,633**	**10**
Income tax expense	(9,840)	(11,191)	(12)
NET PROFIT FOR THE YEAR	**193,354**	**173,442**	**11**

[1] The rows of the table are based on audited numbers, but the structure of the table can differ from the IFRS financial statements presented in the Financial Statements section of the Annual Report (certain rows might be merged or represent different level of aggregation).

STATEMENT OF FINANCIAL POSITION OF OTP BANK PLC., ACCORDING TO IFRS STANDARDS AS ADOPTED BY THE EUROPEAN UNION (SEPARATE)[1]

	2019 HUF million	2018 HUF million	Change %
Cash, amounts due from banks and balances with the National Bank of Hungary	289,686	360,855	(20)
Placements with other banks, net of allowance for placement losses	1,560,142	1,074,840	45
Repo receivables	45,539	14,139	222
Financial assets at fair value through profit or loss	172,229	155,042	11
Financial assets at fair value through other comprehensive income	1,485,977	1,451,905	2
Loans at amortised cost	3,285,338	2,571,979	28
Loans mandatorily measured at fair value through profit or loss	29,731	32,745	(9)
Investments in subsidiaries	1,542,538	1,177,573	31
Securities at amortised cost	1,447,224	1,431,789	1
Property and equipment	77,754	70,442	10
Intangible assets	53,282	39,883	34
Right of use assets	13,607	0	
Investments properties	2,381	2,333	2
Deferred tax assets	0	1,241	(100)
Derivative financial assets designated as hedge accounting relationships	16,677	12,221	36
Other assets	116,699	109,201	7
TOTAL ASSETS	**10,138,804**	**8,506,188**	**19**
Amounts due to banks and deposits from the National Bank of Hungary and other banks	738,054	458,182	61
Repo liabilities	462,621	279,854	65
Deposits from customers	6,573,550	5,741,498	14
Leasing liabilities	13,660	0	
Liabilities from issued securities	43,284	46,694	(7)
Financial liabilities at fair value through profit or loss	28,861	32,231	(10)
Derivative financial liabilities designated as held for trading	83,088	82,838	0
Derivative financial liabilities designated as hedge accounting relationships	10,023	6,925	45
Deferred tax liabilities	5,875	0	
Other liabilities	**246,676**	**236,570**	4
Subordinated bonds and loans	279,394	110,454	153
TOTAL LIABILITIES	**8,485,086**	**6,995,246**	**21**
Share capital	**28,000**	**28,000**	0
Retained earnings and reserves	1,628,354	1,484,906	10
Treasury shares	(2,636)	(1,964)	34
TOTAL SHAREHOLDERS' EQUITY	**1,653,718**	**1,510,942**	**9**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**10,138,804**	**8,506,188**	**19**

[1] The rows of the table are based on audited numbers, but the structure of the table can differ from the IFRS financial statements presented in the Financial Statements section of the Annual Report (certain rows might be merged or represent different level of aggregation).

STATEMENT OF PROFIT OR LOSS OF OTP BANK PLC., ACCORDING TO IFRS STANDARDS AS ADOPTED BY THE EUROPEAN UNION (CONSOLIDATED)[1]

	2019 HUF million	2018 HUF million	Change %
CONTINUING OPERATIONS			
Interest income accounted for using the effective interest rate method	777,502	647,650	20
Income similar to interest income accounted for not using the effective interest rate method	116,642	98,379	19
Interest incomes	***894,144***	***746,029***	***20***
Interest expenses	***(197,095)***	***(132,644)***	***49***
NET INTEREST INCOME	**697,049**	**613,385**	**14**
Loss allowance on loans, placements and financial lease receivables	(49,120)	(22,616)	117
Release of loss allowance on securities at fair value through other comprehensive income and on securities at amortized cost	9	607	(99)
Provision for commitments and guarantees given	(7,995)	(6,481)	23
Release of impairment of assets subject to operating lease and of investment properties	280	(326)	(186)
NET INTEREST INCOME AFTER LOSS ALLOWANCE, IMPAIRMENT AND PROVISIONS	**640,223**	**584,569**	**10**
Income from fees and commissions	413,348	333,082	24
Expense from fees and commissions	(72,903)	(58,946)	24
NET PROFIT FROM FEES AND COMMISSIONS	**340,445**	**274,136**	**24**
Foreign exchange gains, net	40,518	40,352	0
Foreign exchange result	39,470	33,893	16
Gains and losses on derivative instruments	1,048	6,459	(84)
Gains on securities, net	11,611	1,345	763
Gains on financial assets /liabilities measured at fair value through profit or loss	1,282	597	115
Dividend income	7,955	5,733	39
Other operating income	111,093	25,872	329
Gains and losses on real estate transactions	8,231	1,890	335
Other non-interest income	102,015	23,309	338
Net insurance result	849	673	26
Other operating expense	(44,758)	(19,173)	133
NET OPERATING GAIN	**127,701**	**54,726**	**133**
Personnel expenses	(276,754)	(244,600)	13
Depreciation and amortization	(77,048)	(50,138)	54
Goodwill impairment	(4,887)	(5,962)	(18)
Other administrative expenses	(282,528)	(259,823)	9
OTHER ADMINISTRATIVE EXPENSES	**(641,217)**	**(560,523)**	**14**
PROFIT BEFORE INCOME TAX	**467,152**	**352,908**	**32**
Income tax expense	**(49,902)**	**(34,000)**	**47**
NET PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS	**417,250**	**318,908**	**31**
From this, attributable to:			
Non-controlling interest	341	97	252
Owners of the company	416,909	318,811	31
DISCONTINUED OPERATIONS			
LOSS FROM DISCONTINUED OPERATION	**(4,668)**	**(586)**	697
PROFIT FROM CONTINUING AND DISCOUNTINUED OPERATION	**412,582**	**318,322**	30

[1] The rows of the table are based on audited numbers, but the structure of the table can differ from the IFRS financial statements presented in the Financial Statements section of the Annual Report (certain rows might be merged or represent different level of aggregation).

STATEMENT OF FINANCIAL POSITION OF OTP BANK PLC., ACCORDING TO IFRS STANDARDS AS ADOPTED BY THE EUROPEAN UNION (CONSOLIDATED)[1]

	2019 HUF million	2018 HUF million	Change %
Cash, amounts due from banks and balances with the National Banks	1,784,378	1,547,272	15
Placements with other banks, net of loss allowance for placements	410,079	420,606	(3)
Financial assets at fair value through profit or loss	251,990	181,356	39
Securities at fair value through other comprehensive income	2,426,779	1,883,849	29
Loans at amortized cost	11,846,260	8,032,068	47
Loans mandatorily at fair value through profit or loss	32,802	34,525	(5)
Associates and other investments	20,822	17,591	18
Securities at amortized cost	1,968,072	1,740,520	13
Property and equipment	320,431	253,773	26
Intangible assets and goodwill	242,219	166,711	45
Right-of-use assets	52,950	-	
Investment properties	41,559	38,115	9
Derivative financial assets designated as hedge accounting	7,463	15,201	(51)
Deferred tax assets	26,543	20,769	28
Other assets	227,349	237,932	(4)
Assets classified as held-for-sale	462,071	-	
TOTAL ASSETS	**20,121,767**	**14,590,288**	**38**
Amounts due to banks, the National Governments, deposits from the National Banks and other banks	813,399	360,475	126
Financial liabilities at fair value through profit or loss	30,862	32,231	(4)
Deposits from customers	15,171,308	11,285,085	34
Liabilities from issued securities	393,167	417,966	(6)
Derivative financial liabilities held for trading	86,743	73,316	18
Derivative financial liabilities designated as hedge accounting	10,709	7,407	45
Deferred tax liabilities	29,195	6,865	325
Leasing liabilities	54,194	50	
Other liabilities	628,468	498,807	26
Subordinated bonds and loans	249,938	81,429	207
Liabilities directly associated with assets classified as held-for-sale	362,496	-	
TOTAL LIABILITIES	**17,830,479**	**12,763,631**	**40**
Share capital	28,000	28,000	0
Retained earnings and reserves	2,319,263	1,864,204	24
Treasury shares	(60,931)	(67,999)	(10)
Non-controlling interest	4,956	2,452	102
TOTAL SHAREHOLDERS' EQUITY	**2,291,288**	**1,826,657**	**25**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**20,121,767**	**14,590,288**	**38**

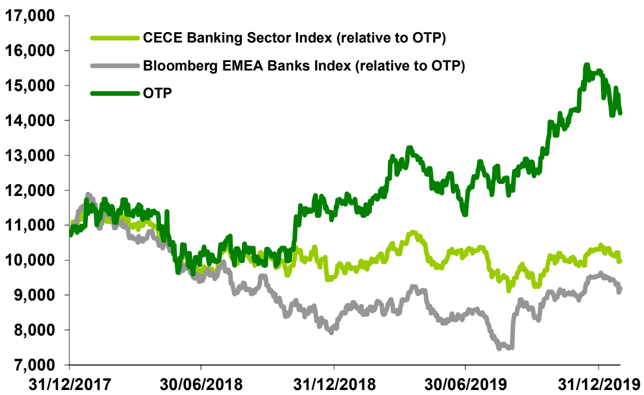
[1] The rows of the table are based on audited numbers, but the structure of the table can differ from the IFRS financial statements presented in the Financial Statements section of the Annual Report (certain rows might be merged or represent different level of aggregation).

BUSINESS REPORT
OTP BANK (CONSOLIDATED)

CONSOLIDATED FINANCIAL HIGHLIGHTS[5] AND SHARE DATA

Main components of the Statement of recognised income	2018 HUF million	2019 HUF million	Change %
Consolidated after tax profit	**318,322**	**412,582**	**30**
Adjustments (total)	**(7,013)**	**(6,470)**	**(8)**
Consolidated adjusted after tax profit without the effect of adjustments	**325,335**	**419,052**	**29**
Pre-tax profit	362,734	465,973	28
Operating profit	384,908	510,045	33
Total income	881,726	1,077,727	22
Net interest income	599,832	706,298	18
Net fees and commissions	220,731	282,504	28
Other net non-interest income	61,163	88,926	45
Operating expenses	(496,818)	(567,682)	14
Total risk costs	(26,167)	(47,107)	80
One off items	3,993	3,034	(24)
Corporate taxes	(37,400)	(46,921)	25
Main components of balance sheet closing balances	2018	2019	%
Total assets	14,590,288	20,121,767	38
Total customer loans (net, FX adjusted)	**8,306,712**	**12,247,519**	**47**
Total customer loans (gross, FX adjusted)	**9,001,577**	**12,942,009**	**44**
Allowances for possible loan losses (FX adjusted)	(694,866)	(694,490)	0
Total customer deposits (FX adjusted)	**11,547,410**	**15,522,654**	**34**
Issued securities	417,966	393,167	(6)
Subordinated loans	81,429	249,938	207
Total shareholders' equity	1,826,657	2,291,288	25
Indicators based on adjusted earnings	2018	2019	pps
ROE (from accounting net earnings)	18.7%	20.3%	1.6
ROE (from adjusted net earnings)	19.1%	20.6%	1.5
ROA (from adjusted net earnings)	2.3%	2.4%	0.1
Operating profit margin	2.76%	2.97%	0.21
Total income margin	6.33%	6.28%	(0.04)
Net interest margin	4.30%	4.12%	(0.19)
Cost-to-asset ratio	3.57%	3.31%	(0.26)
Cost/income ratio	56.3%	52.7%	(3.7)
Provision for impairment on loan and placement losses-to-average gross loans ratio	0.23%	0.28%	0.05
Total risk cost-to-asset ratio	0.19%	0.27%	0.09
Effective tax rate	10.3%	10.1%	(0.2)
Net loan/(deposit+retail bond) ratio (FX adjusted)	72%	79%	7
Capital adequacy ratio (consolidated, IFRS) - Basel3	18.3%	16.3%	(2.0)
Tier1 ratio - Basel3	16.5%	13.9%	(2.6)
Common Equity Tier1 ('CET1') ratio - Basel3	16.5%	13.9%	(2.6)
Share Data	2018	2019	%
EPS diluted (HUF) (from unadjusted net earnings)	1,215	1,575	30
EPS diluted (HUF) (from adjusted net earnings)	1,242	1,602	29
Closing price (HUF)	11,290	15,430	37
Highest closing price (HUF)	11,850	15,600	32
Lowest closing price (HUF)	9,600	11,270	17
Market Capitalization (EUR billion)	9.8	13.1	33
Book Value Per Share (HUF)	6,524	8,183	25
Tangible Book Value Per Share (HUF)	5,921	7,362	24
Price/Book Value	1.7	1.9	9
Price/Tangible Book Value	1.9	2.1	10
P/E (trailing, from accounting net earnings)	9.9	10.5	5
P/E (trailing, from adjusted net earnings)	9.7	10.3	6
Average daily turnover (EUR million)	18	16	(7)
Average daily turnover (million share)	0.5	0.4	(20)

SHARE PRICE PERFORMANCE



S&P GLOBAL RATINGS

OTP Bank and **OTP Mortgage Bank** – FX Long term credit rating	BBB

MOODY'S RATINGS

OTP Bank – FX long term deposits	Baa3
OTP Bank – Subordinated Foreign Currency Debt	Ba1
OTP Mortgage Bank – Covered mortgage bond	Baa1

FITCH'S RATINGS

OTP Bank Russia – Long term credit rating	BB+
Expressbank Bulgaria – Long term credit rating	BB+

[5] Structural adjustments made on consolidated IFRS profit and loss statement as well as balance sheet, together with the calculation methodology of adjusted indicators are detailed in the Supplementary data section of this Report.
General note: in the tables of the Business Report those changes aren't presented that are deemed not to carry a meaningful economic substance (for example, if the absolute value of the change exceeds 1000%).

MANAGEMENT'S ANALYSIS OF THE FULL-YEAR 2019 RESULTS OF OTP GROUP

According to the preliminary 4Q GDP data published on 14 February 2020 (4Q: +4.5% y-o-y), in 2019 Hungary was one of the most dynamically growing economies within the European Union with an annual growth rate of 4.9%, marking a moderate deceleration against the previous year. The key engine of growth was the strong domestic demand and the rapidly expanding investment activity, furthermore the contribution of the market services to overall growth was substantial and more pronounced than expected.

Balance indicators showed stable picture, employment rate increased further and the credit stance of Hungary within the investor community improved significantly: in 2019 both Fitch and S&P Global Ratings raised their credit rating by one notch (to 'BBB'). The country attracted a record level of FDI exceeding EUR 5 billion and by the beginning of 2020 the 5 year Hungarian CDS spreads tightened to their lows (48 bps).

Annual average inflation was 3.3% and NBH continued to pursue a loose monetary policy. The reference rate (3 months BUBOR) closed at 16 bps (+3 bps y-o-y) and the whole government bond yield curve shifted lower. Despite the headline inflation in December and also in January 2020 exceeded original expectations, the tax-adjusted core inflation remained in the tolerance range set by the central bank.

Among the economic policy measures, those aiming at boosting the demographic indicators enjoyed high priority: during the last five years under the Housing Subsidy Scheme for Families (CSOK) around HUF 318 billion non-refundable state subsidy was granted by end-2019, whereas the contracted volume of subsidized baby loans reached HUF 470 billion within the July-December period of 2019. Furthermore, there were several other targeted measures aiming at providing preferential funding sources to the actors of the real economy (Lending for Growth Scheme Fix, Bond Funding for Growth programme).

Household lending growth accelerated y-o-y: on sector level the newly disbursed household loan volumes expanded by 47.5% y-o-y, as a result the outstanding book grew by 15.5% y-o-y. In particular, cash loans advanced by 28%, housing loans by 9%, respectively; on the other hand home equities eroded by 14% y-o-y. The corporate exposures demonstrated an 11% expansion on a yearly base.

Across OTP Group, most of the national economies enjoyed a fairly positive macroeconomic environment. General market sentiment towards the Ukraine improved significantly: in December the country reached an agreement with IMF on a new standby facility and UAH shined as one of the best performing Emerging Markets currencies. Partially explained by those factors, in January Ukraine successfully returned to the euro bond market. In Russia a faster economic growth is expected in 2020 with further monetary easing. In Romania, fiscal overspending characterizing the previous periods came to end which is expected to have negative impact on economic growth; the political uncertainty has been on the rise.

Based on the most recent GDP data for 4Q 2019, as well as considering some negative developments hindering global growth perspectives, on 14 February the Hungarian minister for finance announced that the Government revised its 2020 growth forecast from 4.0% to 3.5%.

Consolidated earnings: HUF 419 billion adjusted annual after tax profit, robust business activity and loan volume growth, moderate contraction in NIM y-o-y, improving efficiency indicators, stable portfolio quality

2019 was another landmark in the history of OTP Group: altogether there were six M&A transactions being executed (Bulgaria, Albania, Montenegro, Moldova, Serbia and Slovenia). Those acquisitions improved existing market positions in a meaningful way, whereas in new markets OTP acquired banks with substantial market share.

While the purchase price of those particular transactions was not made public as a result of an agreement between the parties, the overall average price of the deals completed since 2017 was around the book value of the acquired entities.

In 2019 OTP Group posted the highest ever after tax profit in its history, whereas the closing volume of total assets exceeded HUF 20,000 billion. The all-time high accounting and adjusted profits were shaped by number of factors: on the back of the favourable regional macroeconomic performance, business activity got further boost, as a result of that and also due to the accomplished acquisitions, performing loan volumes increased y-o-y by a remarkable pace in European comparison +48%; within that the organic growth rate was 15% (FX-adjusted). Higher performing loan volumes off-set the negative impact of eroding margins resulting from the low and even declining interest rate environment, intensifying competition and tighter regulatory framework. Furthermore, the y-o-y weakening HUF against all local currencies across the Group had an upward pressure on P&L lines.

The overall credit quality has been stable, the ratio of Stage 3 loans declined further and the annual credit risk cost rate increased only moderately.

On 17 February 2020 OTP Bank announced the signing of the sale agreement of its Slovakian subsidiary. According to IFRS 5 the Slovakian bank was presented as a discontinued operation in the consolidated income statement and balance sheet. With regards to the consolidated accounting balance sheet, all assets and liabilities of the Slovakian bank was shown on one-one line of the 2019 balance sheet (there was no change in the 2018 closing balance sheet structure). As for the consolidated accounting income statement, the Slovakian contribution for both 2018 and 2019 was shown separately from the result of continued operation, on the *Loss from discontinued operation* line, i.e. the particular P&L lines in the 'continuing operations' section of the accounting P&L don't incorporate the contribution from the Slovakian subsidiary. As opposed to this, the *adjusted* financial statements presented in this Summary incorporated the Slovakian banks' balance sheet and P&L contribution in the relevant respective lines, in line with the structure of the financial statements monitored by the management. The consolidated *accounting* income statement and balance sheet can be found in the Financial Data section of this Summary, whereas the transparent presentation of the differences between the adjusted and accounting financial statements in the Supplementary Data section, respectively.

The full-year 2019 consolidated accounting after tax profit was HUF 412.6 billion, against HUF 318.3 billion reached in the base period, marking a 30% y-o-y increase.

The accounting ROE was 20.3% (+1.6 pps y-o-y).

The total volume of adjustment items in 2019 represented -HUF 6.5 billion (after tax), i.e. less than in 2018. Adjustment items were the follows:

- -HUF 16.2 billion negative impact of banking tax paid at the Hungarian, Slovakian and Romanian subsidiaries (after tax);
- -HUF 8.4 billion (after tax) on the effect of acquisitions line, which included the goodwill impairment booked in 2Q 2019 in relation to the Romanian subsidiary, and the tax shield stemming from the recognition or reversal of impairment charges booked in relation to the revaluation of investments in certain subsidiaries accounted for in 4Q 2019;
- -HUF 1.6 billion negative effect on the optional conversion of Serbian CHF mortgage loans into EUR;
- +HUF 19.3 billion acquisition effect (after tax), which included those items that were directly related to the recently completed acquisitions and on-going integration projects, as well as one-off effect of the sale of the Slovakian bank announced in February 2020;
- +HUF 0.5 billion dividend and cash transfer (after tax).

In 2019 OTP Group posted HUF 419 billion adjusted after-tax profit underpinning a 29% y-o-y increase. Without the contribution of the newly acquired Bulgarian, Albanian, Moldavian, Montenegrin and Serbian banks the annual profit would be HUF 389.7 billion (+20% y-o-y). The effective tax rate moderated by 0.2 pp y-o-y to 10.1%. The profit before tax increased by 28% y-o-y.

Out of the annual profit it was still OTP Core posting the highest individual net results (HUF 191 billion). Regarding the annual performances all subsidiaries managed to improve their earnings. Given its weight, the Bulgarian operation excelled itself with HUF 67.9 billion, followed by the Ukrainian (HUF 35.2 billion), Croatian (HUF 30.7 billion) and Russian profit contributions (HUF 28.1 billion). Besides, several other subsidiaries doubled or even tripled their annual profit. Of them the most outstanding improvement belonged to OTP Fund Management (Hungary): as a result of its all-time high success fee income the bottom-line profit jumped to 3.5-fold y-o-y (to HUF 15.1 billion).

When comparing the individual profit contributions of the newly acquired banks one should consider that their consolidation took place in different times.

In particular, the Bulgarian Expressbank contributed around HUF 18 billion through a 12-months period; the Albanian subsidiary brought in HUF 2.6 billion between April-December 2019 (9 months); both the Montenegrin and Moldavian subsidiaries contributed HUF 1.9 billion between August-December (5 months), whereas the newly acquired Serbian subsidiary boosted consolidated earnings by HUF 5 billion in 4Q (with its full quarterly earnings). As a result these five new entities brought in HUF 29.4 billion in total into the consolidated adjusted profit in 2019. In the case of the newly acquired Slovenian SKB Banka only its balance sheet was consolidated; its P&L contribution will be consolidated from 2020.

Based on those figures the share of the non-Hungarian operations' profit contribution within the Group's total profit increased from 38% in 2018 to 46% in 2019.

The consolidated adjusted ROE increased to 20.6% (+1.5 pps y-o-y). Out of that the Ukrainian subsidiary excelled itself with an annual ROE of 42.5%.

Since certain elements of the management guidance for 2019 were adjusted for acquisitions, in the below section the without acquisition balance sheet and P&L developments are also presented.

In 2019 total income grew by 22% y-o-y (+14% without acquisitions). The annual operating income advanced by 33% (+21% w/o acquisitions), whereas total risk costs jumped by 80% y-o-y (+46% w/o acquisitions), within that credit costs grew by 53%.

Despite the continued margin erosion and the more intense competition, the annual net interest income grew by 18% (+9% w/o acquisitions). Net fee and commission income had an excellent run (+28% y-o-y, and +21% w/o acquisitions), which, to a great extent, was related to the Hungarian operation: in 2019 the success fee revenues at OTP Fund Management (Hungary) comprised HUF 14 billion (versus HUF 1 billion in the previous year). Also, alongside the stronger transactional volumes and business activity, distribution fee revenues related to the retail Hungarian Government Bond Plus (MÁP Plus) gave further boost to this line at OTP Core.

The other net non-interest income grew by 45% y-o-y (+34% without acquisitions). On one hand this was shaped by the consolidation of the newly acquired banks, but stronger FX and securities gains helped, too.

The annual NIM was shaped by several factors: the low and further declining interest rate environment, stronger competition, the dilution effect of lower margins of the newly acquired subsidiaries, but also the weaker HUF (annual average HUF/UAH rate: -13.5%, HUF/RUB: -4.1%). As a result the annual net interest margin dropped by 19 bps y-o-y to 4.12%. However, the net interest margin adjusted for the acquisitions eroded only marginally (-4 bps y-o-y to 4.27%).

On a stand-alone base the single biggest NIM erosion hit the Russian operation (the Russian margin dropped from 15.21% to 13.58%), whereas the Bulgarian and Core operations faced continued margin erosion, albeit at a slower magnitude (from 3.37% to 3.0% and from 3.01% to 2.92%, respectively). Only the Ukrainian subsidiary enjoyed a NIM improvement y-o-y (from 9.21% to 9.55%).

Consolidated operating costs grew by 14% y-o-y, whereas the FX-adjusted increase without the effect of acquisitions was 6.0%. All cost elements grew: personnel expenses leaped by 12% reflecting the elevated wage inflation practically in every country. Amortization grew even faster, by 17% y-o-y. Administrative expenses advanced by 16% as a result of higher expenses supporting general banking activities (rental fees, office equipment costs), higher supervisory contributions and also the growing digital transformation expenses.

The consolidated cost-to-income ratio dropped by 3.7 pps y-o-y to 52.7%, whereas the cost-to-asset indicator declined from 3.57% to 3.31%.

Cost synergy benefits were already utilized at the Croatian operation throughout 2019.

In 2019 the consolidated FX-adjusted performing (Stage 1+2) loan volumes surged by 48%, by around HUF 4,000 billion y-o-y, out of which the organic growth represented 15% (HUF 1,252 billion). It was positive that volumes increased at all Group members and in each category.

As for the major credit categories in 2019 the Stage 1+2 micro and small enterprise book advanced the fastest y-o-y (+54%, and -3% w/o acquisitions), followed by the corporate portfolio (+52% and +17%) and the consumer exposure (+48% and +28%). The FX-adjusted mortgage loan portfolio advanced by 39% y-o-y (+9% w/o acquisitions).

Regarding the individual performances, y-o-y the Hungarian (+21%, within that +81% for consumer credits), Ukrainian (+27%), Romanian (+23%) and Croatian (+15%) organic loan expansions were the most remarkable. In case of other operations the yearly loan volume dynamics were distorted by acquisitions.

The FX-adjusted deposit portfolio grew slower than loans, by 34% y-o-y (+11% adjusted for the acquisitions).

As a result, the consolidated net loan-to-deposit ratio grew the fastest during the last couple of years and reached 79% (+7 pps y-o-y).

At the end of 4Q 2019 the gross operative liquidity reserves of the Group comprised EUR 7.4 billion equivalent.

In line with the improving macroeconomic environment and the steadily good recovery results of the work-out activity, risk indicators in total improved.

At the end of 2019 the ratio of Stage 3 loans was 5.9% (-2.7 pps y-o-y); the ratio of Stage 2 loans stood at 5.3% (-1.5 pps y-o-y).

In 2019 the DPD90+ volume growth (HUF 81 billion adjusted for FX and the effect of sales and write-offs, as well as for the one-off inclusion effect of newly acquired banks) was higher than in 2018 (HUF 24 billion). The consolidated DPD90+ ratio dropped significantly (-2.1 pps y-o-y) to 4.2%, lower than before the financial crisis. The decline was supported by sales and write-offs, too, in 2019 as a whole in the amount of HUF 133 billion (FX-adjusted), mainly at the Russian and Ukrainian subsidiaries. At OTP Core the DPD90+ ratio shrank to 3.2% (-1.3 pps y-o-y). The consolidated annual risk cost rate was 0.28% versus 0.23% in 2018.

Consolidated capital adequacy ratio (in accordance with BASEL III)

At the end of December 2019 the consolidated Common Equity Tier1 ratio under IFRS – including the annual net result less the proposed dividend amount – was 13.9%. This ratio equals to the Tier1 ratio.

Credit rating, shareholder structure

The sovereign rating improved in February 2019: both S&P Global and Fitch upgraded Hungary's rating to 'BBB'. Roughly a year later, on 27 January 2020 S&P Global raised OTP Bank Plc.'s and OTP Mortgage Bank's short and long term issuer credit ratings from 'BBB-/A-3' to 'BBB/A-2'. S&P affirmed its 'BBB/A-2' long- and short-term resolution counterparty ratings on OTP and OTP Mortgage Bank. The outlook remained stable for both banks. OTP Bank Plc.'s long term foreign-currency deposit rating by Moody's remained unchanged, i.e. it is 'Baa3' with stable outlook. Moody's assigned 'Ba1' foreign currency rating to the subordinated notes (Tier 2) issued by OTP Bank Plc. on 15 July 2019. Furthermore, on 17 July 2019 the long term local currency deposit rating of OTP Bank Plc. was upgraded from 'Baa2' to 'Baa1'. Simultaneously, OTP Mortgage Bank's issuer rating was upgraded by Moody's from 'Baa3' to 'Baa2' with stable outlook. OTP Mortgage Bank's covered bond rating remained 'Baa1'.

On 29 July 2019 Fitch upgraded OTP Bank Russia' 'BB' rating to 'BB+', the outlook is stable. Similar decision was made at the Bulgarian Expressbank: it was upgraded to 'BB+' from 'BB', the outlook is stable.

Regarding the ownership structure of the Bank, on 31 December 2019 the following investors had more than 5% influence (voting rights) in the Company: MOL (the Hungarian Oil and Gas Company, 8.58%), the Kafijat Ltd. (6.89%), OPUS Securities SA (5.18%) and Groupama Group (5.13%).

POST BALANCE SHEET EVENTS

Hungary

- On 27 January 2020, S&P Global Ratings raised its long and short-term issuer credit ratings (ICRs) on OTP Bank Plc. and OTP Mortgage Bank Ltd. to 'BBB/A-2' from 'BBB-/A-3'; while the 'BBB/A-2' long and short-term resolution counterparty ratings (RCR) on both banks were affirmed. The outlooks are stable.
- As a result of a group-wide Supervisory Review And Evaluation Process (SREP) the National Bank of Hungary imposed the below additional capital requirements for OTP Group, on consolidated level:
  - 0.78 pp in case of the Common Equity Tier1 (CET1) capital, accordingly the minimum requirement for the consolidated CET1 ratio is 5.28% (without regulatory capital buffers);
  - 1.03 pps in case of the Tier1 capital, accordingly the minimum requirement for the consolidated Tier1 ratio is 7.03% (without regulatory capital buffers);
  - 1.38 pps in case of the Total SREP Capital Requirement (TSCR), accordingly the minimum requirement for the consolidated capital adequacy ratio is 9.38% (without regulatory capital buffers).
- According to the preliminary statistics published by the Hungarian Central Statistical Office in 4Q 2019 the GDP advanced by 4.5% y/y, as a result the annual growth rate was 4.9%. Due to the increasing external risk factors the Government cut back its original 4% growth estimation to 3.5% for 2020.
- On 14 February 2020 S&P Global Ratings revised its outlook from stable to positive on Hungary's sovereign credit ratings ('BBB').
- On 17 February 2020 OTP Bank announced that it signed an agreement about the sale of its 99.44% stake in its Slovakian subsidiary to the Belgian KBC Bank NV.

Romania

- On 11 January 2020 the Government Emergency Ordinance no. 1/2020 ruled that „in the year 2020 the tax on assets is not calculated and not due".

Russia

- On 21 January 2020 a new Russian government has been approved with Mikhail Mishustin as Prime Minister.
- On 7 February 2020 the Russian Central Bank cut the key policy rate from 6.25% to 6.0%.

Ukraine

- On 30 January 2020 the Ukrainian Central Bank lowered its benchmark interest rate by 250 bps to 11%.

Croatia

- The Croatian Supreme Court ruling in September 2019 concerning the unfairness of unilateral amendment and the FX variability clauses of the CHF-based consumer loans, and the opinion announced by the Civil Division of the Supreme Court in January 2020 about the statute of limitations, and also the upcoming ruling of the Supreme Court (due until the 17th of March) about the scope of the loan contracts the declared unfairness refers to, can potentially have ramifications on the Croatian subsidiary of OTP Bank. The potential financial effect, however, cannot be quantified at the moment. Borrowers may sue the banks for reimbursement individually. The final verdict of the Supreme Court can be contested at the Constitutional Court of Republic of Croatia.

CONSOLIDATED AFTER TAX PROFIT BREAKDOWN BY SUBSIDIARIES (IFRS)[6]

	2018 HUF million	2019 HUF million	Change %
Consolidated after tax profit	**318,322**	**412,582**	**30**
Adjustments (total)	**(7,013)**	**(6,470)**	**(8)**
Consolidated adjusted after tax profit without the effect of adjustments	**325,335**	**419,052**	**29**
Banks total[1]	308,831	385,622	25
OTP Core (Hungary)[2]	180,445	190,956	6
Corporate Centre[3]	6,190	3,478	(44)
DSK Group (Bulgaria)[4]	47,293	67,879	44
OBH (Croatia)[5]	24,961	30,719	23
OTP Bank Serbia[6]	2,999	10,430	248
OTP Bank Romania[7]	3,850	6,309	64
OTP Bank Ukraine[8]	24,415	35,223	44
OTP Bank Russia[9]	16,420	28,127	71
CKB Group (Montenegro)[10]	2,214	6,377	188
OTP Bank Albania	-	2,616	
Mobiasbanca (Moldova)	-	1,936	
OBS (Slovakia)[11]	44	1,575	
Leasing	9,827	7,115	(28)
Merkantil Bank (Hungary)[12]	7,437	7,115	(4)
Foreign leasing companies (Croatia, Bulgaria, Romania, Serbia)[13]	2,391		
Asset Management	4,159	15,208	266
OTP Asset Management (Hungary)	4,122	15,104	266
Foreign Asset Management Companies (Ukraine, Romania, Bulgaria)[14]	37	104	179
Other Hungarian Subsidiaries	1,601	9,498	493
Other Foreign Subsidiaries[15]	388	232	(40)
Eliminations	528	1,377	161
Total adjusted after tax profit of HUNGARIAN subsidiaries[16]	200,323	227,527	14
Total adjusted after tax profit of FOREIGN subsidiaries[17]	125,012	191,525	53
Share of foreign profit contribution	38%	46%	19

Note: Effective from 2019 foreign leasing companies are shown as part of their local operations.

[6] Belonging footnotes are in the Supplementary data section of the Report.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Main components of the Statement of recognized income	2018 HUF million	2019 HUF million	Change %
Consolidated after tax profit	**318,322**	**412,582**	**30**
Adjustments (total)	**(7,013)**	**(6,470)**	**(8)**
Dividends and net cash transfers (after tax)	457	505	11
Goodwill/investment impairment charges (after tax)	(4,729)	(8,427)	78
Special tax on financial institutions (after corporate income tax)	(15,286)	(16,170)	6
Impact of fines imposed by the Hungarian Competition Authority (after tax)	565	0	(100)
Effect of acquisitions (after tax)	(6,844)	19,265	(381)
Initial NPV gain on the monetary policy interest rate swap (MIRS) deals (after tax)	18,823	0	(100)
One-off impact of regulatory changes related to FX consumer contracts in Serbia	0	(1,644)	
Consolidated adjusted after tax profit without the effect of adjustments	**325,335**	**419,052**	**29**
Before tax profit	**362,734**	**465,973**	**28**
Operating profit	**384,908**	**510,045**	**33**
Total income	**881,726**	**1,077,727**	**22**
Net interest income	**599,832**	**706,298**	**18**
Net fees and commissions	**220,731**	**282,504**	**28**
Other net non-interest income	**61,163**	**88,926**	**45**
Foreign exchange result, net	33,568	45,177	35
Gain/loss on securities, net	2,461	12,372	403
Net other non-interest result	25,134	31,376	25
Operating expenses	**(496,818)**	**(567,682)**	**14**
Personnel expenses	(249,447)	(280,002)	12
Depreciation	(48,210)	(56,383)	17
Other expenses	(199,161)	(231,298)	16
Total risk costs	**(26,167)**	**(47,107)**	**80**
Provision for impairment on loan and placement losses	(19,283)	(29,474)	53
Other provision	(6,885)	(17,633)	156
Total one-off items	**3,993**	**3,034**	**(24)**
Gain on the repurchase of own Upper and Lower Tier2 Capital	0	0	
Result of the treasury share swap agreement at OTP Core	3,993	3,034	(24)
Corporate taxes	**(37,400)**	**(46,921)**	**25**
Indicators	2018	2019	%/pps
ROE (from accounting net earnings)	18.7%	20.3%	1.6
ROE (from adjusted net earnings)	19.1%	20.6%	1.5
ROA (from adjusted net earnings)	2.3%	2.4%	0.1
Operating profit margin	2.76%	2.97%	0.21
Total income margin	6.33%	6.28%	(0.04)
Net interest margin	4.30%	4.12%	(0.19)
Net fee and commission margin	1.58%	1.65%	0.06
Net other non-interest income margin	0.44%	0.52%	0.08
Cost-to-asset ratio	3.57%	3.31%	(0.26)
Cost/income ratio	56.3%	52.7%	(3.7)
Provision for impairment on loan and placement losses-to-average gross loans	0.23%	0.28%	0.05
Total risk cost-to-asset ratio	0.19%	0.27%	0.09
Effective tax rate	10.3%	10.1%	(0.2)
Non-interest income/total income	32%	34%	2
EPS base (HUF) (from unadjusted net earnings)	1,215	1,576	30
EPS diluted (HUF) (from unadjusted net earnings)	1,215	1,575	30
EPS base (HUF) (from adjusted net earnings)	1,243	1,602	29
EPS diluted (HUF) (from adjusted net earnings)	1,242	1,602	29
Comprehensive Income Statement	2018	2019	%
Consolidated after tax profit	318,322	412,582	30
Fair value changes of financial instruments measured at fair value through other comprehensive income	(20,323)	30,224	(249)
Fair value adjustment of derivative financial instruments designated as cash-flow hedge	(9)	11	(222)
Net investment hedge in foreign operations	(3,253)	(2,526)	(22)
Foreign currency translation difference	10,007	79,440	694
Change of actuarial costs (IAS 19)	(65)	(161)	148
Net comprehensive income	**304,679**	**519,570**	**71**
o/w Net comprehensive income attributable to equity holders	304,813	518,802	70
Net comprehensive income attributable to non-controlling interest	(134)	768	(673)
Average exchange rate[1] of the HUF	2018 HUF	2019 HUF	Change %
HUF/EUR	319	325	2
HUF/CHF	276	292	6
HUF/USD	270	291	8

Exchange rates presented in the tables of this report should be interpreted as follows: the value of a unit of the other currency expressed in Hungarian forint terms, i.e. HUF/EUR represents the HUF equivalent of one EUR.

ASSET-LIABILITY MANAGEMENT

Similar to previous periods OTP Group maintained a strong and safe liquidity position…

The primary objective of OTP Group in terms of asset-liability management has not changed, that is to ensure that the Group's liquidity is maintained at a safe level.

Refinancing sources of the European Central Bank are still available for OTP (ECB repo eligible security portfolio on Group level reaches EUR 1.2 billion). As a result of the high level of liquidity reserves, the Group could safely function without considerable fund raising. The EUR 500 million Tier 2 bond issuance in second half of the year served the purpose of optimizing the capital structure of the bank.

Total liquidity reserves of OTP Bank remained steadily and substantially above the safety level. As of 31 December 2019 the gross liquidity buffer was around EUR 7.4 billion equivalent. This buffer is significantly higher than the maturing debt within one year and the reserves required to protect against possible liquidity shocks. Due to governmental FX lending measures and FX loan conversion FX liquidity need of the Group has considerably declined. No long term foreign currency receiver FX-swaps (vs. HUF) were executed during 2019 and the ECB refinancing facilities were not utilized. FX liquidity reserves are at safe levels (at EUR 1.7 billion on 31 December 2019).

The volume of issued securities decreased by 6% y-o-y, mainly because in contract to 2018, in 2019 OTP Mortgage bank did not issue any mortgage bonds, thus the net amount of newly issued retail bonds and matured retail and mortgage bonds was negative. In the last 12 months the amount of retail targeted bonds decreased by HUF 1.5 billion to close to HUF 3 billion.

The volume of subordinated debt trebled y-o-y, mainly due to the aforementioned EUR 500 million Tier 2 bond issuance.

…and kept its interest-rate risk exposures low.

Interest-rate risk exposure of OTP Group is determined primarily by the positions of OTP Bank Plc. and OTP Mortgage Bank Ltd. Due to the forint liabilities on OTP Bank's balance sheet, which respond to yield changes only to a moderate extent, the Bank has an interest-rate risk exposure resulting from its business operations. The Bank considers the reduction and closing of this exposure as a strategic matter. Consequently, it has been reducing its interest-rate risk exposure through the purchase of fixed-rate government securities in order to offset the negative impact of declining yields on net interest income.

Market Risk Exposure of OTP Group

The consolidated capital requirement of the trading book positions, the counterparty risk and the FX risk exposure represented HUF 21,97 billion in total.

OTP Group is an active participant of the international FX and derivative market. Open FX positions of group members are restricted to individual and global net open position limits (overnight and intraday), and to stop-loss limits. The open positions of the group members outside Hungary except for the Bulgarian DSK Bank – the EUR/BGN exposure of DSK under the current exchange rate regime does not represent real risk – were negligible measured against either the balance sheet total or the regulatory capital. Therefore, the group level FX exposure was concentrated at OTP Bank.

Thus the main part of the FX exposure booked at OTP Bank – in line with the previous years' practice – was the strategic open FX position (EUR 310 million) kept to hedge the currency risk of the expected FX-denominated net earnings of the main foreign subsidiaries. The strategic open position has been kept since 2007, and its size has been constant at EUR 310 million since 2008. The revaluation result of the strategic open position is accounted for directly against the equity.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF OTP GROUP

Main components of balance sheet	2018 HUF million	2019 HUF million	Change %
TOTAL ASSETS	**14,590,288**	**20,121,767**	**38**
Cash, amounts due from Banks and balances with the National Banks	1,547,272	1,841,963	19
Placements with other banks, net of allowance for placement losses	420,606	410,433	(2)
Financial assets at fair value through profit or loss	181,355	251,991	39
Securities at fair value through other comprehensive income	1,883,849	2,427,537	29
Net customer loans	8,066,592	12,247,519	52
Net customer loans (FX adjusted[1])	**8,306,712**	**12,247,519**	**47**
Gross customer loans	8,719,342	12,942,009	48
Gross customer loans (FX adjusted[1])	**9,001,577**	**12,942,009**	**44**
o/w Retail loans	5,480,960	7,619,989	39
Retail mortgage loans (incl. home equity)	2,609,698	3,471,008	33
Retail consumer loans	2,223,583	3,190,556	43
SME loans	647,680	958,425	48
Corporate loans	3,203,486	4,774,075	49
Loans to medium and large corporates	2,899,818	4,395,789	52
Municipal loans	303,668	378,285	25
Car financing loans	317,131	547,946	73
Allowances for loan losses	(652,751)	(694,490)	6
Allowances for loan losses (FX adjusted[1])	(694,866)	(694,490)	0
Associates and other investments	17,592	20,822	18
Securities at amortized costs	1,740,520	1,995,627	15
Tangible and intangible assets, net	420,484	605,673	44
o/w Goodwill, net	91,766	105,298	15
Tangible and other intangible assets, net	328,718	500,375	52
Other assets	312,018	320,201	3
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**14,590,288**	**20,121,767**	**38**
Amounts due to banks, the National Governments, deposits from the National Banks and other banks, and Financial liabilities designated at fair value through profit or loss	392,706	846,158	115
Deposits from customers	11,285,085	15,522,654	38
Deposits from customers (FX adjusted[1])	**11,547,410**	**15,522,654**	**34**
o/w Retail deposits	8,435,273	11,217,326	33
Household deposits	6,972,763	9,228,802	32
SME deposits	1,462,510	1,988,524	36
Corporate deposits	3,100,793	4,290,769	38
Deposits to medium and large corporates	2,389,687	3,502,442	47
Municipal deposits	711,106	788,327	11
Accrued interest payable related to customer deposits	11,344	14,560	28
Liabilities from issued securities	417,966	393,167	(6)
o/w Retail bonds	4,732	3,237	(32)
Liabilities from issued securities without retail bonds	413,235	389,930	(6)
Other liabilities	586,445	818,561	40
Subordinated bonds and loans[2]	81,429	249,937	207
Total shareholders' equity	**1,826,657**	**2,291,288**	**25**
Indicators	2018	2019	%/pps
Loan/deposit ratio (FX adjusted[1])	78%	83%	5
Net loan/(deposit + retail bond) ratio (FX adjusted[1])	72%	79%	7
Stage 1 loan volume under IFRS 9		11,489,554	
Stage 1 loans under IFRS 9/gross customer loans		88.8%	
Own coverage of Stage 1 loans under IFRS 9		1.1%	
Stage 2 loan volume under IFRS 9	591,870	685,885	16
Stage 2 loans under IFRS 9/gross customer loans	6.8%	5.3%	(1.5)
Own coverage of Stage 2 loans under IFRS 9		10.7%	
Stage 3 loan volume under IFRS 9	753,033	766,570	2
Stage 3 loans under IFRS 9/gross customer loans	8.6%	5.9%	(2.7)
Own coverage of Stage 3 loans under IFRS 9		65.2%	
90+ days past due loan volume	551,498	541,467	(2)
90+ days past due loans/gross customer loans	6.3%	4.2%	(2.1)
Consolidated capital adequacy (Basel3)	2018	2019	%/pps
Capital adequacy ratio (consolidated, IFRS)	18.3%	16.3%	(2.0)
Tier1 ratio	16.5%	13.9%	(2.6)
Common Equity Tier1 ('CET1') capital ratio	16.5%	13.9%	(2.6)
Regulatory capital (consolidated)	1,731,970	2,321,248	34
o/w Tier1 Capital	1,565,247	1,985,666	27
o/w Common Equity Tier1 capital	1,565,247	1,985,666	27
Tier2 Capital	166,723	335,582	101
o/w Hybrid Tier2	89,935	89,935	0
Consolidated risk weighted assets (RWA) (Credit&Market&Operational risk)	9,488,916	14,262,197	50
o/w RWA (Credit risk)	7,966,050	12,529,878	57
RWA (Market & Operational risk)	1,522,866	1,732,319	14
Closing exchange rate of the HUF	2018 HUF	2019 HUF	Change %
HUF/EUR	322	331	3
HUF/CHF	285	304	7
HUF/USD	281	295	5

[1] For the FX adjustment, the closing cross currency rates for the current period were used to calculate the HUF equivalent of loan and deposit volumes in the base periods.

[2] The ICES bonds are considered as Tier2 debt, but accounting-wise they are treated as part of the shareholders' equity.

OTP BANK'S HUNGARIAN CORE BUSINESS

OTP Core Statement of profit or loss:

Main components of the Statement of recognised income	2018 HUF million	2019 HUF million	Change %
After tax profit without the effect of adjustments	180,445	190,956	6
Corporate income tax	(14,717)	(12,668)	(14)
Pre-tax profit	195,162	203,624	4
Operating profit	144,577	173,995	20
Total income	378,534	432,013	14
Net interest income	245,934	261,754	6
Net fees and commissions	107,010	126,911	19
Other net non-interest income	25,590	43,349	69
Operating expenses	(233,956)	(258,018)	10
Total risk costs	46,591	26,594	(43)
Provision for impairment on loan and placement losses	48,192	30,332	(37)
Other provisions	(1,601)	(3,737)	133
Total one-off items	3,993	3,034	(24)
Revaluation result of the treasury share swap agreement	3,993	3,034	(24)
Indicators	**2018**	**2019**	**pps**
ROE	12.2%	11.7%	(0.5)
ROA	2.2%	2.1%	(0.1)
Operating profit margin	1.8%	1.9%	0.2
Total income margin	4.64%	4.82%	0.18
Net interest margin	3.01%	2.92%	(0.09)
Net fee and commission margin	1.31%	1.42%	0.10
Net other non-interest income margin	0.31%	0.48%	0.17
Operating costs to total assets ratio	2.9%	2.9%	0.0
Cost/income ratio	61.8%	59.7%	(2.1)
Provision for impairment on loan and placement losses/average gross loans[1]	(1.60%)	(0.88%)	0.72
Effective tax rate	7.5%	6.2%	(1.3)

[1] Negative *Provision for impairment on loan and placement losses/average gross loans* ratio implies positive amount on the *Provision for impairment on loan and placement losses* line.

Main components of OTP Core's Statement of financial position:

Main components of balance sheet closing balances	2018 HUF million	2019 HUF million	Change %
Total Assets	8,563,425	9,641,692	13
Net customer loans	3,096,391	3,740,975	21
Net customer loans (FX adjusted)	**3,112,187**	**3,740,975**	**20**
Gross customer loans	3,241,345	3,883,412	20
Gross customer loans (FX adjusted)	**3,258,458**	**3,883,412**	**19**
Retail loans	1,971,206	2,376,885	21
Retail mortgage loans (incl. home equity)	1,329,600	1,383,774	4
Retail consumer loans	425,790	746,269	75
SME loans	215,816	246,842	14
Corporate loans	1,287,252	1,506,527	17
Loans to medium and large corporates	1,201,815	1,404,773	17
Municipal loans	85,437	101,754	19
Provisions	(144,954)	(142,437)	(2)
Provisions (FX adjusted)	**(146,270)**	**(142,437)**	**(3)**
Deposits from customers + retail bonds	5,967,857	6,770,161	13
Deposits from customers + retail bonds (FX adjusted)	**6,000,083**	**6,770,161**	**13**
Retail deposits + retail bonds	4,072,038	4,505,485	11
Household deposits + retail bonds	3,278,499	3,562,244	9
o/w: Retail bonds	4,732	3,237	(32)
SME deposits	793,539	943,241	19
Corporate deposits	1,928,045	2,264,676	17
Deposits to medium and large corporates	1,321,304	1,624,880	23
Municipal deposits	606,741	639,796	5
Liabilities to credit institutions	236,700	445,301	88
Issued securities without retail bonds	461,138	436,340	(5)
Total shareholders' equity	1,561,688	1,720,872	10
Loan Quality	2018	2019	%/pps
Stage 1 loan volume under IFRS 9 (in HUF million)		3,550,841	
Stage 1 loans under IFRS 9/gross customer loans		91.4%	
Own coverage of Stage 1 loans under IFRS 9		0.8%	
Stage 2 loan volume under IFRS 9 (in HUF million)		163,954	
Stage 2 loans under IFRS 9/gross customer loans		4.2%	
Own coverage of Stage 2 loans under IFRS 9		12.4%	
Stage 3 loan volume under IFRS 9 (in HUF million)	190,682	168,618	(11.6)
Stage 3 loans under IFRS 9/gross customer loans	5.9%	4.3%	(1.5)
Own coverage of Stage 3 loans under IFRS 9		55.4%	
90+ days past due loan volume (in HUF million)	147,218	123,895	(16)
90+ days past due loans/gross customer loans	4.5%	3.2%	(1.4)
Market Shares	2018	2019	pps
Loans	20.8%	22.2%	1.4
Deposits	25.7%	27.7%	2.0
Total Assets	26.2%	28.8%	2.6
Performance Indicators	2018	2019	pps
Net loans to (deposits + retail bonds) (FX adjusted)	52%	55%	3
Leverage (closing Shareholder's Equity/Total Assets)	18.2%	17.8%	(0.4)
Leverage (closing Total Assets/Shareholder's Equity)	5.5x	5.6x	0.1x
Capital adequacy ratio (OTP Bank, non-consolidated, Basel3, IFRS)	28.2%	26.6%	(1.6)
Common Equity Tier1 ratio (OTP Bank, non-consolidated, Basel3, IFRS)	26.2%	22.6%	(3.6)

- ***OTP Core's adjusted full-year after tax profit amounted to HUF 191 billion (+6% y-o-y). Regarding the structure of profit growth, a 20% improvement in operating profit was offset by smaller amounts of positive risk costs***
- ***Despite a 9 bps erosion in net interest margin, total income margin improved in 2019***
- ***Amid favourable credit quality trends the ratio of Stage 3 loans declined to 4.3%***
- ***The growth in retail loans accelerated in 2019, while corporate loan growth moderated after the outstanding expansion in 2018. Stage 1+2 loans surged by 21% y-o-y(FX-adjusted), boosted by the introduction of subsidized baby loans in July***
- ***The double-digit growth in deposit volumes was coupled with a 3 pps improvement in net loan/deposit ratio. Retail deposits continued to trend higher, even with the MÁP Plus government bond for retail customers being introduced in June***

The scope of companies comprising OTP Core has changed from 2019: OTP Real Estate Lease Ltd was moved from OTP Core to Other Hungarian Subsidiaries. At the end of December, the gross loan portfolio of OTP Real Estate Lease amounted to HUF 23.4 billion, while performing (Stage 1+2 loans under IFRS 9) *loan volumes reached HUF 22.0 billion, of which mortgage loans amounted to HUF 19.3 billion. OTP Real Estate Lease Ltd.'s adjusted after-tax profit was HUF 0.35 billion in 2019.*

Starting from 2019, OTP Ingatlanpont LLC and OTP Mobile Service Limited Liability Company were included into OTP Core. These two companies recorded a combined loss of HUF 0.6 billion in 2019.

On 30 September 2019 two companies (previously presented among other Hungarian subsidiaries) merged into Monicomp Ltd., which is part of OTP Core.

P&L developments

In 2019 **OTP Core** generated HUF 191 billion adjusted after-tax profit. The 6% y-o-y growth rate owes mainly to a 20% increase in operating profit, which was partly counterbalanced by the declining amount of positive risk costs.

The annual pre-tax profit improved by 4% y-o-y.

The annual operating profit (without one-off items) grew by 20%, largely driven by the 14% increase in total income. The full-year net interest income was up 6%, mostly owing to the continued dynamic organic growth in loan volumes, but the revenues were also boosted by the gross interest income realized from the placement of additional liquidity supported by the rise in customer deposits.

In an environment determined by low short-term interest rates and sinking long-term yields, the full-year net interest margin moderated by 9 bps y-o-y to 2.92%. The average interest rates of both the loan portfolio and liquid assets have decreased. Furthermore, the share of non-interest-bearing assets (including the investments in subsidiaries) increased within the balance sheet total.

The annual net fees and commissions increased by 19%, as the growing volumes and transactional turnover resulted in stronger card, deposit and transaction-related fee revenues. It was also positive that securities distribution fees for the whole year showed a 21% y-o-y growth after the declining trend prevailing since 2H 2017. The reason was that the Government Debt Management Agency – parallel with the amendment to the distribution fee calculation methodology – introduced a new retail government bond, the Hungarian Government Security Plus (MÁP Plus) from June 2019; its volumes have significantly increased owing to the outstanding new sales volumes.

The annual other net non-interest income (without one-offs) surged by 69% y-o-y, largely because of the higher gain on securities.

The *revaluation result of the treasury share swap agreement* (showed among the one-off revenue items) amounted to HUF 3.0 billion in 2019 (-24% y-o-y), owing predominantly to the dividend income received in the second quarter.

Operating expenses grew by 10% in 2019. Personnel expenses were shaped, among others, by the 5% rise in the average number of employees, as well as by the fact that in 3Q and 4Q 2019 part of the cumulated wage cost of the IT developers employed by OTP Bank was allocated for certain software in use, and activated for the systems developed – in the amount of HUF 2.1 billion in total. Another factor that reduced the dynamics of personnel costs was that, in accordance with the six-year wage agreement, employers pay 2 pps lower social contribution tax rate (17.5%) starting from July 2019. Moreover, amortization grew in y-o-y terms, and within other expenses, IT hardware and licence costs, facility management and telecommunications expenses, and deductible taxes have all increased.

Loan quality trends remained favourable: DPD90+ loan volumes fell by HUF 3 billion in 2019 (FX-adjusted and without problem loan sales and write-offs). In 2019 altogether HUF 16 billion problem loans were sold/written off. The decreasing trend in the share of DPD90+ loans continued: the rate dropped by 1.4 pps to 3.2% y-o-y. The share of Stage 3 loans also remained on a downward path (4.3%, -1.5 pps y-o-y); their own provision coverage stood at 55.4%.

On the total risk costs line, a positive amount of HUF 26.6 billion was recognized in 2019, mainly due to the recoveries realized on claims toward households handled by OTP Factoring, the Hungarian work-out company. The amount of positive risk costs was 43% less than in the base period.

Balance sheet trends

The continued strengthening of OTP Core's business activity was coupled with further increase in business volumes, and a steady increase of the balance sheet total.

On the asset side, gross loans surged 19% y-o-y, while performing (Stage 1+2) loans expanded by 21% (FX-adjusted), largely driven by an outstanding, 81% jump in consumer loans. Thus, the performing loan growth in 2019 exceeded the previous year's 18% level.

The quarterly rise in performing loans demonstrated an accelerating trend in 2019: a seasonally weak first quarter (q-o-q stagnation) was followed by FX-adjusted q-o-q growth rates of 5% in 2Q, 8% in 3Q, and 7% in 4Q.

The increasing growth rates seen in the second half of the year were driven by the strong demand for consumer loans, fuelled also by the introduction of the subsidized baby loans, while corporate loan growth decelerated compared to last year: in 2018 corporate and SME loans expanded by nearly 30% overall, which came down to 18% in 2019. This represents a pronounced shift in the structure of loan growth, towards retail loans.

The Hungarian Government introduced the subsidized baby loan scheme for families in July 2019, which generated significant additional loan demand. OTP Bank's clients were particularly interested in this product: nearly 22,000 loan contracts were signed in the second half of the year, with an average ticket size of HUF 9.5 million – this brings the contracted amount of baby loans between July and December 2019 to HUF 209 billion. Accordingly, OTP's respective market share was nearing 45% in the second half of the year.

In a favourable development, the introduction of baby loans did not break the increasing demand for personal loans: new cash loans granted by OTP Bank expanded by 26% in 2019 as a whole. Based on this, OTP Bank's market share in new cash loan disbursements exceeded 39% in 2019 (+0.8 pp y-o-y).

The performing personal loan volumes grew by 27% y-o-y. Based on the outstanding stock, OTP Bank's market share in cash loans stood at 33.2% at the end of December.

As a result, performing (Stage 1+2) total consumer loans jumped by 81% y-o-y.

Performing mortgage loans were up 7% y-o-y (filtering out the effect of the exclusion of OTP Real Estate Lease from OTP Core).

The performing mortgage loan portfolio consists of two product segments: housing loans, which make up 82% of the stock volumes, grew steadily by double-digit rates (+12% y-o-y). The volume of mortgage-backed consumer loans (or home equities), the weight of which is 18%, is gradually shrinking (-11% y-o-y) as amortization exceeds new disbursements.

New mortgage loan disbursements expanded by 12% y-o-y in 2019. In 2019 OTP Bank's market share in new mortgage loan contractual amounts reached 31.6%, up from 29.2% in 2018. In the second half of the year the market share gains could to a large extent be attributable to the increasing demand for subsidized housing loans – in this field OTP Bank traditionally has a strong market share.

Customers continue to prefer, almost exclusively, the more predictable fixed-rate housing loans: at OTP Bank, the share of loans with fixed interest rate for at least five years, was above 99% of all new market-based housing loan applications in 2019 (up from near-50% levels in 2017). Within that, the popularity of loans with longer-term interest rate fixation periods (for 10 and 20 years) has been gradually increasing.

OTP Bank has been actively contributing to the success of the Housing Subsidy Scheme for Families (CSOK) programme, which was expanded by the Government from July 2019. In 2019 more than 17 thousand applications for the CSOK subsidy were registered at OTP Bank with a value of HUF 74 billion.

After the outstanding dynamics in previous years, corporate loan growth lost some steam, but they continued to expand by a strong, double-digit rate (+18%) in 2019. Within that, loans to medium and large corporates surged 18%, and loans to municipalities expanded by 19%. Performing loans to micro and small enterprises expanded by 14% y-o-y (FX-adjusted).

Under the Funding for Growth Scheme Fix, which was launched at the beginning of 2019 by the National Bank of Hungary, OTP received loan requests in the amount of close to HUF 60 billion.

OTP Bank has been actively participating in the Bond Funding for Growth Scheme of the NBH. As a lead manager, in the course of 2019 OTP Bank participated in 3 already completed bond issuances with a total notional of HUF 46 billion; additionally, there were further issuances in progress at the end of the year. In the case of the 3 deals where OTP acted as lead manager, the Bank has underwritten bonds in the amount of HUF 6 billion, whereas altogether HUF 21 billion was underwritten from bonds issued under the umbrella of the Bond Funding for Growth Scheme.

Because of the recent acquisitions and capital increases at subsidiaries, on the asset side the volume of investments in subsidiaries as well as its share within the balance sheet total grew further (by 1.3 pps to 12.2% on average), strongly contributing to the rise in the share of non-interest-bearing assets within total assets.

OTP Core's deposit base (including retail bonds) grew by an FX-adjusted 13% y-o-y. Despite the launch of the popular MÁP Plus retail government bond in June, the annual growth rate of household deposits reached 11%. The expansion rate in medium and large corporate deposits reached 23% y-o-y. Municipalities' deposits grew by 5% y-o-y.

The net loan / (deposit + retail bond) ratio rose by 3 pps y-o-y to 55%, but despite the improvement, the absolute level of the ratio can still be regarded as low.

In July 2019 the Bank issued a Tier 2 capital instrument in the nominal amount of EUR 500 million, which is part of the standalone regulatory capital of OTP Bank, but it is reported in the balance sheet of the Corporate Centre. Similarly to previous years, the Bank's regulatory capital at the end of 2019 included the interim profit less proposed dividend. The Bank's standalone capital adequacy ratio (CAR) stood at 26.6% at the end of December 2019, while the CET1=Tier1 ratio reached 22.6%.

OTP FUND MANAGEMENT (HUNGARY)

Changes in assets under management and financial performance of OTP Fund Management:

Main components of P&L account	2018 HUF million	2019 HUF million	Change %
After tax profit w/o dividends and net cash transfer	4,122	15,104	266
Income tax	(403)	(1,438)	256
Profit before income tax	4,525	16,542	266
Operating profit	4,525	16,542	266
Total income	7,121	20,433	187
Net fees and commissions	7,196	19,800	175
Other net non-interest income	(75)	633	(940)
Operating expenses	(2,596)	(3,891)	50
Other provisions	0	0	
Main components of balance sheet closing balances	2018	2019	%
Total assets	16,821	33,688	100
Total shareholders' equity	14,353	24,828	73
Asset under management	2018 HUF billion	2019 HUF billion	%
Assets under management, total (w/o duplicates)[1]	**1,035**	**1,119**	**8**
Volume of investment funds (closing, w/o duplicates)	749	793	6
Volume of managed assets (closing)	286	326	14
Volume of investment funds (closing, with duplicates)[2]	982	1,073	9
bond	217	315	45
security	153	188	23
mixed	55	73	32
guaranteed	32	28	(14)
money market	129	6	(96)
other[3]	395	464	18

[1] The cumulative net asset value of investment funds and managed assets of OTP Fund Management, eliminating the volume of own investment funds (duplications) being managed in other investment funds and managed assets of OTP Fund Management.
[2] The cumulative net asset value of investment funds with duplications managed by OTP Fund Management.
[3] Other funds: absolute return, derivative and commodity market funds.

OTP Fund Management's HUF 15 billion after-tax profit in 2019 was more than three and a half times bigger than a year earlier. This outstanding result was supported by HUF 14 billion success fee revenues recognized in 4Q 2019, which exceeded the amount of total success fees received in the previous four years.

85% of the full-year success fees were related to the OTP Supra derivative investment fund's performance. OTP Supra boasted a yield of nearly 24% in 2019, and the success fee is 20% of the positive difference between the fund's yield and the ZMAX benchmark index. In addition to OTP Supra, the Company's other derivative and mixed funds also excelled.

Full-year operating costs grew by 50% y-o-y, largely as a result of the bonus payments booked in the last quarter of the year.

The market of investment funds underwent significant restructuring in 2019. First, regulatory changes that stipulate substantially stricter operating conditions prompted many fund managers to amend the investment policy of their money market funds, and even to close some of their funds, bringing about a technical shift towards bond funds. In the case of OTP Fund Management, three of the former four money market funds were transformed into short-term bond funds at the beginning of the year, and the remaining one became a money market fund without capital guarantee. Second, the strong demand for the Hungarian Government Security Plus, available since the beginning of June 2019, redirected money from investment funds, particularly from bond funds.

The assets managed by OTP Fund Management partly reflected the effect of the above developments: there was a rearrangement towards bond funds (+45% y-o-y) and equity funds (+23% y-o-y), and a previously most popular category, money market funds, were squeezed out: their volume shrank to HUF 6 billion (-96% y-o-y) by the end of December. On the other hand, the effect of the new Hungarian Government Security Plus was offset by the positive capital inflow to the Company's derivative funds, chiefly because of OTP Supra's popularity. Overall, the closing volume of the Company's investment funds expanded by 9% y-o-y.

Increasing its market share by 1.3 pps y-o-y to 23.6% by the end of December, OTP Fund Management upheld its market leader position on the securities fund market.

MERKANTIL BANK (HUNGARY)

Performance of Merkantil Bank:

Main components of P&L account	2018 HUF million	2019 HUF million	Change %
After tax profit without the effect of adjustments	7,437	7,115	(4)
Income tax	456	(632)	(239)
Profit before income tax	6,981	7,747	11
Operating profit	6,599	7,372	12
Total income	12,983	14,369	11
Net interest income	13,131	14,013	7
Net fees and commissions	(124)	(104)	(16)
Other net non-interest income	(24)	461	
Operating expenses	(6,384)	(6,997)	10
Total provisions	382	375	(2)
Provision for impairment on loan and placement losses	256	143	(44)
Other provision	126	232	84
Main components of balance sheet closing balances	2018	2019	%
Total assets	404,750	491,399	21
Gross customer loans	321,353	366,064	14
Gross customer loans (FX-adjusted)	322,042	366,064	14
Retail loans	29,658	30,244	2
Corporate loans	104,058	126,422	21
Car financing loans	188,325	209,398	11
Allowances for possible loan losses	(13,853)	(10,072)	(27)
Allowances for possible loan losses (FX-adjusted)	(13,868)	(10,072)	(27)
Deposits from customers	15,180	10,414	(31)
Deposits from customer (FX-adjusted)	15,180	10,414	(31)
Retail deposits	13,307	8,051	(40)
Corporate deposits	1,873	2,364	26
Liabilities to credit institutions	337,136	420,076	25
Total shareholders' equity	37,189	44,441	19
Loan Quality	2018	2019	%/pps
Stage 1 loan volume under IFRS 9 (in HUF million)		345,339	
Stage 1 loans under IFRS 9/gross customer loans		94.3%	
Own coverage of Stage 1 loans under IFRS 9		0.4%	
Stage 2 loan volume under IFRS 9 (in HUF million)		7,459	
Stage 2 loans under IFRS 9/gross customer loans		2.0%	
Own coverage of Stage 2 loans under IFRS 9		4.7%	
Stage 3 loan volume under IFRS 9 (in HUF million)	14,133	13,267	(6)
Stage 3 loans under IFRS 9/gross customer loans	4.4%	3.6%	(0.8)
Own coverage of Stage 3 loans under IFRS 9		63.4%	
Provision for impairment on loan and placement losses/average gross loans	(0.08%)	(0.04%)	0.04
90+ days past due loan volume (in HUF million)	10,204	7,364	(28)
90+ days past due loans/gross customer loans	3.2%	2.0%	(1.2)
Performance Indicators	2018	2019	pps
ROA	1.9%	1.6%	(0.3)
ROE	24.4%	17.4%	(7.0)
Total income margin	3.38%	3.20%	(0.18)
Net interest margin	3.42%	3.12%	(0.29)
Cost/income ratio	49.2%	48.7%	(0.5)

On 30 September 2018 Merkantil Car Ltd. was merged into Merkantil Bank Ltd. and ceased to exist as a separate legal entity. The above table includes the contribution of Merkantil Car for the 2018 base periods, too.

Merkantil Bank posted HUF 7.1 billion adjusted after-tax profit in 2019 (-4% y-o-y); this is consistent with an ROE of 17.4%. Taking into account the increase in the corporate tax burden for 2019, the year-on-year pre-tax profit increase of 11% was largely due to the higher net interest income, while the twelve-month risk costs remained positive.

Net interest income for 2019 increased by 7% y-o-y. The dynamics was positively influenced by the growth of the performing loan portfolio (+15% y-o-y), which was partially offset by the narrowing net interest margin (-29 bps y-o-y). The 10% y-o-y increase in operating expenses was mainly driven by personnel expenses.

Credit quality trends continued to develop favourably: in 2019 the DPD90+ loan portfolio declined by HUF 1 billion (FX-adjusted and excluding the impact of loan sales and write-offs).

At the end of 2019, the ratio of Stage 3 loans was 3.6% (-0.8 pp y-o-y), whereas the own provision coverage of Stage 3 loans was 63.4%. In 2019 HUF 2.3 billion non-performing loans were sold/written off.

Performing (Stage 1+2) loan volumes rose by 15% y-o-y. Total new disbursements increased by 19% y-o-y, including the 19% expansion of new car loans and the 17% growth of the financing of production equipment and machinery. Merkantil Bank retained its market leading position both in terms of new disbursements and outstanding leasing volumes.

IFRS REPORTS OF THE MAIN FOREIGN SUBSIDIARIES OF OTP BANK

DSK GROUP (BULGARIA)

Performance of DSK Group:

Main components of P&L account	2018 HUF million	2019 HUF million	Change %
After tax profit without the effect of adjustments	47,293	67,879	44
Income tax	(4,308)	(7,199)	67
Profit before income tax	51,601	75,078	45
Operating profit	57,096	83,495	46
Total income	107,817	155,567	44
Net interest income	69,979	109,030	56
Net fees and commissions	30,435	42,019	38
Other net non-interest income	7,403	4,517	(39)
Operating expenses	(50,720)	(72,071)	42
Total provisions	(5,495)	(8,418)	53
Provision for impairment on loan and placement losses	(9,532)	(5,216)	(45)
Other provision	4,038	(3,201)	(179)
Main components of balance sheet closing balances	**2018**	**2019**	**%**
Total assets	2,381,275	3,669,766	54
Gross customer loans	1,343,729	2,350,694	75
Gross customer loans (FX-adjusted)	1,381,368	2,350,694	70
Retail loans	958,860	1,446,035	51
Corporate loans	422,508	863,331	104
Car financing loans		41,327	
Allowances for possible loan losses	(111,369)	(135,640)	22
Allowances for possible loan losses (FX-adjusted)	(114,487)	(135,640)	18
Deposits from customers	1,890,897	3,015,805	59
Deposits from customers (FX-adjusted)	1,946,301	3,015,805	55
Retail deposits	1,702,923	2,528,233	48
Corporate deposits	243,378	487,572	100
Liabilities to credit institutions	3,144	59,867	
Total shareholders' equity	453,891	528,759	16
Loan Quality	**2018**	**2019**	**%/pps**
Stage 1 loan volume under IFRS 9 (in HUF million)		2,081,790	
Stage 1 loans under IFRS 9/gross customer loans		88.6%	
Own coverage of Stage 1 loans under IFRS 9		1.1%	
Stage 2 loan volume under IFRS 9 (in HUF million)		99,917	
Stage 2 loans under IFRS 9/gross customer loans		4.3%	
Own coverage of Stage 2 loans under IFRS 9		8.5%	
Stage 3 loan volume under IFRS 9 (in HUF million)	141,513	168,986	19
Stage 3 loans under IFRS 9/gross customer loans	10.5%	7.2%	(3.3)
Own coverage of Stage 3 loans under IFRS 9		62.0%	
Provision for impairment on loan and placement losses/average gross loans	0.74%	0.24%	(0.51)
90+ days past due loan volume (in HUF million)	89,986	108,600	21
90+ days past due loans/gross customer loans	6.7%	4.6%	(2.1)
Performance Indicators	**2018**	**2019**	**pps**
ROA	2.3%	1.9%	(0.4)
ROE	18.4%	13.7%	(4.7)
Total income margin	5.20%	4.28%	(0.92)
Net interest margin	3.37%	3.00%	(0.37)
Cost/income ratio	47.0%	46.3%	(0.7)
Net loans to deposits (FX-adjusted)	65%	73%	8
FX rates	**2018 HUF**	**2019 HUF**	**Change %**
HUF/BGN (closing)	164.4	169.0	3
HUF/BGN (average)	163.0	166.3	2

- ***The financial closure of the Expressbank deal was completed on 15 January 2019, thus the 2019 financial statements included the full-year contribution of the Express Group***
- ***The Bulgarian banking group generated HUF 67.9 billion adjusted profit in 2019, of which Express Group's contribution amounted to HUF 17.9 billion. The return on equity ratio was 13.7%***
- ***Part of the erosion in the full-year net interest margin was due to the dilution effect of Expressbank's lower margin***
- ***Stage1+2 loans grew by an FX-adjusted 77% in 2019, of which organic growth amounted to 12%. Deposits rose by 9% organically***

The 2019 financial statements of DSK Group include the full-year contribution of Expressbank and its subsidiaries. The Bulgarian P&L account was adjusted for the one-off items directly related to the acquisition; these corrections are shown at consolidated level among the adjustment items. The balance sheet items were not adjusted for the acquisition effects.

Starting from 2019, DSK Leasing is presented as part of the Bulgarian operation. The performance in the 2018 base period does not include DSK Leasing's contribution; then DSK Leasing was presented under Foreign Leasing Companies. The adjusted after-tax profit of DSK Leasing in 2019 amounted to HUF 0.9 billion; at the end of 2019 its Stage 1+2 loan volumes amounted to HUF 20 billion, while the number of employees was 19 (on FTE basis).

In 2019, **DSK Group** posted HUF 67.9 billion after-tax profit (+44%), of which Express Group's contribution was HUF 17.9 billion in full year 2019. Thus, the Bulgarian operation's annual profit increased by 4% y-o-y even without Expressbank's contribution and the inclusion of DSK Leasing.

Based on total assets, the market share of OTP's Bulgarian operation stood at 19.5% at the end of December 2019 on *pro-forma* basis.

The total number of branches in Bulgaria has declined by 28 units (-6%) since 1Q 2019, which already included Expressbank's branches. Headcount decreased by 206 people, or 3%, since 1Q.

The y-o-y dynamics of balance sheet and P&L lines were predominantly determined by the consolidation of Expressbank and its subsidiaries.

The full-year operating profit of the Bulgarian operation jumped by 46%, or HUF 26.4 billion, practically by the same as the amount delivered by Expressbank and DSK Leasing.

Total annual income expanded by 44% (or by 2% without the inclusion of Expressbank and DSK Leasing), largely driven by net interest income (+56%, or +9% without the inclusion of Expressbank and DSK Leasing). The annual net interest margin shrank by 37 bps, partly because of the dilution effect stemming from the lower margin of the newly consolidated Express Group, and due to the continued margin erosion at DSK Bank (without Expressbank).

The reasons for the drop in full-year other net non-interest income was partially the decline in the swap result booked within other income (-HUF 2.3 billion y-o-y), as well as the deterioration in the foreign exchange result, while Expressbank and DSK Leasing generated a combined HUF 2 billion other income in 2019.

Full-year operating costs were up 5% without the acquisition and leasing inclusion effect, mostly as a result of higher personnel, real-estate-related, as well as hardware and office equipment costs.

In 2019 a total risk cost of HUF 8.4 billion weighed on the profit, 53% more than in 2018. This increase was related to other risk costs, since following the release in 2018, HUF 3.2 billion other risk cost was created in 2019, largely in connection with some off-balance sheet items. The other component of total risk costs, the provision for impairment on loan and placement losses fell by 45% in 2019 from the previous year, thus the full-year credit risk cost rate amounted to 24 bps (-51 bps y-o-y).

Credit quality indicators continued to develop favourably. The FX-adjusted DPD90+ volumes without loan sales and write-offs increased by HUF 8 billion in 2019 (on top of that, the technical effect of Expressbank's inclusion caused HUF 9 billion growth). In 2019 HUF 9 billion problem loans were sold or written off. The ratio of Stage 3 loans stood at 7.2% at the end of December, marking a 3.3 pps y-o-y improvement. The own provision coverage of Stage 3 loans was at 62.0% at the end of the year.

As a result of the acquisition, Stage 1+2 (performing) loans grew by an FX-adjusted 77% y-o-y; or, excluding the acquisition and the leasing inclusion, by 12%. In addition to the organic growth in the stock of loans, new placements also indicate that, in terms of business activity, the Bulgarian operation remained on a growth path even during the on-going integration project: without Expressbank, new cash loan sales grew by 20%, and mortgage loan disbursements rose by 3% y-o-y in the course of 2019.

Overall, deposits grew by 55% in 2019; without the Expressbank acquisition they rose by 9% (FX-adjusted). Net loan/deposit ratio (73%) was up 8 pps y-o-y, largely because of the Expressbank-related composition effect.

At the end of 2019 the capital adequacy ratio of DSK Bank, which owns Expressbank's shares, was 27.2% according to local rules.

OTP BANKA HRVATSKA (CROATIA)

Performance of OTP banka Hrvatska:

Main components of P&L account	2018 HUF million	2019 HUF million	Change %
After tax profit without the effect of adjustments	24,961	30,719	23
Income tax	(5,638)	(6,681)	19
Profit before income tax	30,599	37,400	22
Operating profit	35,456	42,925	21
Total income	78,295	85,069	9
Net interest income	54,059	56,812	5
Net fees and commissions	16,042	17,032	6
Other net non-interest income	8,194	11,225	37
Operating expenses	(42,840)	(42,144)	(2)
Total provisions	(4,857)	(5,525)	14
Provision for impairment on loan and placement losses	(3,046)	(2,835)	(7)
Other provision	(1,811)	(2,691)	49
Main components of balance sheet closing balances	**2018**	**2019**	**%**
Total assets	1,837,158	2,098,951	14
Gross customer loans	1,178,848	1,370,057	16
Gross customer loans (FX-adjusted)	1,210,053	1,370,057	13
Retail loans	680,186	741,016	9
Corporate loans	511,651	562,612	10
Car financing loans	18,217	66,428	265
Allowances for possible loan losses	(71,186)	(68,701)	(3)
Allowances for possible loan losses (FX-adjusted)	(73,019)	(68,701)	(6)
Deposits from customers	1,424,746	1,478,223	4
Deposits from customers (FX-adjusted)	1,465,168	1,478,223	1
Retail deposits	1,080,602	1,111,988	3
Corporate deposits	384,566	366,235	(5)
Liabilities to credit institutions	85,702	253,176	195
Total shareholders' equity	269,126	292,649	9
Loan Quality	**2018**	**2019**	**%/pps**
Stage 1 loan volume under IFRS 9 (in HUF million)		1,140,495	
Stage 1 loans under IFRS 9/gross customer loans		83.2%	
Own coverage of Stage 1 loans under IFRS 9		0.8%	
Stage 2 loan volume under IFRS 9 (in HUF million)		143,843	
Stage 2 loans under IFRS 9/gross customer loans		10.5%	
Own coverage of Stage 2 loans under IFRS 9		3.5%	
Stage 3 loan volume under IFRS 9 (in HUF million)	89,059	85,719	(4)
Stage 3 loans under IFRS 9/gross customer loans	7.6%	6.3%	(1.3)
Own coverage of Stage 3 loans under IFRS 9		63.6%	
Provision for impairment on loan and placement losses/average gross loans	0.26%	0.22%	(0.04)
90+ days past due loan volume (in HUF million)	65,011	51,012	(22)
90+ days past due loans/gross customer loans	5.5%	3.7%	(1.8)
Performance Indicators	**2018**	**2019**	**pps**
ROA	1.4%	1.6%	0.2
ROE	9.6%	10.9%	1.3
Total income margin	4.27%	4.35%	0.08
Net interest margin	2.95%	2.91%	(0.04)
Cost/income ratio	54.7%	49.5%	(5.2)
Net loans to deposits (FX-adjusted)	78%	88%	10
FX rates	**2018 HUF**	**2019 HUF**	**Change %**
HUF/HRK (closing)	43.4	44.4	2
HUF/HRK (average)	43.0	43.9	2

- ***The HUF 30.7 billion full-year after-tax profit, which was consistent with 10.9% ROE, was coupled with higher operating profit and improving cost efficiency***
- ***Full-year net interest income grew by 5% y-o-y, fuelled by credit growth, amid slightly eroding net interest margin***
- ***The volume of Stage 1+2 loans grew by 6% y-o-y (FX-adjusted, adjusting for the leasing inclusion), largely because of the intensifying consumer lending***

In December 2018 the integration of Splitska banka was successfully completed: Splitska banka d.d. was incorporated into OTP banka Hrvatska d.d., and the business and technology merger was accomplished.

The Croatian P&L account was adjusted for the one-off items related to the acquisition; these corrections are shown at consolidated level among the adjustment items. The balance sheet items were not adjusted for the acquisition effect

Starting from 2019, the financial statements of OTP Leasing d.d are presented as part of the OBH Group. The performance in the 2018 base period did not include the contribution of OTP Leasing d.d; then OTP Leasing d.d. was presented under Foreign Leasing Companies. The adjusted after-tax profit of OTP Leasing d.d. in 2019 was near HUF 1 billion. At the end of December 2019 the volume of Stage 1+2 loans at the leasing company totalled HUF 105 billion, and the number of employees (on FTE basis) was 121.

The **Croatian operation** posted HUF 30.7 billion after-tax profit in 2019 (+23% y-o-y), which is consistent with 10.9% return on equity. Had the Croatian leasing company been included in the 2018 base as part of the Croatian operation, the annual profit growth would have been 17%.

The full-year net interest income increased by 5% y-o-y (but dropped by 1% y-o-y compared with the basis including the leasing company). Although the FX-adjusted Stage 1+2 loans, chiefly driven by consumer loans, expanded by 6% y-o-y adjusted for the leasing inclusion, a decline in consumer loan interest rates reduced net interest margin by 5 bps y-o-y to 2.91%.

The annual net fee and commission income grew by 6% (or by 3% if the leasing was included in the 2018 base period), mostly because of a rise in bank account keeping fees and transaction commission income, as well as higher deposits and cards-related commissions.

The annual operating expenses declined by 4% y-o-y in local currency terms (compared to the basis adjusted for leasing companies, it dropped by 8% in local currency). As a result of the integration process, the average number of full-time employees dropped by 6% y-o-y (to 2,251 people by the end of December). In 2019 further 8 branches were closed within the framework of branch rationalisation, after the closure of 53 units in 2018. At the end of 2019, the network consisted of 136 units.

Overall, the Croatian operation's full-year cost/income ratio dropped by 5.2 pps y-o-y to 49.5%.

Of the HUF 5.5 billion risk cost that weighed on profit in 2019. In 2019 as a whole, provision for impairment on loan losses was 7% less than a year earlier, and the full-year credit risk cost rate declined by 4 bps y-o-y to 22 bps. The y-o-y rise in other risk costs was related to litigations and to risks costs for large corporate guarantees.

Regarding business activity, performing (Stage 1+2) loans expanded by an FX-adjusted 6% y-o-y compared with the basis adjusted for leasing companies. The new disbursement dynamics of personal loans and mortgage loans increased in y-o-y terms.

At the end of 2019, Stage 3 loans made up 6.3% of total gross loan volumes, which corresponds to 1.3 pps y-o-y improvement. The own coverage of Stage 3 loans represented 63.6%.

FX-adjusted deposit volumes stagnated in y-o-y comparison. In the large corporate segment, which makes up nearly a quarter of the total, sight deposit volumes contracted, while in the retail segment there was a shift from term to sight deposits. The FX-adjusted net loan/deposit ratio grew to 88%.

OTP BANK SERBIA

Performance of OTP Bank Serbia:

Main components of P&L account	2018 HUF million	2019 HUF million	Change %
After tax profit without the effect of adjustments	2,999	10,430	248
Income tax	(138)	459	(433)
Profit before income tax	3,137	9,970	218
Operating profit	6,227	13,143	111
Total income	30,306	43,276	43
Net interest income	20,514	30,809	50
Net fees and commissions	7,286	9,506	30
Other net non-interest income	2,507	2,962	18
Operating expenses	(24,079)	(30,133)	25
Total provisions	(3,090)	(3,173)	3
Provision for impairment on loan and placement losses	(3,146)	(1,634)	(48)
Other provision	56	(1,539)	
Main components of balance sheet closing balances	2018	2019	%
Total assets	590,166	1,659,483	181
Gross customer loans	395,217	1,199,580	204
Gross customer loans (FX-adjusted)	407,642	1,199,580	194
Retail loans	191,970	573,101	199
Corporate loans	215,671	581,658	170
Allowances for possible loan losses	(14,774)	(18,904)	28
Allowances for possible loan losses (FX-adjusted)	(15,278)	(18,904)	24
Deposits from customers	372,961	910,623	144
Deposits from customer (FX-adjusted)	384,772	910,623	137
Retail deposits	268,791	548,472	104
Corporate deposits	115,981	362,150	212
Liabilities to credit institutions	117,169	436,449	272
Subordinated debt	0	24,460	(100)
Total shareholders' equity	84,848	249,461	194
Loan Quality	2018	2019	%/pps
Stage 1 loan volume under IFRS 9 (in HUF million)		1,151,763	
Stage 1 loans under IFRS 9/gross customer loans		96.0%	
Own coverage of Stage 1 loans under IFRS 9		0.4%	
Stage 2 loan volume under IFRS 9 (in HUF million)		21,447	
Stage 2 loans under IFRS 9/gross customer loans		1.8%	
Own coverage of Stage 2 loans under IFRS 9		5.8%	
Stage 3 loan volume under IFRS 9 (in HUF million)	18,819	26,370	40
Stage 3 loans under IFRS 9/gross customer loans	4.8%	2.2%	(2.6)
Own coverage of Stage 3 loans under IFRS 9	61.7%	50.0%	
Provision for impairment on loan and placement losses/average gross loans	0.90%	0.25%	(0.65)
90+ days past due loan volume (in HUF million)	15,322	20,702	35
90+ days past due loans/gross customer loans	3.9%	1.7%	(2.2)
Performance Indicators	2018	2019	pps
ROA	0.6%	1.1%	0.6
ROE	3.7%	7.6%	3.9
Total income margin	5.84%	4.70%	(1.14)
Net interest margin	3.95%	3.35%	(0.61)
Cost/income ratio	79.5%	69.6%	(9.8)
Net loans to deposits (FX-adjusted)	102%	130%	28
FX rates	2018 HUF	2019 HUF	Change %
HUF/RSD (closing)	2.7	2.8	3
HUF/RSD (average)	2.7	2.8	2

- ***On 24 September the financial closure of the new acquisition in Serbia was completed, thus OTP became the second largest player in the local market***
- ***The Serbian banking group generated HUF 10.4 billion adjusted profit; the bank bought from Societe Générale contributed to this by HUF 5 billion in 4Q***
- ***The full-year net interest margin dropped by 61 bps y-o-y, partly reflecting the diluting effect of the lower margin of the newly acquired bank***
- ***The FX-adjusted volume of Stage 1+2 loans tripled y-o-y, within which organic growth amounted to 19% in comparison with the basis adjusted for leasing inclusion. The increase in FX-adjusted deposits reflected the effect of the acquisition***

On 24 September the financial closure of the Societe Generale banka Srbija transaction, announced on 20 December 2018, was completed. As a result, OTP Bank became 100% owner of the Serbian subsidiary of Societe Generale Group and its subsidiaries. Following the transaction, the name of the acquired bank was changed to OTP banka Srbija.

The Serbian operation's full-year 2019 consolidated financial statements include the acquired bank's figures starting from September, but only its 4Q contribution was presented in OTP Group's P&L account.

The Serbian P&L statement was adjusted for the one-off items related to the acquisitions; these corrections are presented at consolidated level, among adjustment items. The balance sheet items were not adjusted for these effects.

Starting from 2019, OTP Lizing d.o.o is presented as part of the Serbian operation. The performance in the 2018 base period did not include the contribution of OTP Lizing d.o.o.; then OTP Lizing d.o.o. was presented as part of the Foreign Leasing Companies. The full-year 2019 adjusted after-tax profit of OTP Lizing d.o.o. amounted to HUF 145 million. At the end of December 2019, Stage 1+2 loans totalled HUF 28 billion, while the number of employees was 33 (on FTE basis).

The loss recognized during the reporting period relating to the conversion of outstanding CHF mortgage loans to EUR loans at customers' request, commenced in April and closed on 19 July, was shown at consolidated level among the adjustment items.

OTP Bank Serbia (which includes the results of Vojvodjanska banka, OTP banka Srbija, as well as of OTP Factoring Serbia d.o.o. and OTP Lizing d.o.o.) generated HUF 10.4 billion after-tax profit in 2019; within that the newly acquired bank's contribution was HUF 5 billion in the fourth quarter.

Following the financial closure of the acquisition at the end of September, the Serbian operation's total market share by balance sheet total jumped to 13.7% on pro forma basis, according to the latest available data, at the end of September 2019. The acquisition added 93 units to the network, bringing the total number of branches to 240. Of the total headcount of 3,162 at the end of December, the acquired banks added 1,290 workers (on FTE basis).

The y-o-y dynamics of balance sheet lines were primarily shaped by the acquisition. At the end of December, the acquired bank's gross loan volume amounted to HUF 732 billion, its performing loans (Stage 1+2 under IFRS 9) reached HUF 723 billion, while customer deposits totalled HUF 525 billion, the balance sheet total hit HUF 998 billion. The newly consolidated bank is an active player in the retail and corporate segment, as well.

The Serbian banking group's operating profit (HUF 13 billion) doubled in y-o-y terms; the growth practically reflects the effect of the acquisition.

The annual total income surged by 43% (it stagnated without the acquisition and the inclusion of the leasing company). Net interest income jumped by 50% y-o-y, while net interest margin dropped by 61 bps, partially due the lower margin of the newly acquired bank and due to technical effect: only 3 months P&L contribution from the newly acquired bank was included in the Group, but its volumes were incorporated as at the end of September, thus the acquisition diluted the margin. Regarding the underlying processes, the erosion of the margin continued in 4Q, partly reflecting the lower interest environment in the aftermath of step-by-step cuts of the benchmark rate.

Overall, full-year operating cost level rose by one quarter, but without the effect of the acquisition and the inclusion of the leasing company, it remained at the 2018 level y-o-y.

The cost/income ratio has significantly improved in both y-o-y terms.

In 2019 altogether HUF 3 billion risk cost weighed on the profit (+3% y-o-y). Most of the full-year risk cost was recognized in 4Q, partly because the parameters for PD and LGD, as well as for the macroeconomic environment, were revised in the IFRS 9 provisioning models, which resulted in one-off additional provisioning in the fourth quarter. Other risk costs amounted to -HUF 1.5 billion, mostly because of contingent liabilities relating to litigations, mainly in the fourth quarter.

The share of Stage 3 loans dropped to 2.2% by the end of December. The coverage of Stage 3 loans dropped by 11.7 ppts to 50%. The reason for the latter, and also for the significantly declining Stage 3 ratio was that during the consolidation of the newly acquired bank, Stage 3 volumes were netted with the related provisions.

The lending activity intensified in 2019. The performing (Stage 1+2) loan volumes doubled, within that organic growth represented 16%.

On top of the 3% y-o-y organic growth, FX-adjusted deposit volumes expanded to more than 2.5 fold as a result of the acquisition.

Consequently, due to the above developments the Serbian operation's net loan/deposit ratio edged up to 130%.

SKB BANKA (SLOVENIA)

Performance of SKB Banka (Slovenia):

Main components of P&L account	2019 HUF million
After tax profit w/o dividends and net cash transfer	-
Income tax	-
Profit before income tax	-
Operating profit	-
Total income	-
Net interest income	-
Net fees and commissions	-
Other net non-interest income	-
Operating expenses	-
Total provisions	-
Provision for impairment on loan and placement losses	-
Other provision	-
Main components of balance sheet closing balances	**2019**
Total assets	1,130,871
Gross customer loans	831,139
Gross customer loans (FX-adjusted)	831,139
Retail loans	489,134
Corporate loans	225,942
Car financing loans	116,062
Allowances for possible loan losses	(4,051)
Allowances for possible loan losses (FX-adjusted)	(4,051)
Deposits from customers	880,839
Deposits from customers (FX-adjusted)	880,839
Retail deposits	773,337
Corporate deposits	107,225
Liabilities to credit institutions	94,909
Total shareholders' equity	132,667
Loan Quality	**2019**
Stage 1 loan volume under IFRS 9 (in HUF million)	822,118
Stage 1 loans under IFRS 9/gross customer loans	98.9%
Own coverage of Stage 1 loans under IFRS 9	0.4%
Stage 2 loan volume under IFRS 9 (in HUF million)	0
Stage 2 loans under IFRS 9/gross customer loans	0.0%
Own coverage of Stage 2 loans under IFRS 9	0.0%
Stage 3 loan volume under IFRS 9 (in HUF million)	9,020
Stage 3 loans under IFRS 9/gross customer loans	1.1%
Own coverage of Stage 3 loans under IFRS 9	8.7%
Provision for impairment on loan and placement losses/average gross loans	-
90+ days past due loan volume (in HUF million)	2,967
90+ days past due loans/gross customer loans	0.4%
Performance Indicators	**2019**
ROA	-
ROE	-
Total income margin	-
Net interest margin	-
Cost/income ratio	-
Net loans to deposits (FX-adjusted)	94%
FX rates	**2019 HUF**
HUF/EUR (closing)	330.5
HUF/EUR (average)	331.9

- ***The Slovenian subsidiary (SKB Banka) was consolidated in December 2019, therefore its results will be consolidated only from 1Q 2020***
- ***The Stage 3 ratio stood at 1.1% at the end of 2019***
- ***The net loan-to-deposit ratio reached 94%***

In line with the purchase agreement signed on 3 May 2019 by OTP Bank Plc. and the Societe Generale Group, the financial closure of the transaction was completed on 13 December 2019. As a result, OTP Bank has become the 99.73% owner of SKB Banka. Upon the request of the seller, OTP Bank does not disclose the purchase price.

The end-2019 balance sheet of the Slovenian bank was consolidated but its result will be presented in OTP Group's P&L account starting from 2020 (in the reporting period, the realized profit was accounted for directly against the equity).

OTP's **Slovenian** subsidiary is the fourth largest bank in Slovenia by balance sheet total, with nearly 9% market share. SKB Banka had 53 branches and had 863 employees (on FTE basis) at the end of December 2019.

The bank's balance sheet total amounted to HUF 1.131 billion, its gross loans made up HUF 831 billion, and customer deposits totalled HUF 881 billion at the end of 2019. At the end of 2019 Stage 3 loans represented 1.1% of gross loan volumes. The own provision coverage of Stage 3 loans stood at 8.7% – Stage 3 loans were netted with provisions upon the Slovenian bank's consolidation. If this netting hadn’t happened, the own coverage of Stage 3 loans would have been 63.5%.

At the end of 2019 the Stage 2 loan volumes amounted to zero because in the opening balance the Stage 2 volumes were moved to Stage 1 category, and the provisioning level was also aligned with that.

OTP BANK ROMANIA

Performance of OTP Bank Romania:

Main components of P&L account	2018 HUF million	2019 HUF million	Change %
After tax profit without the effect of adjustments	3,850	6,309	64
Income tax	(1,051)	(598)	(43)
Profit before income tax	4,902	6,906	41
Operating profit	10,585	12,314	16
Total income	30,759	37,530	22
Net interest income	23,410	28,254	21
Net fees and commissions	3,563	3,180	(11)
Other net non-interest income	3,786	6,097	61
Operating expenses	(20,174)	(25,216)	25
Total provisions	(5,683)	(5,408)	(5)
Provision for impairment on loan and placement losses	(4,794)	(3,018)	(37)
Other provision	(890)	(2,390)	169
Main components of balance sheet closing balances	**2018**	**2019**	**%**
Total assets	771,968	953,345	23
Gross customer loans	577,565	708,299	23
Gross customer loans (FX-adjusted)	585,678	708,299	21
Retail loans	403,463	479,401	19
Corporate loans	182,214	216,843	19
Allowances for possible loan losses	(35,444)	(39,327)	11
Allowances for possible loan losses (FX-adjusted)	(36,141)	(39,327)	9
Deposits from customers	434,937	546,350	26
Deposits from customers (FX-adjusted)	439,305	546,350	24
Retail deposits	335,514	409,728	22
Corporate deposits	103,791	136,623	32
Liabilities to credit institutions	232,391	257,404	11
Total shareholders' equity	60,047	116,432	94
Loan Quality	**2018**	**2019**	**%/pps**
Stage 1 loan volume under IFRS 9 (in HUF million)		593,922	
Stage 1 loans under IFRS 9/gross customer loans		83.9%	
Own coverage of Stage 1 loans under IFRS 9		1.3%	
Stage 2 loan volume under IFRS 9 (in HUF million)		61,556	
Stage 2 loans under IFRS 9/gross customer loans		8.7%	
Own coverage of Stage 2 loans under IFRS 9		5.7%	
Stage 3 loan volume under IFRS 9 (in HUF million)	51,771	52,821	2
Stage 3 loans under IFRS 9/gross customer loans	9.0%	7.5%	(1.5)
Own coverage of Stage 3 loans under IFRS 9		53.7%	
Provision for impairment on loan and placement losses/average gross loans	0.85%	0.47%	(0.39)
90+ days past due loan volume (in HUF million)	29,583	35,416	19.7
90+ days past due loans/gross customer loans	5.1%	5.0%	(0.1)
Performance Indicators	**2018**	**2019**	**pps**
ROA	0.6%	0.7%	0.2
ROE	7.5%	6.6%	(0.9)
Total income margin	4.46%	4.37%	(0.09)
Net interest margin	3.39%	3.29%	(0.11)
Cost/income ratio	65.6%	67.2%	1.6
Net loans to deposits (FX-adjusted)	125%	122%	(3)
FX rates	**2018 HUF**	**2019 HUF**	**Change %**
HUF/RON (closing)	69.0	69.1	0
HUF/RON (average)	68.5	68.6	0

- ***The Romanian operation generated a profit of HUF 6.3 billion in 2019 (+64% y-o-y)***
- ***The annual operating profit improved by 16% as a result of 22% increase in total income and 25% growth of operating costs***
- ***The 23% y-o-y FX-adjusted growth of Stage 1+2 loans was supported by strong mortgage and corporate credit dynamics***
- ***As a result of dynamic deposit expansion (+24% y-o-y adjusted) the net loan-to-deposit ratio improved***

Starting from 2019, the financial statements of OTP Leasing Romania are presented as part of OTP Bank Romania. The performance in the 2018 base period does not comprise OTP Leasing Romania's contribution; it was then presented as part of Foreign leasing companies. The adjusted after-tax profit of OTP Leasing Romania in 2019 was -HUF 0.4 billion; its Stage 1+2 loan volumes amounted to HUF 27.6 billion, and the number of employees was 49 (on FTE basis) at the end of 2019.

In the 2019, **OTP Bank Romania** generated HUF 6.3 billion after-tax profit, a 64% increase compared to the base period. The annual operating profit grew by 16%, as a result of 22% increase in total income, and 25% growth in operating expenses. The 21% y-o-y improvement in net interest income was largely supported by the strong dynamics in performing (Stage 1+2) loan volumes, while the net interest margin slightly dropped (-11 bps).

The annual net fees and commissions declined by 11% y-o-y. The downtrend can be explained by the base effect of product-specific factors[7]. The twelve month other net non-interest income grew by 61%, which was driven by unrealized gains on inter-group derivative transactions and higher FX gains.

In 2019 operating costs surged by 25% y-o-y. The year-on-year and fourth-quarter cost increases were partly due to the Bank's growth strategy: higher personnel costs were driven by both general wage inflation and the 18% increase in average headcount (excluding OTP Leasing Romania +14%). In addition, the Bank paid higher sales commissions for the increased disbursements. Administrative expenses surged as a combined effect of stronger business activity, higher expert fees in relation to the implementation of the Bank's growth strategy, and charges paid to supervisory authorities.

Regarding loan quality, in 2019 DPD90+ loans (FX-adjusted, without sales and write-offs) rose by HUF 8 billion, whereas in 2018 a decrease of HUF 2 billion was registered. Large part of the deterioration was attributable to corporate loans falling into the DPD90+ category during 2Q 2019.

The ratio of Stage 3 loans to total gross loans was 7.5% (-1.5 pps y-o-y). Reasons for the lower ratio included selling and writing off of bad loans; the ratio's decline was also supported by the higher gross loan volumes.

Risk costs showed a 5% y-o-y decrease, within that provisions on loans diminished by 37%. The 2019 other risk cost figure was adversely affected by an item emerged in 3Q: in the third quarter of 2019, the Romanian factoring company, OTP Factoring SRL (which is presented as part of the Romanian operation) injected capital into some of its subsidiaries because of their negative own capital, consequently an impairment was booked which appeared in the Romanian result because these subsidiaries were out of the scope of consolidation.

The 94% y-o-y rise in shareholders' equity was attributable to fact that OTP Bank Romania received a RON 320 million (about HUF 22 billion) capital increase by its parent bank in the third quarter.

Business activity has meaningfully intensified along the Bank's organic growth strategy: mortgage lending surged by 74% y-o-y, so their FX-adjusted performing (Stage 1+2) volume increased by 21% y-o-y, while the cash loan volumes rose by 15% y-o-y. Performing (Stage 1+2) MSE loans increased by 32% y-o-y and corporate exposures by 17%.

The FX-adjusted deposit volumes increased by 24% y-o-y, driven by both the retail and corporate segments. Net loan-to-deposit ratio stood at 122% at the end of 4Q (-3 pps y-o-y).

In the fourth quarter HUF 373 million bank tax was recognized, which was presented on consolidated level among adjustments, therefore it did not appear in the Romanian adjusted income statement.

[7] Customers received bonuses, booked as fee expense, after certain banking products, if they managed to fulfil contractual conditions. In 2018 the amount of bonuses was lower due to non-fulfilment of contractual conditions, which resulted in higher fee expense y-o-y.

OTP BANK UKRAINE

Performance of OTP Bank Ukraine:

Main components of P&L account	2018 HUF million	2019 HUF million	Change %
After tax profit without the effect of adjustments	24,415	35,223	44
Income tax	(4,760)	(6,937)	46
Profit before income tax	29,175	42,160	45
Operating profit	30,095	44,353	47
Total income	47,145	67,451	43
Net interest income	33,040	48,128	46
Net fees and commissions	11,444	14,877	30
Other net non-interest income	2,661	4,446	67
Operating expenses	(17,050)	(23,098)	35
Total provisions	(920)	(2,194)	138
Provision for impairment on loan and placement losses	(1,680)	(1,433)	(15)
Other provision	760	(761)	
Main components of balance sheet closing balances	2018	2019	%
Total assets	391,240	646,295	65
Gross customer loans	354,258	468,715	32
Gross customer loans (FX-adjusted)	407,119	468,715	15
Retail loans	149,345	155,012	4
Corporate loans	226,925	268,800	18
Car financing loans	30,849	44,903	46
Allowances for possible loan losses	(72,753)	(69,785)	(4)
Allowances for possible loan losses (FX-adjusted)	(82,627)	(69,785)	(16)
Deposits from customers	269,832	431,944	60
Deposits from customers (FX-adjusted)	312,645	431,944	38
Retail deposits	140,346	189,125	35
Corporate deposits	172,299	242,819	41
Liabilities to credit institutions	48,197	79,331	65
Subordinated debt	4,903	5,397	10
Total shareholders' equity	57,821	109,128	89
Loan Quality	2018	2019	%/pps
Stage 1 loan volume under IFRS 9 (in HUF million)		345,955	
Stage 1 loans under IFRS 9/gross customer loans		73.8%	
Own coverage of Stage 1 loans under IFRS 9		0.9%	
Stage 2 loan volume under IFRS 9 (in HUF million)		41,847	
Stage 2 loans under IFRS 9/gross customer loans		8.9%	
Own coverage of Stage 2 loans under IFRS 9		8.3%	
Stage 3 loan volume under IFRS 9 (in HUF million)	88,604	80,913	(9)
Stage 3 loans under IFRS 9/gross customer loans	25.0%	17.3%	(7.7)
Own coverage of Stage 3 loans under IFRS 9		77.9%	
Provision for impairment on loan and placement losses/average gross loans	0.51%	0.34%	(0.16)
Provision for impairment on loan and placement losses/average (FX-adjusted) gross loans	0.46%	0.33%	(0.13)
90+ days past due loan volume (in HUF million)	53,534	51,913	(3)
90+ days past due loans/gross customer loans	15.1%	11.1%	(4.0)
Performance Indicators	2018	2019	pps
ROA	6.8%	7.0%	0.2
ROE	55.6%	42.5%	(13.1)
Total income margin	13.15%	13.38%	0.23
Net interest margin	9.21%	9.55%	0.33
Cost/income ratio	36.2%	34.2%	(1.9)
Net loans to deposits (FX-adjusted)	104%	92%	(11)
FX rates	2018 HUF	2019 HUF	Change %
HUF/UAH (closing)	10.1	12.4	23
HUF/UAH (average)	9.9	11.3	14

- ***The Ukrainian subsidiary posted the highest ROE within subsidiary banks across the Group (42.5%); annual profit reached HUF 35.2 billion***
- ***2019 profit after tax increased by 27% y-o-y in UAH terms mainly due to improving operating profit and moderate risk cost***
- ***The Ukrainian subsidiary excelled itself as the only bank within OTP Group posting improving annual net interest margin***
- ***The Stage 3 ratio declined a by 7.7 pps to 17.3% y-o-y on the back of non-performing asset sale and write-offs, as well as expanding gross loan volumes***
- ***Performing (Stage 1+2) loan volumes advanced by 27% y-o-y (FX-adjusted)***

The financial performance and indicators of OTP Bank Ukraine in HUF terms were affected by the HUF/UAH exchange rate moves: in 2019 the closing rate of UAH appreciated by 23% y-o-y against the HUF, while the annual average rate strengthened 14% y-o-y. As a result, there are some differences in local currency P&L and balance sheets dynamics versus those in HUF terms.

OTP Bank Ukraine posted all-time high HUF 35.2 billion after tax profit in 2019 underpinning a 44% increase against the base period (+27% in local currency terms). The annual ROE reached 42.5% the highest among subsidiary banks across the Group.

Given the significant HUF/UAH FX rate moves y-o-y, we rather analyse the P&L developments in UAH terms.

The annual operating result surged by 30% y-o-y in UAH terms as a result of the steady expansion of business volumes. Net interest income surged by 28% y-o-y, whereas net fee and commission income grew by 14% and other net non-interest income jumped one and a half times. At the same time operating expenses advanced by 19% y-o-y.

NII dynamics y-o-y were favourably affected by the fact that the average loan portfolio grew faster than the average deposit base. It was also positive, that the average interest income on credit card, leasing and large enterprise exposures improved, whereas there was a declining trend at cash loans and POS-loans. The annual NIM increased to 9.55% (+0.33 pp y-o-y): the mix of outstanding loans gradually shifted towards higher margin consumer loans, while the policy rate was cut by 4.5% during 2019 through several steps.

Annual net F&C income jumped by 14% y-o-y in 2019 supported mainly by corporate transactions and card related retail fee income, but the increase in deposit volumes had its positive effect, too.

Operating expenses in UAH terms increased by 19% y-o-y in 2019 with an average inflation of 8%. This was mainly driven by higher personnel expenses as a result of wage increase and 1.5% higher average number of employees, as well as higher operational expenses induced by stronger business activity.

Despite higher operating expenses, the cost-to-income ratio improved y-o-y and its level (34.2%) was the lowest across the Group.

Total provisions increased by 161% in UAH terms against the base period, whereas provisions for impairment on loan and placement losses declined by 19% y-o-y (in UAH). The overall credit quality is still favourable: annual risk cost rate moderated to 0.34% (-16 bps y-o-y). The DPD90+ volumes (FX-adjusted and excluding the impact of loan sales and write-offs) grew by HUF 12 billion in 2019.

During the past 12 months problem loans were sold or written-off in the amount of about HUF 21 billion. Stage 3 loans to total gross loans ratio decreased to 17.3% by end-2019 (-7.7 pps y-o-y).

The FX-adjusted Stage 1+2 loan book grew by 27% y-o-y. As for the yearly development the growth of the car financing was the strongest (+48%), but consumer lending grew rapidly, too (+40%) on the back of accelerating origination activity (+17% y-o-y). Corporate exposures expanded by 25% y-o-y.

Deposits (adjusted for the FX-effect) leaped by 38% y-o-y, so the balance sheet structure is still well-balanced: the net loan-to-deposit ratio stood at 92% at the end of December 2019 (-11 pps y-o-y).

The total outstanding net intragroup funding towards the Ukrainian operation comprised USD 118 million equivalent at the end of 2019, almost flat y-o-y.

OTP BANK RUSSIA

Performance of OTP Bank Russia:

Main components of P&L account	2018 HUF million	2019 HUF million	Change %
After tax profit w/o dividends and net cash transfer	16,420	28,127	71
Income tax	(4,614)	(8,272)	79
Profit before income tax	21,034	36,399	73
Operating profit	68,878	84,946	23
Total income	129,899	146,582	13
Net interest income	102,489	113,572	11
Net fees and commissions	26,766	31,012	16
Other net non-interest income	644	1,998	210
Operating expenses	(61,021)	(61,636)	1
Total provisions	(47,844)	(48,547)	1
Provision for impairment on loan and placement losses	(42,204)	(46,123)	9
Other provision	(5,640)	(2,424)	(57)
Main components of balance sheet closing balances	**2018**	**2019**	**%**
Total assets	707,593	908,388	28
Gross customer loans	610,355	786,241	29
Gross customer loans (FX-adjusted)	710,935	786,241	11
Retail loans	636,354	685,398	8
Corporate loans	74,471	91,497	23
Car financing loans	111	9,345	
Allowances for possible loan losses	(126,655)	(152,741)	21
Allowances for possible loan losses (FX-adjusted)	(147,436)	(152,741)	4
Deposits from customers	379,911	471,735	24
Deposits from customers (FX-adjusted)	440,409	471,735	7
Retail deposits	350,344	354,076	1
Corporate deposits	90,064	117,659	31
Liabilities to credit institutions	120,156	155,306	29
Subordinated debt	22,522	25,031	11
Total shareholders' equity	147,999	202,761	37
Loan Quality	**2018**	**2019**	**%/pps**
Stage 1 loan volume under IFRS 9 (in HUF million)		589,553	
Stage 1 loans under IFRS 9/gross customer loans		75.0%	
Own coverage of Stage 1 loans under IFRS 9		5.3%	
Stage 2 loan volume under IFRS 9 (in HUF million)		94,413	
Stage 2 loans under IFRS 9/gross customer loans		12.0%	
Own coverage of Stage 2 loans under IFRS 9		27.4%	
Stage 3 loan volume under IFRS 9 (in HUF million)	84,469	102,274	21
Stage 3 loans under IFRS 9/gross customer loans	13.8%	13.0%	(0.8)
Own coverage of Stage 3 loans under IFRS 9		93.4%	
Provision for impairment on loan and placement losses/average gross loans	7.39%	6.61%	(0.78)
Provision for impairment on loan and placement losses/average (FX-adjusted) gross loans	7.41%	6.57%	(0.84)
90+ days past due loan volume (in HUF million)	81,995	96,484	18
90+ days past due loans/gross customer loans	13.4%	12.3%	(1.2)
Performance Indicators	**2018**	**2019**	**pps**
ROA	2.4%	3.4%	0.9
ROE	10.9%	15.7%	4.8
Total income margin	19.28%	17.53%	(1.75)
Net interest margin	15.21%	13.58%	(1.63)
Cost/income ratio	47.0%	42.0%	(4.9)
Net loans to deposits (FX-adjusted)	128%	134%	6
FX rates	**2018 HUF**	**2019 HUF**	**Change %**
HUF/RUB (closing)	4.1	4.7	17
HUF/RUB (average)	4.3	4.5	4

- ***HUF 28 billion after-tax profit in 2019 (+66% y-o-y in local currency terms) with 15.7% ROE***
- ***Stage 1+2 volumes (FX-adjusted) grew by 12% underpinning a y-o-y deceleration as a result of tighter underwriting standards***
- ***Annual operating expenses fell 3% y-o-y in RUB terms, the C/I ratio dropped by 5 pps to 42%***
- ***Annual risk cost rate declined to 6.6%; Stage 3 ratio improved by 0.8 pps y-o-y to 13% partially due to balance sheet clean-up***
- ***Deposit volumes growth fell short of the loan expansion, as a result net loan-to-deposit ratio increased to 134%***

The HUF denominated financial figures of OTP Bank Russia were significantly affected by the HUF/RUB moves: by the end of 2019, the RUB closing rate appreciated by 17% y-o-y against the HUF. It strengthened 4% y-o-y on average in 2019. Therefore local currency P&L and balance sheet dynamics can be materially different from those in HUF terms.

In 2019 **OTP Bank Russia** posted HUF 28.1 billion after-tax profit, which translates into 66% y-o-y improvement in local currency and 15.7% ROE.

Due to the volatility of HUF/RUB exchange rate, it is more reasonable to analyse income dynamics in RUB terms. The annual pre-tax profit grew by 68% y-o-y, as a combined result of an 18% improvement in operating profit and a 3% decline in total provisions.

The 6% y-o-y increase in net interest income was supported by the 12% y-o-y growth of FX-adjusted performing (Stage 1+2) loans, while net interest margin (NIM) dropped by 1.6 pps, to 13.6%. Reasons for the lower NIM included the continued decline in interest rates on consumer loans and a slight increase in average deposit interest rates.

Annual net fee and commission income was up 11% y-o-y in RUB terms, benefiting from an increase of insurance fee income on cash loans with insurance policies and other products growing considerably, as well as a rise in average commission income generated by credit cards and POS loans.

In 2019 operating expenses shrank by 3% y-o-y in RUB terms: the drop in both personnel expenses and amortization, partly associated with the integration of Touch Bank, was counterbalanced by the increase in administrative costs, going up in line with increasing business volumes. On the whole, the annual cost/income ratio improved by 4.9 pps to 42% y-o-y.

In line with tightening underwriting standards annual total risk cost eroded by 3% y-o-y in RUB terms. In 2019 risk cost ratio declined by 78 bps y-o-y to 6.61%.

The DPD90+ volumes (FX-adjusted and excluding the impact of loan sales and write-offs) jumped to HUF 55 billion in 2019 underpinning almost a one and a half times expansion y-o-y. Such increase was partially attributed to the loan portfolio expansion. Over the past twelve months OTP Bank Russia sold or wrote down a gross total of HUF 52 billion in loans.

Overall, the ratio of Stage 3 loans to total gross loans declined by 0.8 pp y-o-y to 13.0% by the end of 2019. Stage 3 loans' own coverage was 93.4%.

In 2019, the FX-adjusted Stage 1+2 loan book rose by 12% y-o-y underpinning a y-o-y less pronounced volume growth. The consumer loan portfolio grew by 9% y-o-y and the corporate by 19%, respectively. POS loan volumes grew by 11% y-o-y. Cash loan disbursement conditions were tightened during the year, still, during the last twelve months the book increased by 12%. Credit card volumes increased by 5% y-o-y.

FX-adjusted total deposits increased by 7% y-o-y. Corporate deposits displayed a volatile performance, they grew by 31% y-o-y. Net loan-to-deposit ratio (134%) increased by 6% y-o-y.

CKB GROUP (MONTENEGRO)

Performance of CKB Group:

Main components of P&L account	2018 HUF million	2019 HUF million	Change %
After tax profit w/o dividends and net cash transfer	2,214	6,377	188
Income tax	(326)	(679)	108
Profit before income tax	2,540	7,056	178
Operating profit	2,605	5,692	119
Total income	10,729	16,120	50
Net interest income	7,529	11,464	52
Net fees and commissions	3,227	4,215	31
Other net non-interest income	(27)	441	
Operating expenses	(8,125)	(10,428)	28
Total provisions	(65)	1,364	
Provision for impairment on loan and placement losses	(46)	1,293	
Other provision	(19)	71	
Main components of balance sheet closing balances	**2018**	**2019**	**%**
Total assets	224,892	439,836	96
Gross customer loans	157,043	319,836	104
Gross customer loans (FX-adjusted)	161,444	319,836	98
Retail loans	75,073	161,601	115
Corporate loans	86,337	158,147	83
Car financing loans	34	88	156
Allowances for possible loan losses	(28,265)	(19,518)	(31)
Allowances for possible loan losses (FX-adjusted)	(29,057)	(19,518)	(33)
Deposits from customers	175,740	318,216	81
Deposits from customers (FX-adjusted)	180,877	318,216	76
Retail deposits	135,092	207,441	54
Corporate deposits	45,785	110,775	142
Liabilities to credit institutions	2,364	36,733	
Total shareholders' equity	38,637	66,188	71
Loan Quality	**2018**	**2019**	**%/pps**
Stage 1 loan volume under IFRS 9 (in HUF million)		283,959	
Stage 1 loans under IFRS 9/gross customer loans		88.8%	
Own coverage of Stage 1 loans under IFRS 9		1.1%	
Stage 2 loan volume under IFRS 9 (in HUF million)		12,509	
Stage 2 loans under IFRS 9/gross customer loans		3.9%	
Own coverage of Stage 2 loans under IFRS 9		4.8%	
Stage 3 loan volume under IFRS 9 (in HUF million)	33,096	23,369	(29)
Stage 3 loans under IFRS 9/gross customer loans	21.1%	7.3%	(13.8)
Own coverage of Stage 3 loans under IFRS 9		68.2%	
Provision for impairment on loan and placement losses/average gross loans	0.03%	(0.56%)	(0.59)
90+ days past due loan volume (in HUF million)	27,993	17,058	(39)
90+ days past due loans/gross customer loans	17.8%	5.3%	(12.5)
Performance Indicators	**2018**	**2019**	**pps**
ROA	1.1%	1.9%	0.9
ROE	7.3%	11.9%	4.6
Total income margin	5.09%	4.86%	(0.23)
Net interest margin	3.57%	3.45%	(0.12)
Cost/income ratio	75.7%	64.7%	(11.0)
Net loans to deposits (FX-adjusted)	73%	94%	21
FX rates	**2018 HUF**	**2019 HUF**	**Change %**
HUF/EUR (closing)	321.5	330.5	3
HUF/EUR (average)	318.9	325.3	2

- ***The financial closure of the Montenegrin acquisition was completed on 16 July, thus the full-year balance sheet and P&L figures of the Montenegrin operation already included the balance sheet and the five-months profit contribution of the acquired bank***
- ***In 2019 the Montenegrin banking group generated HUF 6.4 billion adjusted profit, of which Podgorička banka's five-month profit made up HUF 1.9 billion***
- ***The FX-adjusted performing loan volumes jumped by 133% y-o-y, or by 22% without the acquisition***
- ***The ratio of Stage 3 loans (7.3%) dropped by 13.8 pps y-o-y***

On 27 February 2019 Crnogorska komercijalna banka a.d., the Montenegrin subsidiary of OTP Bank signed an acquisition agreement on purchasing 90.56% shareholding of Societe Generale banka Montenegro a.d. ('SGM'), the Montenegrin subsidiary of Societe Generale Group. The financial closure of the transaction was completed on 16 July 2019. The new name of the acquired bank is Podgorička banka. In December 2019 minority shareholders were bought out, thus Crnogorska komercijalna banka a.d. became the 100% owner of Podgorička banka.

The Montenegrin P&L account was adjusted for the one-off items directly related to the acquisition; these corrections are shown on consolidated level among the adjustment items. The balance sheet items were not adjusted for these effects.

The Montenegrin **CKB Group** posted HUF 6.4 billion after-tax profit in 2019 (including Podgorička banka's five-months contribution of HUF 1.9 billion), exceeding that of the base period by 188%.

At the end of December 2019, the combined market share of OTP Bank's operation in Montenegro was 29.5% on *pro forma* basis. Podgorička banka's network consisted of 20 branches, and the headcount was 255 (on FTE basis) at the end of December.

The 119% jump in full-year operating profit (+49% without the acquisition) reflects a 50% surge in total income (+15% without the acquisition), while operating expenses increased by 28% (+5% without the acquisition).

Full-year net interest income surged by 52% (+11% without the acquisition): due to the strengthening business activity, Stage 1+2 loans continued their growth (+22% y-o-y without the acquisition), which was partly offset by the declining net interest margin. Full-year net fees and commissions increased by 31% y-o-y (+13% without the acquisition). The 28% y-o-y growth in operating expenses (+5% without the acquisition) is mainly attributable to an increase in the charges paid to supervisory authorities as well as to higher personnel expenses.

In 2019 as a whole HUF 1.4 billion total risk cost was released; partly because the parameters for PD and LGD, as well as for the macroeconomic environment and outlook were revised in the IFRS 9 provisioning models, and in part owing to the release of other risk cost relating to one corporate customer.

The DPD90+ ratio (5.3%) dropped by 12.5 pps y-o-y. At the end of 2019 the share of Stage 3 exposures was 7.3% (-13.8 pps y-o-y). The own coverage of Stage 3 loans stood at 68.2%.

Performing (Stage 1+2) loans grew by 133% (+22% y-o-y without the acquisition).

FX-adjusted deposit volumes surged by 76% y-o-y (11% without the acquisition). The net loan-to-deposit ratio stood at 94% at the end of the fourth quarter (+21 pps y-o-y).

Based on local calculation rules, the capital adequacy ratio of Crnogorska komercijalna banka a.d., which holds the shares of Podgorička banka, stood at 23.6% at the end of 2019.

OTP BANK ALBANIA (ALBANIA)

Performance of OTP Bank Albania:

Main components of P&L account	2019 HUF million
After tax profit w/o dividends and net cash transfer	2,616
Income tax	(459)
Profit before income tax	3,075
Operating profit	3,702
Total income	7,953
Net interest income	6,697
Net fees and commissions	1,007
Other net non-interest income	248
Operating expenses	(4,250)
Total provisions	(627)
Provision for impairment on loan and placement losses	(249)
Other provision	(379)
Main components of balance sheet closing balances	**2019**
Total assets	247,997
Gross customer loans	147,777
Gross customer loans (FX-adjusted)	147,777
Retail loans	66,593
Corporate loans	79,096
Car financing loans	2,088
Allowances for possible loan losses	(3,657)
Allowances for possible loan losses (FX-adjusted)	(3,657)
Deposits from customers	179,755
Deposits from customers (FX-adjusted)	179,755
Retail deposits	152,883
Corporate deposits	26,872
Liabilities to credit institutions	36,901
Total shareholders' equity	25,605
Loan Quality	**2019**
Stage 1 loan volume under IFRS 9 (in HUF million)	138,579
Stage 1 loans under IFRS 9/gross customer loans	93.8%
Own coverage of Stage 1 loans under IFRS 9	1.2%
Stage 2 loan volume under IFRS 9 (in HUF million)	4,593
Stage 2 loans under IFRS 9/gross customer loans	3.1%
Own coverage of Stage 2 loans under IFRS 9	10.1%
Stage 3 loan volume under IFRS 9 (in HUF million)	4,604
Stage 3 loans under IFRS 9/gross customer loans	3.1%
Own coverage of Stage 3 loans under IFRS 9	33.1%
Provision for impairment on loan and placement losses/average gross loans	0.23%
90+ days past due loan volume (in HUF million)	2,270
90+ days past due loans/gross customer loans	1.5%
Performance Indicators	**2019**
ROA	1.4%
ROE	14.1%
Total income margin	4.27%
Net interest margin	3.59%
Cost/income ratio	53.4%
Net loans to deposits (FX-adjusted)	80%
FX rates	**2019 HUF**
HUF/ALL (closing)	2.7
HUF/ALL (average)	2.6

- ***The Albanian bank was consolidated in 1Q 2019 and its results appeared in the consolidated P&L from April***
- ***The bank posted HUF 2.6 billion profit after tax profit between April-December 2019***
- ***The Stage 3 ratio was 3.1% by the end of 2019; the net loan-to-deposit ratio was 80%***

In line with the purchase agreement signed on 1 August 2018 by OTP Bank Plc. and the Societe Generale Group, the financial closure of the Albanian transaction was completed on 29 March 2019. As a result, OTP Bank has become the 100% owner of Banka Societe Generale Albania SH.A. The results of the Albanian bank were consolidated in OTP Group's P&L account starting from April 2019. Upon the request of the seller, OTP Bank does not disclose the purchase price.

The Albanian P&L account was adjusted for the one-off items directly related to the acquisition; these corrections are shown at consolidated level among the adjustment items. The balance sheet items were not adjusted for these effects.

OTP Bank Albania posted HUF 2.6 billion after-tax profit between April and December 2019.

The full-year ROE (14.1%) and net interest margin (3.59%) were below the Group's average, while the cost/income ratio (53.4%) exceeded it. The annual credit risk cost rate reached 23 bps in the period under review.

At the end of 2019 the Stage 3 loans made up 3.1% of gross loan volumes. The Stage 3 loans of the acquired bank were netted with the related provisions upon its consolidation. The own provision coverage of Stage 3 loans was 33.1%.

The net loan/deposit ratio stood at 80%, above the group's average.

MOBIASBANCA (MOLDOVA)

Performance of Mobiasbanca:

Main components of P&L account	2019 HUF million
After tax profit w/o dividends and net cash transfer	1,936
Income tax	(174)
Profit before income tax	2,110
Operating profit	2,929
Total income	5,902
Net interest income	3,959
Net fees and commissions	891
Other net non-interest income	1,052
Operating expenses	(2,974)
Total provisions	(819)
Provision for impairment on loan and placement losses	(737)
Other provision	(82)
Main components of balance sheet closing balances	2019
Total assets	211,043
Gross customer loans	104,763
Gross customer loans (FX-adjusted)	104,763
Retail loans	57,000
Corporate loans	46,339
Car financing loans	1,424
Allowances for possible loan losses	(1,790)
Allowances for possible loan losses (FX-adjusted)	(1,790)
Deposits from customers	161,071
Deposits from customers (FX-adjusted)	161,071
Retail deposits	110,838
Corporate deposits	50,233
Liabilities to credit institutions	12,342
Total shareholders' equity	34,518
Loan Quality	2019
Stage 1 loan volume under IFRS 9 (in HUF million)	102,460
Stage 1 loans under IFRS 9/gross customer loans	97.8%
Own coverage of Stage 1 loans under IFRS 9	1.0%
Stage 2 loan volume under IFRS 9 (in HUF million)	880
Stage 2 loans under IFRS 9/gross customer loans	0.8%
Own coverage of Stage 2 loans under IFRS 9	23.6%
Stage 3 loan volume under IFRS 9 (in HUF million)	1,424
Stage 3 loans under IFRS 9/gross customer loans	1.4%
Own coverage of Stage 3 loans under IFRS 9	39.7%
Provision for impairment on loan and placement losses/average gross loans	1.58%
90+ days past due loan volume (in HUF million)	383
90+ days past due loans/gross customer loans	0.4%
Performance Indicators	2019
ROA	2.1%
ROE	12.6%
Total income margin	6.31%
Net interest margin	4.23%
Cost/income ratio	50.4%
Net loans to deposits (FX-adjusted)	64%
FX rates	2019 HUF
HUF/MDL (closing)	17.1
HUF/MDL (average)	16.6

- ***The Moldavian bank was consolidated in July 2019, and its results appeared in the consolidated P&L from August***
- ***The Moldovan bank's profit contribution was HUF 1.9 billion in 2019***
- ***The Stage 3 ratio stood at 1.4% at the end of 2019; the net loan to deposit ratio was 64%***

In accordance with the purchase agreement signed on 6 February 2019 by OTP Bank and the Societe Generale Group, the financial closure of the transaction was completed on 25 July 2019, as a result of which OTP Bank acquired Mobiasbanca – Groupe Societe Generale S.A. OTP Bank's shareholding reached 98.26% at the end of 2019.

The Moldavian P&L account was adjusted for the one-off items directly related to the acquisition; these corrections are shown at consolidated level among the adjustment items. The balance sheet items were not adjusted for these effects.

Between August and December 2019 **Mobiasbanca** contributed to OTP Group's adjusted profit by HUF 1.9 billion.

The full-year ROE (12.6%) and the cost/income ratio (50.4%) were below the Group's average, while the net interest margin (4.23%) exceeded it.

The bank's balance sheet total amounted to HUF 211 billion, its gross loans made up HUF 105 billion, and customer deposits totalled HUF 161 billion at the end of 2019. Net loan-to-deposit ratio was 64%, lower than the Group's average.

Based on its total assets, the market share of OTP's Moldavian operation was 13.5% at the end of December 2019; this ranks it the fourth biggest bank in Moldavia. Mobiasbanca's branch network consisted of 53 units, and the bank employed 755 people (on FTE basis) at the end of December.

At the end of 2019 the ratio of Stage 3 loans to total gross loans stood at 1.4%. Stage 3 loans own provision coverage was 39.7%.

OTP BANKA SLOVENSKO (SLOVAKIA)

Performance of OTP Banka Slovensko:

Main components of P&L account	2018 HUF million	2019 HUF million	Change %
After tax profit without the effect of adjustments	44	1,575	
Income tax	(56)	(240)	328
Profit before income tax	100	1,815	
Operating profit	2,598	1,625	(37)
Total income	15,014	14,714	(2)
Net interest income	11,148	10,505	(6)
Net fees and commissions	3,536	3,884	10)
Other net non-interest income	330	325	(1)
Operating expenses	(12,416)	(13,089)	5
Total provisions	(2,498)	190	(108)
Provision for impairment on loan and placement losses	(2,579)	604	(123)
Other provision	81	(414)	(609)
Main components of balance sheet closing balances	2018	2019	%
Total assets	454,498	473,660	4
Gross customer loans	393,111	392,793	0
Gross customer loans (FX-adjusted)	404,127	392,793	(3)
Retail loans	350,325	336,342	(4)
Corporate loans	53,786	56,444	5
Allowances for possible loan losses	(31,582)	(24,338)	(23)
Allowances for possible loan losses (FX-adjusted)	(32,467)	(24,338)	(25)
Deposits from customers	360,069	351,722	(2)
Deposits from customers (FX-adjusted)	370,195	351,722	(5)
Retail deposits	341,065	320,907	(6)
Corporate deposits	29,130	30,815	6
Liabilities to credit institutions	22,725	50,669	123
Subordinated debt	8,691	8,933	3
Total shareholders' equity	29,382	38,078	30
Loan Quality	2018	2019	%/pps
Stage 1 loan volume under IFRS 9 (in HUF million)		336,650	
Stage 1 loans under IFRS 9/gross customer loans		85.7%	
Own coverage of Stage 1 loans under IFRS 9		0.7%	
Stage 2 loan volume under IFRS 9 (in HUF million)		29,307	
Stage 2 loans under IFRS 9/gross customer loans		7.5%	
Own coverage of Stage 2 loans under IFRS 9		11.7%	
Stage 3 loan volume under IFRS 9 (in HUF million)	35,916	26,836	(25)
Stage 3 loans under IFRS 9/gross customer loans	9.1%	6.8%	(2.3)
Own coverage of Stage 3 loans under IFRS 9		68.8%	
Provision for impairment on loan and placement losses/average gross loans	0.65%	(0.15%)	(0.8)
90+ days past due loan volume (in HUF million)	29,160	21,890	(24.9)
90+ days past due loans/gross customer loans	7.4%	5.6%	(1.8)
Performance Indicators	2018	2019	pps
ROA	0.0%	0.3%	0.3
ROE	0.2%	5.2%	5.1
Total income margin	3.32%	3.20%	(0.12)
Net interest margin	2.47%	2.29%	(0.18)
Cost/income ratio	82.7%	89.0%	6.3
Net loans to deposits (FX-adjusted)	100%	105%	4
FX rates	2018 HUF	2019 HUF	Change %
HUF/EUR (closing)	321.5	330.5	3
HUF/EUR (average)	318.9	325.3	2

Note: P&L lines and performance indicators are adjusted for the banking tax, Deposit Protection Fund contributions and payments into the Resolution Fund.

- ***OTP Banka Slovensko generatedHUF 1.6 billion profit in 2019***
- ***12M operating profit fell by 37% y-o-y, as a result of 2% lower income and 5% higher operating expenses***
- ***The performing (Stage 1+2) loan volumes did not change substantially in y-o-y comparison***

In 2019 **OTP Banka Slovensko** posted HUF 1.6 billion adjusted after tax profit, against the near-zero result of the base period. A significant part of the profit growth originated from favourable development in provisions: in 2019 the total provisions were in positive territory (HUF 0.2 billion), mainly owing to provision releases (+HUF 0.9 billion) booked in the third quarter, which in part stemmed from the revision of the IFRS 9 model parameters.

Total income in full-year 2019 declined by 2%. Within that, net interest income dropped by 6%, while performing (Stage 1+2) loan volumes did not change substantially in comparison with the base period. In 2019, net interest margin contracted by 18 bps to 2.29%.

Twelve-month operating expenses rose by 5% y-o-y (3% in local currency), reflecting higher personnel expenses and depreciation.

During 2019, net fees and commissions expanded by 10%, owing to a year-over-year increase in brokerage fees, largely because of a rise in investment fund and insurance fees.

Within total provisions, the provision for impairment on loan and placement losses line showed improvement compared to 2018 figures. This stemmed mostly from the release of provisions in the third quarter, partly due to the revision of the IFRS 9 model parameters. The unfavorable changes in other risk costs are due to the fact that OTP Faktoring Ltd. (Hungary) raised capital in OTP Faktoring Slovensko (presented as part of the Slovakian operation), which thereafter raised capital in its affiliated companies. As these companies had negative equity before the capital increase, and are out of the scope of consolidation, an impairment was recognized in the other provisions line of the Slovakian operation in the fourth quarter.

DPD90+ loan volumes contracted by HUF 1 billion in 2019 (FX-adjusted, without sales and write-offs). During the year, HUF 6 billion problem loans were sold/written off. The ratio of Stage 3 loans amounted to 6.8% of the gross loan volume (-2.3 pps y-o-y). The own coverage of Stage 3 loans stood at 68.8% at the end of 4Q.

The volume of performing (Stage 1+2) loans was stagnant during the year.

FX-adjusted customer deposits dropped by 5% y-o-y. This brought the loan/deposit ratio to 105% by the end of 2019.

STAFF LEVEL AND OTHER INFORMATION

	31/12/2018				31/12/2019			
	Branches	ATM	POS	Headcount (closing)	Branches	ATM	POS	Headcount (closing)
OTP Core (Hungary)	**362**	**1,931**	**77,599**	**9,631**	**361**	**1,936**	**77,962**	**10,102**
DSK Group (Bulgaria)	345	911	8,464	4,838	440	1,140	12,915	6,186
OBH (Croatia)	144	480	10,360	2,397	136	480	10,856	2,251
OTP Bank Serbia	154	248	5,554	1,996	231	338	18,424	3,162
SKB Banka (Slovenia)					53	83	3,982	863
OTP Bank Romania	95	139	4,556	1,273	95	141	5,125	1,496
OTP Bank Ukraine (w/o employed agents)	87	149	351	2,313	88	166	331	2,399
OTP Bank Russia (w/o employed agents)	134	227	905	5,052	134	223	715	5,343
CKB Group (Montenegro)	28	103	4,572	419	48	128	6,908	681
OTP Bank Albania					37	76	0	424
Mobiasbanca (Moldova)					53	145	0	755
OTP Banka Slovensko (Slovakia)	62	151	232	690	58	157	159	671
Foreign subsidiaries, total	**1,049**	**2,408**	**34,994**	**18,977**	**1,373**	**3,077**	**59,415**	**24,230**
Other Hungarian and foreign subsidiaries				924				590
OTP Group (w/o employed agents)				**29,532**				**34,922**
OTP Bank Russia - employed agents				5,306				5,083
OTP Bank Ukraine - employed agents				760				663
OTP Group (aggregated)	**1,411**	**4,339**	**112,593**	**35,599**	**1,734**	**5,013**	**137,377**	**40,668**

Notes: the y/y changes in the headcount data presented in the table were influenced by the changes in the scope of companies comprising OTP Core, the Bulgarian, Croatian, Serbian, Montenegrin and Romanian operations and in the case of other Hungarian and foreign group members. For more details, see the individual section about OTP Core, and the Bulgarian, Croatian, Serbian and Romanian performances.

Definition of headcount number: closing, active FTE (full-time employee). The employee is considered as full-time employee in case his/her employment conditions regarding working hours are in line with a full time employment defined in the Labour Code in the reporting entity's country. Part-time employees are taken into account proportional to the full time working hours being effective in the reporting entity's country.

STATEMENT ON CORPORATE GOVERNANCE PRACTICE

Corporate governance practice

OTP Bank Plc., being registered in Hungary, has a corporate governance policy that complies with the provisions on companies of the act applicable (Civil Code). As the company conducts banking operations, it also adheres to the statutory regulations pertaining to credit institutions.

In accordance with the statutory requirements and the recommendation concerned, as a listed company on the Budapest Stock Exchange (BSE), the company also makes an annual declaration on its compliance with the BSE's Corporate Governance Recommendations. After being approved by the General Meeting, this declaration is published on the website of the BSE (www.bet.hu), on the information storage system operated by National Bank of Hungary (www.kozzetetelek.hu), and on the website of the Bank (www.otpbank.hu).

The purposes of applying the Corporate Governance Recommendations of the BSE is to facilitate the transparent and efficient market operation, support the enforcement of the laws as well as harmonise the interests of the organisation, the investors and the organisation's environment.
The Recommendations contain both recommendations that are binding for all organisations and non-binding proposals. Organisations may derogate both from binding recommendations and non-binding proposals. In the event of derogation from the recommendations, organisations are required to publish and justify the derogation in their corporate governance reports ('comply or explain'). This enables organisations to take industry and company-specific requirements into account. Accordingly, even organisations derogating from the recommendations can comply with corporate governance requirements under certain circumstances. Concerning the proposals, organisations should indicate whether they apply a given guideline or not, and they can also explain any derogation from the proposals.
OTP Bank Plc. provided positive answers to all recommendations and suggestions.

System of internal controls

The main function of the internal audit system is to protect customers, the company's assets and shareholder's interests, as well as to facilitate and monitor operation in compliance with the statutory provisions.
The internal audit system extends to all of the company's organisational units, business lines and activities, including outsourced activities. To ensure effective auditing, the internal audit system consists of several modular control levels, and is also segmented in line with the departmental structure of the organisation. The elements of the internal audit system are comprised of in-process and management controls, and an independent internal audit unit and management information system.
OTP Bank Plc. has developed and applies such a uniform internal audit system consistently throughout the Bank Group that is proportionate to the size of the OTP Group and the market share of the Company, includes shareholder audits conducted at the foreign and domestic group members as well as the professional oversight of the internal audit organisations of the financial institutions that are subject to consolidated supervision as specified in the Credit Institutions Act. To this end, standardised internal audit procedures and methodologies pertaining to the operation and activities of group members' internal audit departments are developed, enhanced and applied on a continuous basis. Internal audit also liaises regularly and cooperates with external auditing bodies.

The independent internal audit unit assists in the legally compliant and effective management of assets and liabilities and the protection of property; it supports secure business operation, the effectiveness, cost-efficiency and success of internal control systems, the minimisation of risks, and – alongside the compliance unit – it detects and reports departures from the provisions of the statutory regulations and internal policies, makes recommendations for the elimination of deficiencies, and monitors the implementation of the measures. It performs its activities independently, objectively and professionally. Its independence is ensured by the fact that it is professionally overseen by the Supervisory Board, within the framework set out by the Credit Institutions Act. The independent internal audit organisation was set up in a manner that the execution of ownership controls at the Organisation, in the network and at the foreign and domestic group members, as well as the professional supervision of the foreign and domestic internal audit organisation is properly ensured.
The independent internal audit organisation has an annual audit plan which is approved by the Supervisory Board. The annual plan is prepared using a risk-based methodology and, in addition to focusing on the areas that entail regulatory, business and operational risk, and the other main risk exposures, it emphasizes

especially the control of reporting and data, further, it also takes into account the company's prevailing strategic priorities.

The independent internal audit organisation has unrestricted access to information, documents and data necessary for conducting investigations, and is kept informed of changes in group structure, risks, and priorities.

The internal audit organisation makes independent reports on its auditing activities for the management bodies at quarterly and annual intervals. In its quarterly reports it gives a group-level, summary account of the audits conducted in the given quarter, the risks identified in the course of its own audits and audits conducted by the authorities, and the success of any action taken to eliminate them. In exceptional cases that require immediate intervention, it provides the management with extraordinary briefings. The audit organisation reports annually on the performance of the tasks stipulated in the group-level annual audit schedule, the audits conducted and other activities, and on the circumstances of the organisation's operation, as well as on any changes to the internal audit system.

The organisation annually prepares, for the Supervisory Board, objective and independent report in respect of the operation of risk management, internal control mechanisms and corporate governance functions, and in accordance with the Credit Institutions Act annually reports to the Supervisory Board and the Board of Directors on the regularity of internal audit tasks, professional requirements and the conduct of audit, as well as on the review of compliance with the IT and other technical requirements for audits.

The basis for effective group-level risk management is the operation of a standardised, "OTP-compatible" organisational structure as well as regulations and procedures at the subsidiaries concerned. The Company has detailed risk management rules for each of the various types of risk (liquidity, market, country, counterparty, credit, operational, compliance), and these rules are in harmony with the statutory regulations pertaining to prudential banking operations. The annual report describes the risk management practices, the limits, and compliance with these limits.
Within the Company, the Credit Approval and Risk Management Division and the Strategy and Finance Division exercise functional control over the guidelines, methodology and infrastructure of the Bank Group's risk management strategy, the purpose of which is to create a clearly defined, transparent, standardised credit, country, counterparty, market and operational risk management system at group level which complies with the expectations of the supervisory authority and local conditions. The Bank Group's Risk Strategy and the rules on risk prescribed by the Credit Institutions Act, are approved by the Bank's Board of Directors.
The Risk Strategy determines, with respect to the entire Bank Group, the framework for risk management and the principles and guidelines of risk assumption.
With respect to the cornerstones of the risk management methodologies, and the main risk topics for Bank Group members, the final decision-making competence is held by the Group members' risk committees (Credit and Limit Committee, Workout Committee, Group Operational Risk Committee).
The Bank's risk management system encompasses the identification of the risks, assessment of their impact, elaboration of the necessary action plans, and the monitoring of their effectiveness and results. The management make their business decisions in a knowledge of all the key risks. All significant risks related to internal and external operations, or to compliance with financial and legal requirements, as well as numerous other risks, are evaluated and managed using a clearly-defined and transparent internal mechanism.

In adopting its accounting policy and defining its accounting order the Bank uses its own control mechanisms and processes ensuring properly to reach the following goals: to draw up reliable financial reports, to carry out various successful and effective operations for the company, to comply with the legislation in force and to fully comply with the provisions related to the provision of data to the regulatory and supervisory bodies. All competencies of the banking units responsible for drawing up the report and the accounting control are set up in an internal regulation instrument.
The internal regulation shall define the closing competencies and data supplying necessary for drawing up the interim (monthly, quarterly and six-month) and the annual disclosure reports. It provides a complete guidance for the interim (monthly, quarterly, six-month) and the annual closing competencies, tasks and supplying of data. The internal regulation sets up deadlines and appoints responsible officers for the tasks.
The internal regulation also orders the inventory and conciliation of ledger records containing provisional registration of items which – for various reasons – could not be immediately cleared on a real account of assets/ liabilities or on the general ledger accounts serving for registration of items outside the balance sheet at the time when they emerged.
Act no. 100 of 2000 on Accounting (IFRS) provides that the report shall rest on an inventory. Internal regulation sets detailed rules of inventory tasks in order to ensure a genuine balance sheet that rests on proper definition of stocks of assets and liabilities, to check the bookkeeping and the accountancies and to

reinforce this way the documentary discipline, to protect belongings, to explore inventories of decreased value and the assets out of use.
Furthermore, the Bank draws up and applies a detailed accounting system and continuously adapts new accounting measurements related the actual products and activities. Internal regulations on accounting are revised annually and updated if necessary. The legal, the internal audit and the compliance area are involved in the drafting and amending of these regulations.

General meeting, Articles of Association

The General Meeting is the supreme governing body of OTP Bank Plc. The regulations pertaining to its operation are set forth in the Company's Bylaws, and comply fully with both general and special statutory requirements. Information on the General Meeting is available in the Corporate Governance Report.

Regulations and information to be presented in the Business Report concerning securities conferring voting rights issued by the Company and senior officials, according to the effective Articles of Association, and ownership structure

The Company's registered capital is HUF 28,000,001,000, that is twenty-eight thousand million one thousand Hungarian forint, divided into 280,000,010 that is Two hundred and eighty million and ten dematerialised ordinary shares with a nominal value of HUF 100 each, and a total nominal value of HUF 28,000,001,000, that is twenty eight billion one thousand Hungarian forint.

The ordinary shares of the Company specified all have the same nominal value and bestow the same rights in respect of the Company.

There are no restrictions in place concerning the transfer of issued securities constituting the registered capital of the Company.

No securities with special control rights have been issued by the Company.

The Company does not run control systems prescribed by an employee ownership program, where control rights are not exercised directly by the employees.

Rules on the restrictions of the voting rights:

The Company's ordinary shares confer one vote per share.

An individual shareholder or group of shareholders may not exercise voting rights in respect of in an extent exceeding 25%, or – if the voting rights of another shareholder or group of shareholders exceed 10% – exceeding 33% of the total voting rights represented by the shares conferring voting rights at the Company's General Meeting.

The shareholder is obliged to notify the Company's Board of Directors without delay if the shareholder directly or indirectly, or together with other shareholders in the same group of shareholders, holds more than 2% of the voting rights represented by the shares conferring voting rights at the Company's General Meeting. Concurrently with this, the shareholder is obliged to designate the shareholders through which the indirect voting right exists, or the members of the group of shareholders. In the event of a failure to provide such notification, or if there are substantive grounds for assuming that the shareholder has made a misleading declaration regarding the composition of the shareholder group, then the shareholder's voting right shall be suspended and may not be exercised until the shareholder has met the above obligations. The notification obligation stipulated in this paragraph and the related legal consequences are also incumbent upon individuals who are classified or may be classified as the Company's shareholders under Article 61 of the Capital Markets Act. The Company must also be provided with proof of the conditions for exemption from the notification obligation in accordance with Section 61 (7)-(8) and Section 61 (10)-(11)-(12), of the Capital Markets Act.

Shareholder group: the shareholder and another shareholder, in which the former has either a direct or indirect shareholding or has an influence without a shareholding (collectively: a direct and/or indirect influence); furthermore: the shareholder and another shareholder who is exercising or is willing to exercise its voting rights together with the former shareholder, regardless of what type of agreement between the participants underlies such concerted exercising of rights.

For determining the existence and extent of the indirect holding, the rules of the Credit Institutions Act relating to the calculation of indirect ownership shall be applied.

If the voting rights that may be exercised by a shareholder group exceed the threshold stipulated in the first paragraph of this section, the voting rights shall be reduced in such a way that the voting rights relating to the shares most recently acquired by the group of shareholders shall not be exercisable.

If there are substantive grounds to presume that the exercising of voting rights by any shareholder or shareholders might result in a breach of the rules of the Capital Markets Act relating to the acquisition of a controlling interest, the Board of Directors' authorised representative responsible for the registration of shareholders at the venue of the General Meeting, or the Chairman of the General Meeting, may exclude the affected shareholders from attending the General Meeting or exercising voting rights.

The General Meeting has exclusive authority with respect to the decision regarding the delisting of the shares (qualified majority). When making the decisions, shares embodying multiple voting rights shall represent one share.

The Company is not aware of any kind of agreements among the owners that could give rise to the restriction of the transfer of issued securities and/or the voting rights.

Rules on the appointment and removal of executive officers, and rules on amendment of the Articles of Association:

The Board of Directors has at least 5, and up to 11 members.

When making the decisions, shares embodying multiple voting rights shall represent one share.The members of the Board of Directors are elected by the General Meeting based on its decision uniformly either for an indefinite period or for five years; in the latter case the mandate ends with the General Meeting concluding the fifth financial year following the election. The mandate of a member elected during this period expires together with the mandate of the Board of Directors.

The Board of Directors elects a Chairman and, may elect one or more Deputy Chairmen, from among its own members, whose period of office shall be equal to the mandate of the Board of Directors. The Chairman of the Board of Directors is also the Chief Executive Officer (Chairman & CEO) of the Company, unless the Board of Directors decides within its competence that the position of Chairman of the Board of Directors and the Chief Executive Officer of the Company are held by separate persons.

The membership of the Board of Directors ceases to exist by

g. expiry of the mandate,
h. resignation,
i. recall,
j. death,
k. the occurrence of grounds for disqualification as regulated by law.
l. termination of the employment of internal (executive) Board members.

The General Meeting has exclusive authority with respect to the following matters:

- the recall of members of the Board of Directors, the Supervisory Board and Audit Committee, and of the auditor; (qualified majority)
  More than one third of the members of the Board of Directors and the non-executive members of the Supervisory Board may be recalled within a 12-month period only if any shareholder holds more than 33% of the shares issued by the Company, which have been obtained by the shareholder by way of a public purchase offer.
- except in the cases referred by these Articles of Association to the authority of the Board of Directors, the establishment and amendment of the Articles of Association; (qualified majority); the General Meeting decides on proposals concerning the amendment of the Articles of Association – based on a resolution passed by shareholders with a simple majority – either individually or en masse.

The Board of Directors is exclusively authorised to make decisions regarding any change in the Company's name, registered office, permanent establishments and branches, and in the Company's activities – with the exception of its core activity – and, in relation to this, to modify the Articles of Association should it become necessary to do so on the basis of the Civil Code or the Articles of Association.

The Board of Directors is obliged to

- prepare the Company's financial statements in accordance with the Accounting Act, and make a proposal for the use of the profit after taxation;
- prepare a report once a year for the General Meeting, and once every three months for the Supervisory Board, concerning management, the status of the Company's assets and business policy;
- provide for the proper keeping of the Company's business books;

- perform the tasks referred to its authority under the Credit Institutions Act, in particular:
  - ensuring the integrity of the accounting and financial reporting system;
  - elaborating the appropriate strategy and determining risk tolerance levels for each business unit concerned;
  - setting risk assumption limits;
  - providing the necessary resources for the management or risk, the valuation of assets, the use of external credit ratings and the application of internal models.

The following, in particular, come under the exclusive authority of the Board of Directors:

- election of the Chairman & Chief Executive Officer of the Company, and exercising employer's right in respect thereof;
- election of one or more Deputy Chairmen of the Board of Directors;
- determination of the annual plan;
- the analysis and assessment of the implementation of business-policy guidelines, on the basis of the Company's quarterly balance sheet;
- decisions on transactions referred to the authority of the Board of Directors by the Company's organisational and operational regulations;
- decision on launching, suspending, or terminating the performance of certain banking activities within the scope of the licensed activities of the Company;
- designation of the employees entitled to sign on behalf of the Company;
- decision on the increasing of registered capital at the terms set out in the relevant resolution of the General Meeting;
- decision to acquire treasury shares at the terms set out in the relevant resolution of the General Meeting;
- decision on approving internal loans in accordance with the Credit Institutions Act;
- decision on the approval of regulations that fundamentally determine banking operations, or are referred to its authority by the Credit Institutions Act. The following shall qualify as such regulations:
  - the collateral evaluation regulations,
  - the risk-assumption regulations,
  - the customer rating regulations,
  - the counterparty rating regulations,
  - the investment regulations,
  - the regulations on asset classification, impairment and provisioning,
  - the organisational and operational regulations, which contain the regulations on the procedure for assessing requests related to large loans,
  - the regulations on the transfer of signatory rights;
- the decision on approving the Rules of Procedure of the Board of Directors;
- decision on steps to hinder a public takeover procedure;
- decision on the acceptance of a public purchase offer received in respect of treasury shares;
- decision on the commencement of trading in the shares in a regulated market (flotation);
- decision on the cessation of trading in the shares in a given regulated market, provided that the shares are traded in another regulated market (hereinafter: transfer).

The Board of Directors is exclusively authorised to:

- decide, in the cases specified in the Civil Code, on acceptance of the Company's interim balance sheet, subject to the prior approval of the Supervisory Board;
- decide, instead of the General Meeting, to pay an advance on dividends, subject to the preliminary approval of the Supervisory Board;
- make decisions regarding any change in the Company's name, registered office, permanent establishments and branches, and in the Company's activities – with the exception of its core activity – and, in relation to this, to modify the Articles of Association should it become necessary to do so on the basis of the Civil Code or the Articles of Association;
- make decision on mergers (if, according to the provisions of the law on the transformation, merger and demerger of legal entities, the approval of the General Meeting is not required in order for the merger to take place).

The Board of Directors directly exercises employer's rights in respect of the Chairman & CEO. The person affected by a decision may not participate in the decision making. Employer rights in respect of the executive directors of the Company are exercised by the Board of Directors through the Chairman & CEO, with the proviso that the Board of Directors must be notified in advance of the appointment and dismissal of the Deputy CEOs. With regard to issues related to the exercising of employer's rights in respect of employees, the Company is represented by the Chief Executive Officer and by the senior company employees defined in the Organisational and Operational Regulations of the Company, in accordance with the delegation of authority approved by the Board of Directors. If the Chairman of the Board of Directors and the CEO are different persons, the employer rights in respect of the other executive directors of the Company (CEO, deputy CEOs) are exercised by the Board of Directors through the Chairman of Board of Directors, with the proviso that the Board of Directors shall be notified in advance of the appointment and dismissal of the CEO and Deputy CEOs. With regard to issues related to the exercising of employer's rights in respect of employees, the Company is represented by the persons defined in the Organisational and Operational Regulations of the Company, in accordance with the delegation of authority approved by the Board of Directors.

The Board of Directors may delegate, to individual members of the Board of Directors, to executive directors employed by the Company, and to the heads of the individual service departments, any task that does not come under the exclusive authority of the Board of Directors in accordance with these Articles of Association or a General Meeting resolution.

The Company may acquire treasury shares in accordance with the rules of the Civil Code. The prior authorisation of the General Meeting is not required for the acquisition of treasury shares if the acquisition of the shares is necessary in order to prevent a direct threat of severe damage to the Company (this provision is not applicable in the event of a public purchase offer aimed at buying up the Company’s shares), as well as if the Company acquires the treasury shares in the context of a judicial procedure aimed at the settlement of a claim to which the Company is entitled, or in the course of a transformation.

The Company has not made agreements in the meaning of points (j) and (k) in paragraph 95/A of Act No. C of 2000 on Accounting.

Ownership structure of OTP Bank Plc.

Description of owner	Total equity					
	1 January 2019			31 December 2019		
	Ownership share	Voting rights[1]	Quantity	Ownership share	Voting rights[1]	Quantity
Domestic institution/company	19.32%	19.47%	54,092,340	18.84%	18.86%	52,750,611
Foreign institution/company	60.01%	60.49%	168,017,080	77.01%	77.10%	215,635,699
Domestic individual	3.53%	3.56%	9,896,546	2.98%	2.98%	8,344,202
Foreign individual	0.10%	0.10%	278,348	0.13%	0.13%	356,377
Employees, senior officers	0.85%	0.86%	2,376,450	0.80%	0.80%	2,240,465
Treasury shares[2]	0.80%	0.00%	2,242,143	0.12%	0.00%	323,520
Government held owner	0.08%	0.08%	219,072	0.08%	0.08%	219,372
International Development Institutions	0.05%	0.05%	143,308	0.04%	0.04%	122,218
Other[3]	15.26%	15.39%	42,734,723	0.00%	0.00%	7,546
TOTAL	**100.00%**	**100.00%**	**280,000,010**	**100.00%**	**100.00%**	**280,000,010**

[1] Voting rights in the General Meeting of the Issuer for participation in decision-making.
[2] Treasury shares do not include the OTP shares held by ESOP (OTP Bank Employee Stock Ownership Plan Organization). Pursuant to Act V of 2013 on the Civil Code, OTP shares held by the ESOP are not classified as treasury shares, but the ESOP must be consolidated in accordance with IFRS 10 Consolidated Financial Statements standard. On 31 December 2019 ESOP owned 2,963,204 OTP shares.
[3] Non-identified shareholders according to the shareholders’ registry.

Number of treasury shares held in the year under review (2019)

	1 January	31 March	30 June	30 September	31 December
OTP Bank	168,583	159,961	443,966	336,795	323,520
Subsidiaries	2,073,560	2,073,560	0	0	0
TOTAL	2,242,143	2,233,521	443,966	336,795	323,520

Shareholders with over/around 5% stake as at 31 December 2019

Name	Number of shares	Ownership[1]	Voting rights[1,2]
MOL (Hungarian Oil and Gas Company Plc.)	24,000,000	8.57%	8.58%
KAFIJAT Ltd.	19,278,248	6.89%	6.89%
OPUS Securities S.A.	14,496,476	5.18%	5.18%
Groupama Group	14,335,745	5.12%	5.13%

[1] Rounded to two decimals
[2] Voting rights in the General Meeting of the Issuer for participation in decision-making.

Committees[8]

Members of the Board of Directors
Dr. Sándor Csányi – Chairman
Mr. Tamás Erdei – Deputy Chairman
Mr. Antal György Kovács
Mr. László Wolf
Mr. Mihály Baumstark
Dr. Tibor Bíró
Dr. István Gresa
Dr. Antal Pongrácz
Dr. László Utassy
Dr. József Vörös

Members of the Supervisory Board
Mr. Tibor Tolnay – Chairman
Dr. Gábor József Horváth – Deputy Chairman
Mr. Olivier Péqueux
Dr. Márton Gellért Vági
Ms. Klára Bella
Mr. András Michnai

Members of the Audit Committee
Dr. Gábor József Horváth – Chairman
Mr. Tibor Tolnay
Mr. Olivier Péqueux
Dr. Márton Gellért Vági

The résumés of the committee and board members are available in the Corporate Governance Report/Annual Report.

Personal and organizational changes

Mrs. Ágnes Rudas resigned from the membership of the Supervisory Board with effect from 12 April 2019.

The Annual General Meeting elected Mrs. Klára Bella as member of the Supervisory Board of the Company until the Annual General Meeting of the Company closing the 2019 business year but not later than 30 April 2020.

Concerning the audit of OTP Bank Plc.'s separate and consolidated annual financial statements in accordance with International Financial Reporting Standards for the year 2019, the Annual General Meeting is elected Deloitte Auditing and Consulting Ltd. (000083, H-1068 Budapest, Dózsa György út 84/c) as the Bank's auditor from 1 May 2019 until 30 April 2020.

According to the decision of Board of Directors of OTP Bank Mr. Tamás Erdei, member of the Board of Directors, was elected as Deputy Chairman of the Board of Directors with effect from 12 April 2019.

Operation of the executive boards

OTP Bank Plc. has a dual governance structure, in which the Board of Directors is the Company's executive body, while the Supervisory Board performs oversight tasks. The effective operation of Supervisory Board is supported by the Audit Committee.

In order to assist the performance of the governance functions the Board of Directors founded and operates, as permanent or special committees, such as the Management Committee or the Remuneration Committee, the Nomination Committee and the Risk Assumption and Risk Management Committee. To ensure effective operation OTP Bank Plc. also has a number of other permanent and special committees.

OTP Bank Plc. gives an account of the activities of the executive boards and the committees every year in its Corporate Governance Report.

The Board of Directors held 7, the Supervisory Board held 7 meetings, while the Audit Committee gathered 2 times in 2019. In addition, resolutions were passed by the Board of Directors on 145, by the Supervisory Board on 68 and by the Audit Committee on 20 occasions by written vote.

[8] Personal changes can be found in the „Personal and organizational changes" chapter.

Policy of diversity

OTP Bank Plc. determines and regulates the criteria for the selection of senior executives in line with European Union as well as domestic legal requirements and directives fundamentally determining the operation of credit institutions.

When designating members of the management bodies (Board of Directors, Supervisory Board) as well as appointing members of the Board of Directors and administrative members (Management), OTP Bank Plc. considers the existence of professional preparation, the high-level human and leadership competence, the versatile educational background, the widespread business experience and business reputation of the utmost importance, at the same time, it is also highly committed to taking efficient measures in order to ensure diversity with regard to corporate operation, including the gradual improvement in women's participation rate.

With this in mind, OTP Bank Plc.'s Nomination Committee continuously keeps tracking the European Union and domestic legislation relating to women's quota on its agenda, in that when unambiguously worded expectations are announced, it promptly takes the necessary measures.

It is important to note, however, that, as a public limited company, the selection of the members of the management bodies falls within the exclusive competence of the General Meeting upon which – beyond its capacity to designate enforcing the above aspects to maximum effect – OTP Bank Plc. has no substantive influence.

For the purposes of OTP Bank Plc.'s Articles of Association, a Board of Directors comprising 5-11 members and a Supervisory Board comprising 5-9 members are set up at the Bank. The Board of Directors in its current form operates with 10 members and has no female member, while the Supervisory Board comprises 6 members and has one female member as of 12 April, 2019. The management of OTP Bank Plc. currently comprises 7 members and has no female member.

ENVIRONMENTAL POLICY, ENVIRONMENTAL PROJECTS

Environmental protection principles

OTP Group is committed to the protection of the environment and the preservation and low-impact use of natural resources. OTP Bank's environmental activities are regulated in its Environmental Regulation. The Regulation both ensures legal compliance, and aims to consider environmental criteria and integrate them into the Bank's business operations in order to minimize the environmental impacts of operating and maintaining the Bank's organisation. The Regulation also sets out the rules on implementing the principles of sustainable procurement. OTP Group members operate in full compliance with environmental legislation, and have not been subject to fines in 2019 either. In CDP's Climate Change questionnaire, OTP Bank achieved a rating of C.

Environmental protection in relation to the provision of banking services

In its lending, our banking group expects – and always verifies – compliance with the applicable environmental regulations. At the time of the internal approval by the bank of the financing of a project and before the first disbursement, the availability of the required permits and authorisations and compliance with their provisions is always verified by one or more external consultants (legal and/or technical experts); the Bank subsequently ensures compliance by obtaining regular declarations from the customer and conducting its own monitoring. Any violations of undertakings/requirements are sanctioned in the credit limit agreements. The long-term sustainability of environmental impacts is taken into consideration as a subjective factor in the credit ratings of large corporate clients.

With regards to project financing, our group's lending policy gives a high priority to financing projects aimed at the utilisation of renewable energy sources. In 2019, we financed the construction of 2 solar plants, and provided refinancing for a wind farm. Our decisions on the financing of renewables projects are made at the group level; all projects implemented in 2019 are located in Hungary. Renewables projects represented approximately 50% of our 2019 project financing. Within our project financing, we also give special attention and priority to office building projects with sustainability / environmental qualifications.

OTP Bank leads the consortium offering products of the Hungarian Development Bank (MFB), including both EU-refinanced and those of MFB's own origination, at the MFB Points set up in our branches. Environmental protection has been a priority for our available credit lines since 2017. Households and businesses can access preferential terms under these loan products to implement energy projects (improving energy efficiency and increasing the reliance on renewables). The SME Energy Loan developed for businesses (GINOP-8.4.1/B-16) was especially successful; the only reason we stopped selling it was because the credit line was depleted. By the end of 2019, we had disbursed HUF 4.7 billion of this loan product. We disbursed HUF 14.6 billion to retail customers by 2019; that product will be available in 2020 as well.

Our efforts to reduce the direct environmental impact of the banking group's operations are centered around improving its energy efficiency and reducing its paper usage. The banking group analyses and manages the environmental risks associated with its operations within its operational risk management process. Potential risks are identified in the course of the annual process-based self-assessment.

Energy consumption and business travel

OTP Group uses state-of-the-art technology in new construction and renovation projects; we also continue to expand our use of LED technology. At OTP Bank, the renovation of branches includes the refurbishment of heat centres and the use of LED lighting at all locations. As part of the renovation process, we are also replacing air conditioning units, ensuring that the new units use environmentally friendly coolants. In 2019, we refurbished 16 branches of our parent bank. At several members of our banking group, computers are switched off centrally after extended periods of being idle; we also remind our employees of the importance of switching them off.

We are intensifying our reliance on renewable energy, taking financial considerations into account. Whenever a branch of the parent bank is renovated, we always examine the possibility of installing solar panels and heat pumps. In 2019, we installed solar panels at one branch, and heat pumps at two branches. As a result, our systems generated a total of 2051 GJ energy from solar power. The central archives facility owned by Monicomp Zrt has been using geothermal energy for several years. The solar panels of OTP banka Hrvatska in Croatia generated a total of 144 GJ of solar power in 2019.

The number of business trips and the size of the vehicle fleet is determined by the changes in business activities; we have made it standard practice to find cost-effective solutions for trips. As before, OTP Bank's vehicle policy stipulated carbon dioxide limits in 2019 as well; all of our available car categories now also include environmentally friendly models. By the end of 2019, OTP Bank's fleet included 2 electric cars and 5 hybrid cars. Both the number of vehicles and the total distance travelled increased by 4% during the year, due company cars having been made available to a larger segment of our workforce once more, as a type of employment benefit.

It will be possible to cut down on the amount of business travel by using video conferencing, an option that we are using more and more each year. We have continued to expand the number of video conferencing rooms available to us in 2019. Our existing bicycle storage facilities continued to be available to both customers and employees in 2019. Among our new subsidiaries, Mobiasbanca offers bicycle storage facilities.

We present the energy consumption figures of OTP Bank. The bank's overall energy consumption decreased by 5% compared to the previous year. However, due to our workforce expansion, this represents an 11% reduction in per-capita energy consumption.

Energy consumption quantities, OTP Bank	2019
Total energy consumption (GJ)	251,155
Per-capita energy consumption (GJ)	28.20

Energy consumption data are derived from readings; the measured consumption quantities are converted to energy using the local average calorific values.
The denominator for the per-capita figure is the average statistical headcount.

Efforts to reduce paper use

OTP Group has been making a consistent effort to reduce paper use and printing. In 2019, we set ourselves the goal of maintaining our earlier achievements and to further expand the use of recycled paper at OTP Bank. We managed to deliver on this commitment in part; our use of office paper rose by 2%, whereas our total paper use increased by 4% year-on-year. Nevertheless, our percentage of recycled paper to total office paper usage increased to 7%, and we plan to increase that figure even further in the future. OTP Bank has been using recycled paper for its account statements and marketing publications for several years. Having significantly cut its paper use in the previous year, our subsidiary in Croatia achieved an additional reduction of 5% in its paper consumption in 2019, and continues to use recycled paper almost exclusively.

Paper usage, OTP Bank	2019
Total amount of paper used (tons) (office, packaging, indirect)	764
Per capita paper use (kg)[1]	86

[1] The denominator is the average statistical headcount.

Sustainable use and waste management

We follow a principle of using all our equipment, devices and machines for the longest reasonably possible time. We explicitly aim to use furniture until the end of its lifecycle, reusing it multiple times and ensuring the compatibility of replacements. OTP Bank, DSK Bank, OTP Bank Romania and OTP banka Srbija all follow the practice of making charitable donations of any furniture no longer used but in good condition, alongside functioning IT equipment (mostly computers and laptops) to institutions and organisations in need.

In order to cut the use of plastics in its archiving practices, our parent bank replaced ethylene bags and plastic wallets with paper products in 2019. We plan to roll out the use of recycled plastic stamps in 2020. In 2019, we installed filtered water dispensers in the head office buildings; as a result, the volume of selectively collected PET bottles fell by approximately 20%. Since 2019, OTP Bank has been using only ECO Label personal hygiene products.

Our subsidiaries in Montenegro and Slovakia use toner refills to reduce toner and ink cartridge waste.

Waste collection remained unchanged in most respects in 2019. All members of OTP Group collect and manage hazardous waste and paper containing business secrets selectively, in compliance with the relevant laws and regulations. The selective collection of non-confidential paper waste, PET bottles and – in a number of locations – glass is available in the head office buildings of OTP Bank. Our Serbian subsidiary collects used toner cartridges and paper waste selectively in its branches and head office buildings. Our Romanian subsidiary collects all paper, metal, glass and plastic selectively. Our Ukrainian subsidiary operates selective paper collection at its head office building. Our Croatian subsidiary has collected waste selectively for years, whereas the Slovak subsidiary does so at locations facilitated by the municipality. DSK Bank operates selective waste collection at its sites in Sofia and Varna.

Attitude shaping

Several members of our Banking Group have a tradition of raising awareness and taking joint action to protect environmental and natural resources.

- In 2019, OTP Bank continued to support the Hungarian Hikers' Association's efforts to popularise hiking.
- The head office of DSK Bank has been active for years in the national PET bottle cap collection scheme; the caps are used for producing wheelchairs. In 2019, 100 volunteers from DSK Bank and Expressbank planted 1000 trees to contribute towards cleaner air in Budapest.
- Volunteers from our Romanian subsidiary participated in the "Let's Do It, Romania!" cleanup day.
- In 2019, CKB of Montenegro has once again participated in nationwide forestation and environmental protection campaigns.

NON-FINANCIAL STATEMENT – OTP BANK PLC. (SEPARATE)

The social, environmental and wider economic performance and impacts of OTP Group are reported primarily in its Sustainability Report. The Sustainability Report for 2019 is a group-level report that meets the GRI (Global Reporting Initiative) Standard, and is certified by an independent third party. It is available in a digital version on OTP Bank's website (https://www.otpfenntarthatosag.hu/hu/jelentesek). The information in this chapter is provided for the purpose of compliance with the relevant provisions in the Accounting Act, while also adhering to the principle of keeping the duplication of information to the minimum. Some of the information concerning environmental protection is provided in the chapter on Environmental Policy and Environmental Protection Measures.

Our products and services are aimed at helping our customers meet their needs and achieve their financial goals. Our bank is committed to ethical business conduct in all respects; our principles are set out in our Code of Ethics, which is binding for all our employees and agents. Our operations and services have significant social and environmental impacts; our objective is to manage risks responsibly while taking advantage of opportunities and delivering positive outcomes.

Providing responsible financial services and managing credit risk

Transparent and prudent operations are the cornerstone of all our activities, and maintaining the stability of the Banking Group remains a high priority. Our Compliance Policy formulates our principles and guidelines for the fair treatment of customers, as well as our compliance with consumer protection requirements. We follow the principles of ethical product design when designing our products, and our New Product Policy requires
– among other things – that we investigate any potential risks affecting consumers.

We fulfil our role as financial intermediary in a way that guarantees the security of our customers' savings through the entire process. Our rules ensure that we comply with the responsible lending standards concerning the prevention of excessive debt, the provision of fair, clear, comprehensive and easily visible information, and the recommendation of appropriate products. In addition to all of the above, our debtor protection programmes remained in place in 2019 as well, helping customers facing payment difficulties.

We invest and lend the money deposited with us, ensuring that it will not serve illegal purposes, or those contrary to the values of society. OTP Bank will not finance

- customers whose financing is forbidden by international accords, EU acts or national laws;
- those whose activity is likely to violate public morals or social value systems, or is connected to crime;
- those who are connected, directly or indirectly, to criminal activities or to the deliberate violation or evasion of legal regulations;
- transactions classified as prohibited business sectors (e.g. illegal arms trade, prohibited gambling, drug trade, or any other illegal activity);
- transactions that fail to meet environmental standards.

We ensure adherence to our principles, and maintain this balance through:

- our strict Risk Management Policy,
- our annually revised Lending Policy,
- our continuously developed credit approval system.

Our Lending Policy clearly defines the industries, business lines and activities in which we pursue active business operations, as well as the areas where we do not wish to assume risks.

We offer our customers banking options to suit their individual needs, and provide our services at the highest standard of quality, while continuing to improve and innovate.

Our objective is to provide equal access for persons living with disability, through services adapted to their special needs. We are working towards accomplishing this goal, in line with OTP Bank's Accessibility Strategy. Accessibility is integrated into our website, which supports one-handed use, and provides accessibility options including text-to-speech software and video content transcripts. In 2019, physical accessibility was provided in all our branches but one. Tactile guide strips are available in 41% of our branches. For several years now, our customers have been able to request special-needs services at the queue management machine, with physical push buttons and tactile strips also assisting them in using the device. We introduced KONTAKT Interpreter Services at 120 additional branches in 2019; this is a service allowing a sign language interpreter to assist with administration tasks through live video chat. Induction loop amplifier systems are also available (in 109 branches), while 25 of our high-traffic branches have employees who can serve customers using sign language. We have made text-to-speech software available on 600 of our ATMs.

OTP Bank’s stated objective is to serve its customers faultlessly. In order to improve the satisfaction of our customers, we are also continually improving our complaint management practices. Our Complaint Management Regulation and Complaint Management Policy are available to view in our branches, as well as on our website.

Complaints in 2019 concerned mostly external fraud, cash withdrawal at ATMs, fees and charges. Business lines mostly received complaints regarding retail bank accounts and electronic services, as well as consumer loans.

Customer complaint data, OTP Bank[1]	2019
Number of warranted complaints	125,242
Percentage of warranted complaints	66%
Compensation paid (HUF million)	144

[1] *Including OTP Building Society and OTP Mortgage Bank data.*

We use TRI*M methodology to measure the satisfaction of our retail customers. OTP Bank’s client retention power stood at 74 points in 2019, which was somewhat below its level in the preceding six-month period, but is still a good result, comparable to the average of other banks in Central Europe (76 points).

Security and data protection

Security is a top concern for us. The principles and main guidelines concerning security at the bank are set forth in the Security Policy, which is approved by the Board of Directors. The Policy covers all aspects of security, including IT and cyber security, which have become increasingly important. The processing and protection of personal data is covered by the Compliance Policy, which is also approved by the Board of Directors. Both Policies prescribe the regular evaluation of risks, and the need for maintaining and enhancing awareness. The Deputy CEO responsible for the IT Division is in charge of the bank’s data processing and the protection of customers’ personal data.

We prioritise the use of increasingly advanced security systems and raising awareness among our employees and customers. In 2019, we provided information about phishing attacks to our customers on our website and through the SmartBank application; we also published awareness-raising articles in the media, discussing the topics of information security and card security. We joined the European Cyber Security Month by running an in-house cyber and information security campaign and scheduling our mandatory e-learning courses about security awareness, anti-money laundering and terrorism financing, and general bank security for this period; all employees must complete these courses and pass an examination on them every year. Our sales partners have also received training. We have completed the preparations for our Security Operations Center (SOC) in 2019, and will launch it in 2020.

Fight against corruption and against the practice of bribery

The Code of Ethics and the Anti-Corruption Policy of OTP Bank contains provisions on the fight against corruption and against the practice of bribery, also on the acceptance of individual differences and the denial of discrimination (https://www.otpbank.hu/portal/en/EthicalDeclaration, https://www.otpbank.hu/static/portal/sw/file/OTP_EtikaiKodex_EN.pdf, https://www.otpbank.hu/static/portal/sw/file/OTP_Anti_Corruption_Policy.pdf). As it can be read in the foreword of the Code and the Anti-Corruption Policy as well, the Bank and its management have adopted the principle of zero tolerance towards corruption and bribery, taking a definite stance against all forms of corruption and giving full support to the fight against corruption. In addition, the Code states that "As an ethical and compliant institution, the Bank and its management are fully committed to ensuring observance of all relevant legislation, including anti-corruption statutes."

The Bank has set up an ethics reporting system (whistleblowing), which is for the reporting and the handling of the reports on suspected or actual violation of the values set forth in the Code of Ethics, where anonymous reporting of ethics issues is also possible. The Bank conducts inquiries for the purpose of detecting, preventing anomalies in connection with reports made or anomalies it became aware of otherwise.

Through the Bank's ethics reporting system a total of 14 reports were received in 2019, six of them was reclassified as complaints and two case’s investigation resulted in declaring ethics offense – though not due to corruption, bribery or discrimination.

The Bank has created and maintains its Code of Ethics to keep reputational risk and financial losses, which may incur in relation to corruption, bribery and discrimination, on a minimum level. Both employees and newcomers receive education on the Code of Ethics, and in addition, the acceptance to be bound by it is a prerequisite for their employment.

Any requests from third parties affecting human rights are treated by the Bank as a priority.

We manage the risks regarding the fight against corruption and bribery within the framework of our operational risk management process. Our quarterly compliance reports cover the changes in risks as well as the steps necessary steps to manage them. The reports are presented to the Management Committee and the Board of Directors; the annual report is also submitted to the Supervisory Board.

Citizenship

OTP Bank is one of the most generous charitable donors in Hungary. In 2019, we gave close to HUF 3.5 billion in charitable donations. We aim to provide genuine and effective help by supporting programmes and causes that serve the interests of society as a whole. In order to efficiently and productively use available resources, we cooperate with a number of local non-governmental organisations in addition to our own foundations, concentrating our donated funds and monitoring their usage and the results achieved. We continue to focus our efforts primarily on:

- developing financial literacy, attitude-shaping (52%);
- sponsoring culture and the arts: creating and preserving values;
- empowerment: helping the disadvantaged and those in need; and
- sports.

The Humanitas Social Foundation supports vulnerable communities and individuals with a focus on healthcare and education; donation recipients are selected through an application process.

The OTP Fáy András Foundation provides financial and economic education services, a key element of which is operating the OK Educational Centre. The Centre offers free financial and economic education and career programmes to between 20,000 to 25,000 primary and secondary school students each year. Our centres in Budapest and Nyíregyháza use innovative teaching techniques and methodologies to provide knowledge sharing through compelling experiences. The Centre also plays an important role in raising financial awareness at festivals, exhibitions and road shows. Making the Centre available to more and more people is a key priority: in addition to running a club for educators and working with ELTE University to provide advanced teacher training, we have also produced training materials for adults and developed new digital content, including the BanKing educational card game. Over recent years, our courses and methodologies have received numerous awards and certifications; in 2019, we were granted the right to become a partner organisation to OECD – INFE (International Network on Financial Education).

In addition to our charitable donations, we also believe in the importance of shaping social attitudes; in 2019, we highlighted the problems of overconsumption. As part of our campaign, we have supplemented our awareness-raising activities with publishing the results of our research into the characteristics of overconsumption on our website, with a psychologist offering expert advice on how to avoid unnecessary spending.

In 2019, our OTP Local Value (OTP Helyi Érték) programme received the Corporate Volunteering Programme of the Year award from Volunteering Hungary - Centre of Social Innovation (ÖKA). In addition to the programmes implemented with application funding, we have also organised volunteering events, with a over 2000 employees taking part in volunteer programmes.

Responsible employment

Our employees play a key role in OTP Bank's success. Ethical conduct and compliance with the law remain core principles in our human resource management as well. OTP Bank analyses and manages the risks pertaining to employment within its operational risk management process. The interests of our employees are represented by their trade union, with a Collective Agreement setting out the rights and obligations of every employee.

OTP Bank's employees (31 December 2019)	Total	Men	Women
Employees[1], total	9,318	2,975	6,343
Distribution by gender	100%	31.9%	68.1%
Turnover rate[2]	13.0%	13.2%	12.8%

[1] *Definition: closing statistical number of active employees, i.e. exluding employees on permanent leave. Part-time employees are counted as one employee.*
[2] *Compared to the end-of-year headcount; includes termination of employment both by employee and by employer, as well as retirement.*

In our Code of Ethics, our Bank declares its commitment to providing a safe and healthy working environment and states its expectation of mutual respect between executive officers and employees, including the prohibition of discrimination and harassment. We consistently employ the principle of "equal pay for equal work," including providing equal pay to men and women for the same position and performance. Within the objective limitations of specific job descriptions, we allow for flexible working hours and part-time employment options. Home office arrangements are available at all our central departments. We encourage healthy lifestyle choices, offering a complex health insurance package, and subsidizing recreation and sports activities.

Adopted in 2019, the core objectives of our human resource strategy are to improve employee experience and commitment. Our stated priorities are leadership development, talent and succession planning and improved performance management, as well as supporting a culture of feedback. We believe it is vital to have a fair and uniform assessment system focusing on core competencies, and to provide career opportunities based on fully transparent principles and requirements. The growth and development of our employees is a priority for us. All our employees attend professional training courses and competency development, based on their performance assessments; we also operate a talent programme.

We regularly measure employee satisfaction. In 2019, we performed a joint assessment of satisfaction and loyalty, in order to evaluate our bank's ability to retain its employees. Our retention index was calculated as 64 points , which is within the range considered optimal.

Short description of the business model of the company

OTP Bank is the market-leading credit institution in Hungary. As for its business model, the Bank offers high-quality financial services to retail, private banking, micro and small business, medium and large corporate, as well as municipality clients through both its branch network and its steadily developing digital channels. The Bank provides comprehensive retail and corporate banking services: its activities include deposit collection from customers and raising money from the money and capital markets. On the asset side, OTP Bank offers mortgage loans, consumer credits, working capital and investment loans to companies, as well as loans to municipalities, whereas its liquidity reserves are invested in money and capital market instruments. Moreover, the Bank provides a wide range of state-of-the-art services, including the areas of wealth management, investment services, payment services, treasury and other services.

In addition, OTP Bank's Hungarian subsidiaries deliver a wide range of further financial services. The Bank owns foreign subsidiaries in many countries of Central and Eastern Europe through capital investments.

Non-financial performance indicators

- Internal audit: 196 closed investigations, 1,213 proposals, 1,213 accepted proposals;
- Compliance with Budapest Stock Exchange (BSE) Recommendations (yes/no ratio): 85 yes, 0 no;
- Compliance: 10 closed consumer protection related investigations, 3,374 reports due to suspicion of money laundering;
- Bank security: expected damages arising from crimes detected: HUF 530.0 million, prevented damages: HUF 640.9 million; reported criminal charges: 233; the ratio of bank card abuses 0.0073% which is better than the European average (OTP Bank 0.03025%, European average 0.0416%);
- Ethics issues: 14 ethics reports, establishing ethics offense in 2 case.

LIST OF NON-AUDIT SERVICES BY SERVICE CATEGORIES USED BY THE BANK

The statutory audit of OTP Bank is carried out by Deloitte Auditing and Consulting Ltd., in addition to which the following services were contracted:

- Assurance engagements other than audits or reviews of historical financial information (ISAE 3000);
- Engagements to perform agreed-upon procedures regarding financial information (AUP according to ISRS 4400);
- Reviewing the internal processes and compliance with laws and regulations.

SUPPLEMENTARY DATA

FOOTNOTES TO THE TABLE 'CONSOLIDATED NET PROFIT BREAKDOWN BY SUBSIDIARIES (IFRS)'

General note: regarding OTP Core and other subsidiaries, profit after tax is calculated without received dividends and net cash transfers (and other adjustment items). Dividends and net cash transfers received from non-group member companies are shown on a separate line in one sum in the table, regardless to the particular receiver or payer group member company.

(1) Aggregated adjusted after tax profit of OTP Core, Corporate Centre and foreign banks.

(2) OTP Core is an economic unit for measuring the result of core business activity of OTP Group in Hungary. Financials of OTP Core are calculated from the partially consolidated IFRS financial statements of certain companies engaged in OTP Group's 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; OTP Bank Employee Stock Ownership Plan Organization was included from 4Q 2016; OTP Card Factory Ltd., OTP Facility Management Llc., MONICOMP Ltd. and OTP Real Estate Lease Ltd. were included from 1Q 2017 (from 1Q 2019 OTP Real Estate Lease Ltd. was eliminated from OTP Core); OTP Mobile Service Llc. and OTP Ingatlanpont Llc. were included from 1Q 2019. The consolidated accounting results of these companies are segmented into OTP Core and Corporate Centre. Latter is a virtual entity.

(3) Within OTP 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 OTP 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 Bank 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 Car Ltd, Merkantil Leasing Ltd, OTP Fund Management Ltd, OTP Real Estate Fund Management Ltd, OTP Life Annuity Ltd; foreigners: banks, leasing companies, factoring companies.

(4) The result and balance sheet of OTP Factoring Bulgaria EAD is included. From 1Q 2019 Expressbank AD and its subsidiaries, OTP Leasing EOOD and Express Factoring EOOD (altogether: Express Group) were included into the Bulgarian operation. From 1Q 2019 the statement of recognised income and balance sheet of DSK Leasing AD was included.

(5) Splitska banka and its subsidiaries were consolidated into OBH's results from 2Q 2017. From 1Q 2019 the statement of recognised income and balance sheet of OTP Leasing d.d. and SB Leasing d.o.o. was included.

(6) Including the financial performance of OTP Factoring Serbia d.o.o from 4Q 2010. Vojvodjanska banka has been consolidated from 4Q 2017. From 1Q 2019 the statement of recognised income and balance sheet of OTP Lizing d.o.o and OTP Services d.o.o. was included. The balance sheet of the newly acquired OTP banka Srbija was included in 3Q 2019, its P&L from 4Q 2019.

(7) From 2Q 2010 the statement of recognised income and balance sheet of OTP Faktoring SRL was included. From 1Q 2019 the statement of recognised income and balance sheet of OTP Leasing Romania IFN S.A. was included.

(8) From 4Q 2008 figures are based on the aggregated financial statements of OTP Bank JSC and LLC OTP Leasing Ukraine, from 4Q 2009 the result of OTP Factoring Ukraine LLC was also aggregated.

(9) From 1Q 2015 to 4Q 2017 the performance of OTP Bank Russia does not contain the volumes and financial result of Touch Bank. From 1Q 2015 the statement of recognised income and balance sheet of LLC MFO "OTP Finance" was included in the Russian performance.

(10) Including the financial performance of OTP Factoring Montenegro d.o.o. (merged into CKB Bank in 4Q 2018). From 3Q 2019 the statement of recognised income and balance sheet of Podgoricka banka was included.

(11) From 2012 on P&L data and related indices are adjusted for the special banking tax and the Slovakian Deposit Protection Fund contributions being introduced again in 2014, as well as the contribution into the Resolution Fund. Including the financial performance of OTP Faktoring Slovensko s.r.o.

(12) After tax profit of Merkantil Bank without dividends, net cash transfer, other adjustment items and provisioning for investments in subsidiaries. Merkantil Car was merged into Merkantil Bank in 3Q 2018. For the 2018 base periods the aggregated after tax profit of Merkantil Bank and Car was presented.

(13) Companies comprising Foreign Leasing in previous periods (OTP Leasing Romania IFN S.A. (Romania), OTP Leasing d.d. and SB Leasing d.o.o. (Croatia), DSK Leasing AD (Bulgaria), OTP Lizing d.o.o, OTP Services d.o. (Serbia)) were presented as part of the operations in the given countries starting from 1Q 2019.

(14) LLC AMC OTP Capital, OTP Asset Management SAI S.A. (Romania), DSK Asset Management EAD (Bulgaria).

(15) OTP Buildings s.r.o. (Slovakia), Velvin Ventures Ltd. (Belize), R.E. Four d.o.o., Novi Sad (Serbia), SC Aloha Buzz SRL, SC Favo Consultanta SRL, SC Tezaur Cont SRL (Romania), Cresco d.o.o. (Croatia), OTP Osiguranje d.d. (Croatia), OTP Solution Fund (Ukraine).

(16) Total Hungarian subsidiaries: sum of the adjusted after tax results of Hungarian group members, Corporate Centre and related eliminations.

(17) Total Foreign subsidiaries: sum of the adjusted after tax profits of foreign subsidiaries.

CALCULATION OF THE ADJUSTED LINES OF IFRS PROFIT AND LOSS STATEMENTS, AS WELL AS THE ADJUSTED BALANCE SHEET LINES PRESENTED IN THE BUSINESS REPORT, AND THE METHODOLOGY FOR CALCULATING THE FX-ADJUSTED VOLUME CHANGES

In order to present Group level trends in a comprehensive way in the Report, the presented consolidated and separate profit and loss statements of this report were adjusted in the following way, and the adjusted P&Ls are shown and analysed in the Report. Consolidated accounting figures together with Separate accounting figures of OTP Bank are still disclosed in the Financial Data section.

Adjustments affecting the income statement:

- The after tax effect of adjustment items (certain, typically non-recurring items from banking operations' point of view) are shown separately in the Statement of Recognised Income. The following adjustment items emerged in the period under review and the previous year: received dividends, received and paid cash transfers, the effect of goodwill/investment impairment charges, special tax on financial institutions, the impact of fines imposed by the Hungarian Competition Authority, the effect of acquisitions, the initial NPV gain on the monetary policy interest rate swap (MIRS) deals, and the one-off impact of regulatory changes related to FX consumer contracts in Serbia.

  Beside the Slovakian banking levy, the total amount of the special banking tax includes and the Slovakian Deposit Protection Fund contributions being introduced again in 2014, and the contribution into the Resolution Fund in Slovakia, too. Within banking taxes, the special tax booked by the Romanian subsidiary was also included in 4Q 2019.

- Until 4Q 2017 other non-interest income elements stemming from provisioning release in connection with provisions on loans originated before the acquisitions of the subsidiaries have been reclassified to and deducted from the volume of *Provision for impairment on loan and placement losses* line in the income statement. Starting from 1Q 2018 this income from the release of pre-acquisition provisions was presented amongst the *Provision for impairment on loan and placement losses* line both in the accounting and adjusted P&L structure.

- In 4Q 2019 the following items have been moved – even retroactively for the 2018 base periods – from the Other operating expenses line among the Net interest income after loss allowance, impairment and provisions line: *Release of loss allowance on securities at fair value through other comprehensive income and on securities at amortized cost*, *Provision for commitments and guarantees given*, *Release of impairment of assets subject to operating lease and of investment properties*. In the adjusted P&L structure these items are presented amongst the *Other provisions (adj.)* line (through the *Structural correction between Provision for loan losses and Other provisions* adjustment line).

- Other non-interest income is shown together with Gains and losses on real estate transactions, Net insurance result (appearing in the accounting P&L structure from 3Q 2017), Gains and losses on derivative instruments, and Gains and losses on non-trading loans mandatorily at fair value through profit or loss lines, but without the above mentioned income from the release of pre-acquisition provisions and without received cash transfers. However other non-interest expenses stemming from non-financial activities are added to the adjusted net other non-interest income line, therefore the latter incorporates the net amount of other non-interest income from non-financial activities.

- From 2Q 2014 OTP Bank's share in the change in the shareholders' equity of companies consolidated with equity method is reclassified from the After tax dividends and net cash transfers line to the Net other non-interest result (adj.) without one-offs line. In the addition to this, OTP Bank has changed the way how private equity funds managed by PortfoLion are recorded. As a result of this, as opposed to the previous method of recording the funds at book value (initial book value less impairments), starting from 3Q 2019 the funds are evaluated based on their net asset value. The change in the carrying value was reclassified to the Net other non-interest result (adj.) without one-offs line in the adjusted P&L structure. Furthermore, received cash transfers within the framework of the subsidy programme targeting the expansion of POS network in Hungary were reclassified from the After tax dividends and net cash transfers line to the Net other non-interest result (adj.) without one-offs line.

- Other provisions are separated from other expenses and shown on a separate line in the adjusted profit or loss statement.

- Other administrative expenses have been adjusted in the following way in order to create a category comprising administrative cost items exclusively. Other costs and expenses and other non-interest expenses were included into the adjusted Other non-interest expenses. At the same time, the following cost items were excluded from adjusted other non-interest expenses: paid cash transfers (except for movie subsidies and cash transfers to public benefit organisations, whereas from 1Q 2019 certain part of cash transfers to public benefit organizations was presented amongst net fees and commissions), Other other non-interest expenses stemming from non-financial activities, and special tax on financial institutions.

- Tax deductible transfers (offset against corporate taxes) paid by Hungarian group members from 3Q 2012 were reclassified from Other non-interest expenses to Corporate income tax. As a result, the net P&L effect of these transfers (i.e. the paid transfer less the related corporate tax allowances) is recognised in the corporate income tax line of the adjusted P&L. The amount of tax deductible transfers offset against the special tax on financial institutions is shown on a net base on the special tax on financial institutions line.

- The financial transaction tax paid from the beginning of 2013 in Hungary is reclassified from other (administrative) expenses to net fee and commission income, both on consolidated and OTP Core level.

- OTP Group is hedging the revaluation result of the FX provisions on its FX loans and interest claims by keeping hedging open FX positions. In the accounting statement of recognized income, the revaluation of FX provisions is part of the risk costs (within line “Provision for loan losses”), other provisions and net interest income lines, whereas the revaluation result of the hedging open FX positions is made through other non-interest income (within line “Foreign exchange result, net”). The two items have the same absolute amount but an opposite sign. As an adjustment to the accounting statement of income, these items are eliminated from the adjusted P&L. By modifying only the structure of the income statement, this correction does not have any impact on the bottom line net profits.
- The Compensation Fund (established in Hungary in order to indemnify the victims of Quaestor and Hungarian Securities Ltd.) contributions booked from 1Q 2017 are recognized on the Other administrative expenses line of the accounting income statement, and are presented on the financial transaction tax and/or Special tax on financial institutions line the in the adjusted P&L structure (due to the tax deductibility).
- In case of OTP Banka Slovensko and OTP Bank Romania the total revaluation result of intra-group swap deals – earlier booked partly within the net interest income, but also on the Foreign exchange gains and Net other non-interest result lines within total Other non-interest income – is presented on a net base on the net interest income line starting from 1Q 2016.
- Due to the introduction of IFRS16 from 2019, certain items previously presented on the Other non-interest expenses line (rental fees) were moved to the interest expenses and depreciation lines in the accounting income statement. These items were shifted back to the Other non-interest expenses line in the adjusted P&L structure.
- Performance indicators (such as cost/income ratio, net interest margin, risk cost to average gross loans as well as ROA and ROE ratios, etc.) presented in this report are calculated on the basis of the adjusted profit and loss statement excluding adjustment items (unless otherwise indicated). Adjustment items include received dividends and net cash transfers, the effect of goodwill/investment impairment charges, special tax on financial institutions, the impact of fines imposed by the Hungarian Competition Authority, the effect of acquisitions, and the initial NPV gain on the monetary policy interest rate swap (MIRS) deals.
- Within the report, FX-adjusted statistics for business volume developments and their product breakdown are disclosed, too. For FX adjustment, the closing cross currency rates for the current period were used to calculate the HUF equivalent of loan and deposit volumes in the base periods. Thus the FX-adjusted volumes will be different from those published earlier.

Adjustments affecting the balance sheet (as well):

- On 17 February 2020 OTP Bank announced the signing of the sale agreement of its Slovakian subsidiary. According to IFRS 5 the Slovakian bank was presented as a discontinued operation in the consolidated income statement and balance sheet. With regards to the consolidated accounting balance sheet, all assets and liabilities of the Slovakian bank was shown on one-one line of the 2019 balance sheet (there was no change in the 2018 closing balance sheet structure). As for the consolidated accounting income statement, the Slovakian contribution for both 2018 and 2019 was shown separately from the result of continued operation, on the Loss from discontinued operation line, i.e. the particular P&L lines in the ‘continuing operations’ section of the accounting P&L don’t incorporate the contribution from the Slovakian subsidiary. As opposed to this, the adjusted financial statements presented in this Summary incorporated the Slovakian banks’ balance sheet and P&L contribution in the relevant respective lines, in line with the structure of the financial statements monitored by the management. Therefore, new adjustment lines have been inserted in the tables reconciling the accounting income statement and balance sheet lines with the adjusted ones.
- Starting from 3Q 2017, in the adjusted balance sheets presented in the analytical section of the report, the total amount of accrued interest receivables related to DPD90+ loans (until 4Q 2018) and Stage 3 loans under IFRS 9 (from 1Q 2019) were netted with the provisions created in relation to the total exposure toward those particular clients, in case of the affected Group members. Therefore, this adjustment made on the accounting balance sheet has an impact on the consolidated gross customer loans and allowances for loan losses.

ADJUSTMENTS ON THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (IFRS)

	2019 HUF million	2018 HUF million
Net interest income	**697,049**	**613,385**
(-) Revaluation result of FX provisions	30	(44)
(+) Presentation of the revaluation result of intra-group swaps on the net interest income line realized at the Romanian and Slovakian operations	76	(116)
(-) Netting of interest revenues on DPD90+ loans with the related provision (booked on the Provision for loan losses line) at OTP Core and CKB	3,135	3,340
(-) Effect of acquisitions	1,583	795
(-) Initial NPV gain on the monetary policy interest rate swap (MIRS) deals	0	20,685
(-) Reclassification due to the introduction of IFRS16	(1,652)	
(-) Netting of the interest subsidy repaid by OTP Mortgage Bank to the State by the already created other provision for that purpose (and other related items) in 3Q 2019	(1,535)	
(+) Presentation of the contribution from discontinued operation on the adjusted P&L lines	10,733	11,338
Net interest income (adjusted)	**706,298**	**599,832**
Net fees and commissions	**340,445**	**274,136**
(+) Financial Transaction Tax	(61,920)	(56,958)
(-) Effect of acquisitions	(42)	(14)
(+) Shifting of certain cash transfers to public benefit organisations to the Net fees and commissions line	0	
(-) Netting of the interest subsidy repaid by OTP Mortgage Bank to the State by the already created other provision for that purpose (and other related items) in 3Q 2019	(30)	
(+) Presentation of the contribution from discontinued operation on the adjusted P&L lines	3,906	3,539
Net fees and commissions (adjusted)	**282,504**	**220,731**
Foreign exchange result	**39,470**	**33,893**
(-) Revaluation result of FX positions hedging the revaluation of FX provisions	(5,166)	3,153
(-) Presentation of the revaluation result of intra-group swaps on the net interest income line realized at the Romanian and Slovakian operations	(477)	(2,598)
(-) Effect of acquisitions	1	34
(+) Presentation of the contribution from discontinued operation on the adjusted P&L lines	66	265
Foreign exchange result (adjusted)	**45,177**	**33,568**
Gain/loss on securities, net	**11,611**	**1,345**
(-) Shifting of Non-trading securities mandatorily at fair value through profit or loss line to Net other non-interest income from 1Q 2019	1,914	
Gain/loss on securities, net (adjusted) with one-offs	**9,697**	**1,345**
(-) Revaluation result of the treasury share swap agreement (booked as Gain on securities, net (adj) at OTP Core)	(2,675)	(1,117)
Gain/loss on securities, net (adjusted) without one-offs	**12,373**	**2,461**
Result of discontinued operation	**(4,668)**	**(586)**
(-) Effect of acquisitions	(6,037)	
Result of discontinued operation (adjusted)	**1,369**	**(586)**
Gains and losses on real estate transactions	**8,231**	**1,890**
Result of discontinued operation (adj)	**1,369**	**(586)**
(+) Other non-interest income	**102,015**	**23,309**
(+) Gains and losses on derivative instruments	**1,048**	**6,459**
(+) Net insurance result	**849**	**673**
(+) Losses on loans measured mandatorily at fair value through other comprehensive income and on securities at amortized cost	**1,282**	**597**
(-) Received cash transfers	174	575
(+) Received cash transfers within the framework of the subsidy programme targeting the expansion of POS network in Hungary	0	480
(+) Other other non-interest expenses	(6,778)	(6,510)
(+) Change in shareholders' equity of companies consolidated with equity method, and the change in the net asset value of the private equity funds managed by PortfoLion	1,862	246
(-) Investment impairment in relation to the sale of Express Life Bulgaria (presented on the *Goodwill/investment impairment charges* adjustment line on consolidated level)	(163)	
(-) Effect of acquisitions	79,538	0
(-) Presentation of the revaluation result of intra-group swaps on the net interest income line realized at the Romanian and Slovakian operations	553	2,482
(-) One-off impact of regulatory changes related to CHF consumer contracts in Croatia	0	(26)
(-) One-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania	(277)	(375)
(-) Impact of fines imposed by the Hungarian Competition Authority	0	0
(-) Netting of refunds related to legal cases (accounted for on the Net other non-interest result line) with the release of provisions created earlier for these cases (accounted for on the Other provisions line) from 1Q 2017 at OTP Bank Romania	(483)	(630)
(+) Shifting of Non-trading securities mandatorily at fair value through profit or loss line to Net other non-interest income from 1Q 2019	1,914	
(+) Presentation of the contribution from discontinued operation on the adjusted P&L lines	(1,072)	602
Net other non-interest result (adjusted) with one-offs	**31,376**	**25,134**
(-) Gain on the repurchase of own Upper and Lower Tier2 Capital (booked as Net other non-interest result (adj) at OTP Core and at the Corporate Centre)	0	0
Net other non-interest result (adjusted) without one-offs	**31,376**	**25,134**
Provision for impairment on loan and placement losses	**(49,120)**	**(22,616)**
(+) Loss allowance on securities at fair value through other comprehensive income and on securities at amortized cost	**9**	**607**
(+) Provision for commitments and guarantees given	**(7,995)**	**(6,481)**
(+) Impairment of assets subject to operating lease and of investment properties	**280**	**(326)**
(-) Revaluation result of FX provisions	5,176	(3,088)
(-) One-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania	263	(37)
(+) Netting of interest revenues on DPD90+ loans with the related provision (booked on the Provision for loan losses line) at OTP Core and CKB	3,135	3,340
(-) Effect of acquisitions	(19,868)	(33)
(-) One-off impact of regulatory changes related to FX consumer contracts in Serbia	(2,127)	
(-) Structural correction between Provision for loan losses and Other provisions	(7,705)	(6,200)
(+) Presentation of the contribution from discontinued operation on the adjusted P&L lines	(46)	(3,164)
Provision for impairment on loan and placement losses (adjusted)	**(29,474)**	**(19,283)**
Dividend income	**7,955**	**5,733**
(+) Received cash transfers	174	575
(+) Paid cash transfers	(13,195)	(9,465)
(-) Sponsorships, subsidies and cash transfers to public benefit organisations	(13,139)	(9,449)
(-) Received cash transfers within the framework of the subsidy programme targeting the expansion of POS network in Hungary	0	480
(-) Dividend income of swap counterparty shares kept under the treasury share swap agreement	5,710	5,111
(-) Change in shareholders' equity of companies consolidated with equity method, and the change in the net asset value of the private equity funds managed by PortfoLion	1,862	246
(+) Presentation of the contribution from discontinued operation on the adjusted P&L lines	3	3
After tax dividends and net cash transfers	**505**	**457**
Depreciation and goodwill impairment	**(81,935)**	**(56,100)**
(-) Goodwill impairment charges	(4,887)	(5,962)
(-) Effect of acquisitions	(7,881)	(3,266)

	2019 HUF million	2018 HUF million
(-) Reclassification due to the introduction of IFRS16	(14,280)	
(+) Presentation of the contribution from discontinued operation on the adjusted P&L lines	(1,495)	(1,337)
Depreciation (adjusted)	**(56,383)**	**(48,210)**
Personnel expenses	**(276,754)**	**(244,600)**
(-) Effect of acquisitions	(3,777)	(1,594)
(+) Presentation of the contribution from discontinued operation on the adjusted P&L lines	(7,024)	(6,441)
Personnel expenses (adjusted)	**(280,002)**	**(249,447)**
Income taxes	**(49,902)**	**(34,000)**
(-) Corporate tax impact of goodwill/investment impairment charges	(3,378)	1,233
(-) Corporate tax impact of the special tax on financial institutions	1,623	1,562
(+) Tax deductible transfers (offset against corporate taxes)	(3,802)	(2,057)
(-) Corporate tax impact of the effect of acquisitions	(5,713)	573
(-) Corporate tax impact of the one-off impact of regulatory changes related to FX consumer contracts in Serbia	483	0
(-) Corporate tax impact of the initial NPV gain on the monetary policy interest rate swap (MIRS) deals	0	(1,862)
(-) Netting of the interest subsidy repaid by OTP Mortgage Bank to the State by the already created other provision for that purpose (and other related items) in 3Q 2019 (corporate tax impact)	146	
(+) Presentation of the contribution from discontinued operation on the adjusted P&L lines	(56)	163
Corporate income tax (adjusted)	**(46,921)**	**(37,400)**
Other operating expense	**(44,758)**	**(19,173)**
(-) Other costs and expenses	(9,172)	(7,080)
(-) Other non-interest expenses	(19,973)	(15,975)
(-) Effect of acquisitions	(7,575)	1,606
(-) Revaluation result of FX provisions	(40)	(21)
(-) One-off impact of regulatory changes related to CHF consumer contracts in Croatia	0	26
(-) One-off impact of the CHF mortgage loan conversion programme and regulatory changes related to mortgage loans in Romania	14	411
(-) Impact of fines imposed by the Hungarian Competition Authority	0	2,000
(-) Netting of refunds related to legal cases (accounted for on the Net other non-interest result line) with the release of provisions created earlier for these cases (accounted for on the Other provisions line) from 1Q 2017 at OTP Bank Romania	483	630
(-) Netting of the interest subsidy repaid by OTP Mortgage Bank to the State by the already created other provision for that purpose (and other related items) in 3Q 2019	1,420	
(+) Structural correction between *Provision for loan losses* and *Other provisions*	(7,705)	(6,200)
(+) Presentation of the contribution from discontinued operation on the adjusted P&L lines	(12)	85
Other provisions (adjusted)	**(17,633)**	**(6,885)**
Other administrative expenses	**(282,528)**	**(259,823)**
(+) Other costs and expenses	(9,172)	(7,080)
(+) Other non-interest expenses	(19,973)	(15,975)
(-) Paid cash transfers	(13,195)	(9,465)
(+) Film subsidies and cash transfers to public benefit organisations	(13,139)	(9,449)
(-) Shifting of certain cash transfers to public benefit organisations to the Net fees and commissions line	0	
(-) Other other non-interest expenses	(6,778)	(6,510)
(-) Special tax on financial institutions (recognised as other administrative expenses)	(17,792)	(16,848)
(-) Tax deductible transfers (offset against corporate taxes)	(3,802)	(2,057)
(-) Financial Transaction Tax	(61,920)	(56,958)
(-) Impact of fines imposed by the Hungarian Competition Authority	0	(1,435)
(-) Effect of acquisitions	(10,963)	(4,945)
(+) Reclassification due to the introduction of IFRS16	(15,933)	
(+) Presentation of the contribution from discontinued operation on the adjusted P&L lines	(5,003)	(5,052)
Other non-interest expenses (adjusted)	**(231,298)**	**(199,161)**

ADJUSTMENTS OF CONSOLIDATED IFRS BALANCE SHEET LINES

	2019 HUF million	2018 HUF million
Cash, amounts due from Banks and balances with the National Banks	1,784,378	1,547,272
(+) Allocation of *Assets classified as held for sale* among balance sheet lines	57,586	
Cash, amounts due from Banks and balances with the National Banks (adjusted)	1,841,963	1,547,272
Placements with other banks, net of allowance for placement losses	410,079	420,606
(+) Allocation of *Assets classified as held for sale* among balance sheet lines	354	
Placements with other banks, net of allowance for placement losses (adjusted)	410,433	420,606
Securities at fair value through other comprehensive income	2,426,779	1,883,849
(+) Allocation of *Assets classified as held for sale* among balance sheet lines	759	
Securities at fair value through other comprehensive income (adjusted)	2,427,537	1,883,849
Gross customer loans (incl. accrued interest receivables related to loans)	12,585,969	8,751,955
(-) Accrued interest receivables related to DPD90+ / Stage 3 loans	35,450	32,613
(+) Allocation of *Assets classified as held for sale* among balance sheet lines	391,490	
Gross customer loans (incl. accrued interest receivables related to loans) (adjusted)	12,942,009	8,719,342
Allowances for loan losses	(706,907)	(685,364)
(-) Allocated provision on accrued interest receivables related to DPD90+ / Stage 3 loans	(35,450)	(32,613)
(+) Allocation of *Assets classified as held for sale* among balance sheet lines	(23,033)	
Allowances for loan losses (adjusted)	(694,490)	(652,751)
Securities at amortized costs	1,968,072	1,740,520
(+) Allocation of *Assets classified as held for sale* among balance sheet lines	27,555	
Securities at amortized costs (adjusted)	1,995,627	1,740,520
Tangible and intangible assets, net	595,128	420,484
(+) Allocation of *Assets classified as held for sale* among balance sheet lines	10,545	
Tangible and intangible assets, net (adjusted)	605,673	420,484
Other assets	785,456	312,018
(+) Allocation of *Assets classified as held for sale* among balance sheet lines	(465,255)	
Other assets (adjusted)	320,201	312,018
Amounts due to banks, the National Governments, deposits from the National Banks and other banks, and Financial liabilities designated at fair value through profit or loss	844,261	392,706
(+) Allocation of *Liabilities directly associated with assets classified as held-for-sale* among balance sheet lines	1,898	
Amounts due to banks, the National Governments, deposits from the National Banks and other banks , and Financial liabilities designated at fair value through profit or loss (adjusted)	846,158	392,706
Deposits from customers	15,171,308	11,285,085
(+) Allocation of *Liabilities directly associated with assets classified as held-for-sale* among balance sheet lines	351,346	
Deposits from customers (adjusted)	15,522,654	11,285,085
Other liabilities	1,171,805	586,445
(+) Allocation of *Liabilities directly associated with assets classified as held-for-sale* among balance sheet lines	(353,244)	
Other liabilities (adjusted)	818,561	586,445

STATEMENT OF PROFIT OR LOSS OF OTP BANK PLC., ACCORDING TO IFRS STANDARDS AS ADOPTED BY THE EUROPEAN UNION (SEPARATE)[1]

	2019 HUF million	2018 HUF million	Change %
Interest income accounted for using the effective interest rate method	239,395	214,821	11
Income similar to interest income accounted for not using the effective interest rate method	83,111	75,912	9
Interest incomes	***322,506***	***290,733***	***11***
Interest expenses	***(119,384)***	***(83,778)***	***43***
NET INTEREST INCOME	**203,122**	**206,955**	**(2)**
Loss allowance on loans, placements and financial lease receivables	(39,121)	(9,978)	292
NET INTEREST INCOME AFTER RISK COST	**164,001**	**196,977**	**(17)**
Income from fees and commissions	238,995	212,556	12
Expense from fees and commissions	(35,591)	(34,339)	4
Net profit from fees and commissions	**203,404**	**178,217**	**14**
Foreign exchange gains, net	13,247	9,510	39
Gains on securities, net	8,188	1,960	318
Gains on financial assets /liabilities measured at fair value through profit or loss	1,890	625	202
Gains on deivative instruments, net	4,715	3,706	27
Dividend income	78,887	68,481	15
Other operating income	7,505	5,179	45
Other operating expense	26,515	(2,867)	-
Net operating gain	**140,947**	**86,594**	**63**
Personnel expenses	(115,035)	(104,819)	10
Depreciation and amortization	(29,925)	(21,232)	41
Other administrative expenses	(160,198)	(151,104)	6
Other administrative expenses	**(305,158)**	**(277,155)**	**10**
PROFIT BEFORE INCOME TAX	**203,194**	**184,633**	**10**
Income tax expense	(9,840)	(11,191)	(12)
NET PROFIT FOR THE YEAR	**193,354**	**173,442**	**11**

[1] The rows of the table are based on audited numbers, but the structure of the table can differ from the IFRS financial statements presented in the Financial Statements section of the Annual Report (certain rows might be merged or represent different level of aggregation).

STATEMENT OF FINANCIAL POSITION OF OTP BANK PLC., ACCORDING TO IFRS STANDARDS AS ADOPTED BY THE EUROPEAN UNION (SEPARATE)[1]

	2019 HUF million	2018 HUF million	Change %
Cash, amounts due from banks and balances with the National Bank of Hungary	289,686	360,855	(20)
Placements with other banks, net of allowance for placement losses	1,560,142	1,074,840	45
Repo receivables	45,539	14,139	222
Financial assets at fair value through profit or loss	172,229	155,042	11
Financial assets at fair value through other comprehensive income	1,485,977	1,451,905	2
Loans at amortised cost	3,285,338	2,571,979	28
Loans mandatorily measured at fair value through profit or loss	29,731	32,745	(9)
Investments in subsidiaries	1,542,538	1,177,573	31
Securities at amortised cost	1,447,224	1,431,789	1
Property and equipment	77,754	70,442	10
Intangible assets	53,282	39,883	34
Right of use assets	13,607	0	
Investments properties	2,381	2,333	2
Deferred tax assets	0	1,241	(100)
Derivative financial assets designated as hedge accounting relationships	16,677	12,221	36
Other assets	116,699	109,201	7
TOTAL ASSETS	**10,138,804**	**8,506,188**	**19**
Amounts due to banks and deposits from the National Bank of Hungary and other banks	738,054	458,182	61
Repo liabilities	462,621	279,854	65
Deposits from customers	6,573,550	5,741,498	14
Leasing liabilities	13,660	0	
Liabilities from issued securities	43,284	46,694	(7)
Financial liabilities at fair value through profit or loss	28,861	32,231	(10)
Derivative financial liabilities designated as held for trading	83,088	82,838	0
Derivative financial liabilities designated as hedge accounting relationships	10,023	6,925	45
Deferred tax liabilities	5,875	0	
Other liabilities	**246,676**	**236,570**	4
Subordinated bonds and loans	279,394	110,454	153
TOTAL LIABILITIES	**8,485,086**	**6,995,246**	**21**
Share capital	**28,000**	**28,000**	0
Retained earnings and reserves	1,628,354	1,484,906	10
Treasury shares	(2,636)	(1,964)	34
TOTAL SHAREHOLDERS' EQUITY	**1,653,718**	**1,510,942**	**9**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**10,138,804**	**8,506,188**	**19**

[1] The rows of the table are based on audited numbers, but the structure of the table can differ from the IFRS financial statements presented in the Financial Statements section of the Annual Report (certain rows might be merged or represent different level of aggregation).

STATEMENT OF PROFIT OR LOSS OF OTP BANK PLC., ACCORDING TO IFRS STANDARDS AS ADOPTED BY THE EUROPEAN UNION (CONSOLIDATED)[1]

	2019 HUF million	2018 HUF million	Change %
CONTINUING OPERATIONS			
Interest income accounted for using the effective interest rate method	777,502	647,650	20
Income similar to interest income accounted for not using the effective interest rate method	116,642	98,379	19
Interest incomes	***894,144***	***746,029***	***20***
Interest expenses	***(197,095)***	***(132,644)***	***49***
NET INTEREST INCOME	**697,049**	**613,385**	**14**
Loss allowance on loans, placements and financial lease receivables	(49,120)	(22,616)	117
Release of loss allowance on securities at fair value through other comprehensive income and on securities at amortized cost	9	607	(99)
Provision for commitments and guarantees given	(7,995)	(6,481)	23
Release of impairment of assets subject to operating lease and of investment properties	280	(326)	(186)
NET INTEREST INCOME AFTER LOSS ALLOWANCE, IMPAIRMENT AND PROVISIONS	**640,223**	**584,569**	**10**
Income from fees and commissions	413,348	333,082	24
Expense from fees and commissions	(72,903)	(58,946)	24
NET PROFIT FROM FEES AND COMMISSIONS	**340,445**	**274,136**	**24**
Foreign exchange gains, net	40,518	40,352	0
Foreign exchange result	39,470	33,893	16
Gains and losses on derivative instruments	1,048	6,459	(84)
Gains on securities, net	11,611	1,345	763
Gains on financial assets /liabilities measured at fair value through profit or loss	1,282	597	115
Dividend income	7,955	5,733	39
Other operating income	111,093	25,872	329
Gains and losses on real estate transactions	8,231	1,890	335
Other non-interest income	102,015	23,309	338
Net insurance result	849	673	26
Other operating expense	(44,758)	(19,173)	133
NET OPERATING GAIN	**127,701**	**54,726**	**133**
Personnel expenses	(276,754)	(244,600)	13
Depreciation and amortization	(77,048)	(50,138)	54
Goodwill impairment	(4,887)	(5,962)	(18)
Other administrative expenses	(282,528)	(259,823)	9
OTHER ADMINISTRATIVE EXPENSES	**(641,217)**	**(560,523)**	**14**
PROFIT BEFORE INCOME TAX	**467,152**	**352,908**	**32**
Income tax expense	**(49,902)**	**(34,000)**	**47**
NET PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS	**417,250**	**318,908**	**31**
From this, attributable to:			
Non-controlling interest	341	97	252
Owners of the company	416,909	318,811	31
DISCONTINUED OPERATIONS			
LOSS FROM DISCONTINUED OPERATION	**(4,668)**	**(586)**	697
PROFIT FROM CONTINUING AND DISCOUNTINUED OPERATION	**412,582**	**318,322**	30

[1] The rows of the table are based on audited numbers, but the structure of the table can differ from the IFRS financial statements presented in the Financial Statements section of the Annual Report (certain rows might be merged or represent different level of aggregation).

STATEMENT OF FINANCIAL POSITION OF OTP BANK PLC., ACCORDING TO IFRS STANDARDS AS ADOPTED BY THE EUROPEAN UNION (CONSOLIDATED)[1]

	2019 HUF million	2018 HUF million	Change %
Cash, amounts due from banks and balances with the National Banks	1,784,378	1,547,272	15
Placements with other banks, net of loss allowance for placements	410,079	420,606	(3)
Financial assets at fair value through profit or loss	251,990	181,356	39
Securities at fair value through other comprehensive income	2,426,779	1,883,849	29
Loans at amortized cost	11,846,260	8,032,068	47
Loans mandatorily at fair value through profit or loss	32,802	34,525	(5)
Associates and other investments	20,822	17,591	18
Securities at amortized cost	1,968,072	1,740,520	13
Property and equipment	320,431	253,773	26
Intangible assets and goodwill	242,219	166,711	45
Right-of-use assets	52,950	-	
Investment properties	41,559	38,115	9
Derivative financial assets designated as hedge accounting	7,463	15,201	(51)
Deferred tax assets	26,543	20,769	28
Other assets	227,349	237,932	(4)
Assets classified as held-for-sale	462,071	-	
TOTAL ASSETS	**20,121,767**	**14,590,288**	**38**
Amounts due to banks, the National Governments, deposits from the National Banks and other banks	813,399	360,475	126
Financial liabilities at fair value through profit or loss	30,862	32,231	(4)
Deposits from customers	15,171,308	11,285,085	34
Liabilities from issued securities	393,167	417,966	(6)
Derivative financial liabilities held for trading	86,743	73,316	18
Derivative financial liabilities designated as hedge accounting	10,709	7,407	45
Deferred tax liabilities	29,195	6,865	325
Leasing liabilities	54,194	50	
Other liabilities	628,468	498,807	26
Subordinated bonds and loans	249,938	81,429	207
Liabilities directly associated with assets classified as held-for-sale	362,496	-	
TOTAL LIABILITIES	**17,830,479**	**12,763,631**	**40**
Share capital	28,000	28,000	0
Retained earnings and reserves	2,319,263	1,864,204	24
Treasury shares	(60,931)	(67,999)	(10)
Non-controlling interest	4,956	2,452	102
TOTAL SHAREHOLDERS' EQUITY	**2,291,288**	**1,826,657**	**25**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**20,121,767**	**14,590,288**	**38**

[1] The rows of the table are based on audited numbers, but the structure of the table can differ from the IFRS financial statements presented in the Financial Statements section of the Annual Report (certain rows might be merged or represent different level of aggregation).

FINANCIAL STATEMENTS ON 2019

IFRS (SEPARATE)

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

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

Budapest, 16 March 2020

OTP BANK Nyrt.
elnök-vezérigazgató

Dr. Sándor Csányi
Chairman and Chief Executive Officer

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

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

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

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

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

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

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

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

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

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

OTP BANK PLC
NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

1.1. General information

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

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

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

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

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

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

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

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

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

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

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

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

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

Number of the employees of the Bank:

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

1.2. Basis of accounting

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of presentation

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

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

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

2.2. Foreign currency translation

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

2.3. Consolidated financial statements

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

2.4. Investments in subsidiaries, associated companies and other investments

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

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

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.5. Securities at amortised cost

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

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

2.6 Financial assets at fair value through profit or loss

2.6.1. Securities held for trading

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

2.6.2. Derivative financial instruments

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

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

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

Foreign currency contracts

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

[1] First In First Out

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.6.2 Derivative financial instruments [continued]

Foreign exchange swaps and interest rate swaps

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

Interest rate swaps obligate two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount (the base of the interest calculation). Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps.

Such notional principal amounts are often used to express the volume of these transactions but are not actually exchanged between the counterparties. The Bank's interest rate swap contracts can be hedging or held for trading contracts.

Cross-currency interest rate swaps

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

Equity and commodity swaps

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

Forward rate agreements ("FRA")

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

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

Foreign exchange options

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

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

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

2.8. Offsetting

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

2.9. Embedded derivatives

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

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

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

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

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

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

[1] First In First Out

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

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

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

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

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

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

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

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

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

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

Modification of contractual cash flows

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.12. Loss allowance

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

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

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

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

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

Classification into risk classes

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

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.12. Loss allowance [continued]

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

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

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

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

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

Expected credit losses are measured in a way that reflects:

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

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

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

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

2.14. Sale and repurchase agreements, security lending

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

2.15. Property, equipment and intangible assets

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

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

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.16. Investment properties

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

2.17. Financial liabilities

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

2.18. Leases

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

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

Recognition of lease liabilities

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

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.18. Leases [continued]

Recognition of right-of-use assets

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

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

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

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

2.19. Share capital

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

2.20. Treasury shares

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

2.21. Interest income and interest expense

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

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

2.22. Fees and Commissions

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

2.23. Dividend income

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.24. Income tax

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

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

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

2.25. Off-balance sheet commitments and contingent liabilities

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

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

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

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

2.26. Share-based payment and employee benefit

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

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

2.27. Separate statement of cash flows

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

2.28. Segment reporting

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.29. Comparative figures

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

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

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

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

3.1. Loss allowance on financial instruments

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

3.2. Valuation of instruments without direct quotations

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

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

3.3. Provisions

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

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

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

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

3.4. Business models

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

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

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

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

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

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

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

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

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

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

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

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

Interest conditions of placements with other banks (%):

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

NOTE 6: REPO RECEIVABLES (in HUF mn)

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

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

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

Interest conditions of repo receivables (%):

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

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

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

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

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

[1] CCIRS: Cross Currency Interest Rate Swap (See Note 2.6.2.)
[2] incl.: FX, equity, commodity and index futures; FX forward; commodity and equity swap; FRA; FX option (See Note 2.6.2.)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 9: LOANS (in HUF mn)

Loans measured at fair value through profit or loss

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[1] incl. housing loans

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

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

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

Significant subsidiaries

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

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

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

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

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

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

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

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

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

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

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

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

Significant associates and joint ventures

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

As at 31 December 2019

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

As at 31 December 2018

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

For the year ended 31 December 2019

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

For the year ended 31 December 2018

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

The Bank has no intangible assets with indefinite useful life.

NOTE 13: INVESTMENT PROPERTIES (in HUF mn)

For the year ended 31 December 2019 and 2018

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 17: REPO LIABILITIES (in HUF mn)

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

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

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

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

NOTE 18: DEPOSITS FROM CUSTOMERS (in HUF mn)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Hedge accounting

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 25: SHARE CAPITAL (in HUF mn)

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

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

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

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

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

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

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

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

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

Share capital

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

Share-based payment reserve

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

Retained earnings

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

Put option reserve

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

Other comprehensive income

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

General reserve

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

Tied-up reserve

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

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

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

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

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

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

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

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

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

NOTE 27: TREASURY SHARES (in HUF mn)

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

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

Change in number of shares:

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

Change in carrying value:

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

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

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

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

NOTE 29: RISK COST (in HUF mn)

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

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

Income from fees and commissions:

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

Contract balances

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

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

Performance obligations and revenue recognition policies:

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

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

Performance obligations and revenue recognition policies: [continued]

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

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

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

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

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

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

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

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

NOTE 32: INCOME TAX (in HUF mn)

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

A breakdown of the income tax expense is:

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

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

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

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

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

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

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

A reconciliation of the income tax expense is as follows:

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

NOTE 33: LEASE (in HUF mn)

The Bank as a lessee:

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

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

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

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

Leasing liabilities by maturities:

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

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

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

NOTE 34: FINANCIAL RISK MANAGEMENT (in HUF mn)

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

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

34.1. Credit risk

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

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

34.1.1. Analysis by loan types

Defining the expected credit loss on individual and collective basis

On individual basis:

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

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

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

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

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

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

34.1. Credit risk [continued]

34.1.1. Analysis by loan types [continued]

On collective basis:

The following exposures are subject to collective assessment:

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

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

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

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

The impairment parameters should be backtested at least annually.

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

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

34.1. Credit risk [continued]

34.1.1. Analysis by loan types [continued]

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

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

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

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

34.1. Credit risk [continued]

34.1.1. Analysis by loan types [continued]

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

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

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

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

34.1. Credit risk [continued]

34.1.1. Analysis by loan types [continued]

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

Loans at amortised cost

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

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

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

34.1. *Credit risk [continued]*

34.1.1. Analysis by loan types [continued]

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

Loan commitments and financial guarantees

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

Placements with other banks, net of allowance for placement losses

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

Repo Receivables

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

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

34.1. Credit risk [continued]

34.1.1. Analysis by loan types [continued]

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

Securities at amortised cost

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

FVOCI Securities

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

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

34.1. Credit risk [continued]

34.1.1. Analysis by loan types [continued]

Loan portfolio by countries

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

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

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

34.1. Credit risk [continued]

34.1.2. Collaterals

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

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

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

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

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

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

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

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

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

34.1. Credit risk [continued]

34.1.3. Restructured loans

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

Restructured portfolio definition

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

[1] incl.: project and syndicated loans

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

34.1. Credit risk [continued]

Financial instruments by rating categories[1]

Held-for-trading securities as at 31 December 2019

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

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

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

[1] Moody's ratings

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

34.1. Credit risk [continued]

Financial instruments by rating categories[1]

FVOCI securities as at 31 December 2019

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

Securities at amortised cost as at 31 December 2019

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

[1] Moody's ratings

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

34.1. Credit risk [continued]

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

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

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

34.2. Maturity analysis of assets and liabilities and liquidity risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

34.3. Net foreign currency position and foreign currency risk

As at 31 December 2019

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

As at 31 December 2018

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

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

34.4. Interest rate risk management

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

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

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

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

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

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

34.4. Interest rate risk management [continued]

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

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

34.4. Interest rate risk management [continued]

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

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

34.4. *Interest rate risk management [continued]*

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

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

34.4. Interest rate risk management [continued]

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

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

34.4. *Interest rate risk management [continued]*

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

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

34.4. Interest rate risk management [continued]

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

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

34.5. Market risk

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

34.5.1. Market risk sensitivity analysis

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

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

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

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

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

34.5.2. Foreign currency sensitivity analysis

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

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

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

34.5. Market risk [continued]

34.5.2. Foreign currency sensitivity analysis [continued]

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

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

34.5.3. Interest rate sensitivity analysis

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

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

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

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

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

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

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

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

34.5. Market risk [continued]

34.5.4. Equity price sensitivity analysis

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

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

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

34.6. Capital management

Capital management

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

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

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

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

Capital adequacy

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

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

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

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

34.6. Capital management [continued]

Capital adequacy [continued]

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

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

Basel III:

Common equity Tier 1 capital (CET1):

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

Tier 2 capital:

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

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

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

in HUF million

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

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

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

Financial assets transferred but not derecognised

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

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

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

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

Contingent liabilities and commitments

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

Legal disputes

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

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

Commitments to extend credit, guarantees and letter of credit

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

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

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

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

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

Guarantees, payment undertakings arising from banking activities

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

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

Contingent liabilities related to OTP Mortgage Bank Ltd.

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

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

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

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

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

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

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

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

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

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

[1] Until the end of 2014 Board of Directors

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 38: RELATED PARTY TRANSACTIONS (in HUF mn)

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

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

38.1. Loans provided to related parties

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

38.2. Deposits from related parties

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

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

38.3. Interests received by the Bank[1]

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

38.4. Interests paid by the Bank[1]

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

38.5. Commissions received by the Bank

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

38.6. Commissions paid by the Bank

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

38.7. Transactions related to OTP Mortgage Bank Ltd.:

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

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

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

38.8. Transactions related to OTP Factoring Ltd.:

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

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

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

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

38.10. Related party transactions with key management

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

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

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

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

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

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

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

38.10. Related party transactions with key management [continued]

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

	2019	2018
Members of Board of Directors and their close family members	11	14
Executive	1	5
Total	**12**	**19**
Interest	floating, monthly 2.19%	floating, monthly 2.18%
Annual fee	15,834 HUF/year	15,044 HUF/year
Collateral	income received to bank account	income received to bank account

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

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

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

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

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

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

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

38.10. Related party transactions with key management [continued]

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

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

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

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

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

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

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

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

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

NOTE 39: TRUST ACTIVITIES (in HUF mn)

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

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

NOTE 40: CONCENTRATION OF ASSETS AND LIABILITIES

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

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

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

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

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

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

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

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

NOTE 41: EARNINGS PER SHARE

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

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

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

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

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

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

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

[1] For the year ended 31 December 2019 HUF 8,408 million net non-interest gain on securities at fair value through other comprehensive income was transferred from other comprehensive income to profit or loss.
[2] Gains/losses from derivative financial instruments recognised in net interest income as Income similar to interest income.

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

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

[3] For the year ended 31 December 2018 HUF 2,305 million net non-interest gain on securities at fair value through other comprehensive income was transferred from other comprehensive income to profit or loss.
[4] Gains/losses from derivative financial instruments recognised in net interest income as Income similar to interest income.

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

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

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

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

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

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

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

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

a) Fair value of financial assets and liabilities

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

b) Derivative financial instruments

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

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

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

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

b) Derivative financial instruments [continued]

Fair value of derivative financial instruments

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

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

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

c) Hedge accounting

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

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

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

d) Hedge accounting [continued]

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

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

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

c) Hedge accounting [continued]

Derivative financial instruments designated as hedge accounting as follows:

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

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

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

c) Hedge accounting [continued]

Derivative financial instruments designated as hedge accounting as follows:

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

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

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

c) Hedge accounting [continued]

31 December 2019

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

31 December 2018

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

d) Fair value classes

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

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

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

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

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

d) *Fair value classes [continued]*

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

Valuation techniques and sensitivity analysis on Level 3 instruments

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

Unobservable inputs used in measuring fair value

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

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

d) *Fair value classes [continued]*

The effect of unobservable inputs on fair value measurement

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

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

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

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

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

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

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

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

1) Capital increase at DSK Bank

2) Capital increase at OTP banka Slovensko

3) Financial closure of the Albanian acquisition

4) Acquisition in Montenegro

5) Acquisition in Moldova

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

7) Acquisition in Slovenia

8) Capital increase at CKB banka

9) Sale of Express Life Bulgaria

10) Capital increase in OTP Bank Romania

11) Capital increase at OTP Mortgage Bank Ltd.

See details about the events in Note 10.

12) Issued securities

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

NOTE 45: SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

Sale of the Slovakian subsidiary

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

Closing of the strategic open position

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

Potential impact of COVID-19 virus

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

PROPOSAL FOR THE USE OF AFTER-TAX PROFIT OF THE PARENT COMPANY AND FOR DIVIDEND PAYMENT

A PART OF THE PROPOSAL OF RESOLUTION

The Annual General Meeting determines the statement of financial position for the year ended 2019 with total assets of HUF 10,138,804 million and with net profit for the period of HUF 193,354 million. The net profit for the period is allocated as follows: the general reserve must be increased by HUF 19,335 million, and the remaining amount must be set to the retained earnings.

(The text above is part of the proposal of Annual General Meeting resolution)

FINANCIAL STATEMENTS ON 2019

IFRS (CONSOLIDATED)

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

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

Budapest, 16 March 2020

OTP BANK Nyrt.

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Dr. Sándor Csányi
Chairman and Chief Executive Officer

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

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

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

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

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

	Note	Share capital	Capital reserve	Share-based payment reserve	Retained earnings and other reserves[40]	Option reserve	Treasury shares	Total attributable to shareholders'	Non-controlling interest	Total
Balance as at 1 January 2018		**28,000**	**52**	**31,835**	**1,695,460**	**(55,468)**	**(63,289)**	**1,636,590**	**3,465**	**1,640,055**
Effect of transition due to IFRS 9 application		-	-	-	(51,475)	-	-	(51,475)	(127)	(51,602)
Adjusted balance as at 1 January 2018		**28,000**	**52**	**31,835**	**1,643,985**	**(55,468)**	**(63,289)**	**1,585,115**	**3,338**	**1,588,453**
Net profit for the period		-	-	-	318,233	-	-	318,233	89	318,322
Other Comprehensive Income		-	-	-	(13,420)	-	-	(13,420)	(223)	(13,643)
Total comprehensive income		**-**	**-**	**-**	**304,813**	**-**	**-**	**304,813**	**(134)**	**304,679**
Increase due to business combinations		-	-	-	-	-	-	-	(752)	(752)
Share-based payment	*36.*	-	-	3,797	-	-	-	3,797	-	3,797
Dividend for the year 2017		-	-	-	(61,320)	-	-	(61,320)	-	(61,320)
Correction duet to MRP[2]		-	-	-	156	-	-	156	-	156
Sale of Treasury shares	*25.*	-	-	-	-	-	21,814	21,814	-	21,814
Treasury shares – loss on sale	*25.*	-	-	-	(2,390)	-	-	(2,390)	-	(2,390)
Treasury shares – acquisition	*25.*	-	-	-	-	-	(26,524)	(26,524)	-	(26,524)
Payments to ICES holders	*24.*	-	-	-	(1,256)	-	-	(1,256)	-	(1,256)
Balance as at 31 December 2018		**28,000**	**52**	**35,632**	**1,883,988**	**(55,468)**	**(67,999)**	**1,824,205**	**2,452**	**1,826,657**
Net profit for the period		-	-	-	412,241	-	-	412,241	341	412,582
Other Comprehensive Income		-	-	-	106,561	-	-	106,561	427	106,988
Total comprehensive income		**-**	**-**	**-**	**518,802**	**-**	**-**	**518,802**	**768**	**519,570**
Increase due to business combination		-	-	-	-	-	-	-	1,736	1,736
Share-based payment	*36.*	-	-	3,547	-	-	-	3,547	-	3,547
Dividend for the year 2018		-	-	-	(61,320)	-	-	(61,320)	-	(61,320)
Correction due to MRP[41]		-	-	-	376	-	-	376	-	376
Sale of Treasury shares	*25.*	-	-	-	-	-	15,956	15,956	-	15,956
Treasury shares - loss on sale	*25.*	-	-	-	(5,012)	-	-	(5,012)	-	(5,012)
Treasury shares - acquisition	*25.*	-	-	-	-		(8,888)	(8,888)	-	(8,888)
Payments to ICES holders	*24.*	-	-	-	(1,334)	-	-	(1,334)	-	(1,334)
Balance as at 31 December 2019		**28,000**	**52**	**39,179**	**2,335,500**	**(55,468)**	**(60,931)**	**2,286,332**	**4,956**	**2,291,288**

[40] See details in Note 21, where the Retained earnings and other reserves category contains the capital reserve, share-based payment reserve and option reserve which are presented here separately.
[41] 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
FOR THE YEAR ENDED 31 DECEMBER 2019
(in HUF mn)

	Note	2019	2018
OPERATING ACTIVITIES			
Net profit for the period (attributable to the owners of the company)		**412,241**	**318,233**
Net accrued interest		(6,590)	(2,434)
Dividend income		(7,958)	(5,736)
Depreciation and amortization	*11.*	78,864	51,475
Goodwill impairment	*11.*	4,887	5,962
Release of loss allowance on securities	*7.,10.*	(10)	(608)
Loss allowance on loans and placements	*5.,8.*	57,058	39,287
Loss allowance on investments	*9.*	3,342	1,232
(Release of loss allowance) / Loss allowance on investment properties	*12.*	(123)	244
Impairment on tangible and intangible assets	*11.*	2,078	2,262
Loss allowance on other assets	*14.*	6,258	944
Provision / (Release of provision) on off-balance sheet commitments and contingent liabilities	*21.*	3,767	(1,841)
Share-based payment	*2.,36.*	3,547	3,797
Unrealized losses on fair value change of securities held for trading		6,975	9,128
Unrealized losses / (gains) on fair value change of derivative financial instruments		14,232	(29,525)
Impairment on discontinued operations		6,032	-
Net changes in assets and liabilities in operating activities			
Net (increase) / decrease in financial assets at fair value through profit or loss	*6.*	(30,651)	178,542
Net increase in compulsory reserves at the National Banks	*4.*	(48,081)	(329,936)
Net increase in loans at amortized cost before loss allowance for loans and in loans at fair value	*8.*	(1,402,625)	(1,166,242)
Net decrease / (increase) in other assets before loss allowance	*14.*	7,037	(26,857)
Net increase in deposits from customers	*17.*	1,476,678	1,054,945
Cash payments for the interest portion of the lease liability	*32.*	(1,604)	-
Short-term lease payments, payments for leases of low-value assets, variable lease payments not included in the measurement of the lease liability	*32.*	(6,559)	-
Net increase in other liabilities	*21.*	175,849	101,877
Income tax paid	*31.*	(30,170)	(17,377)
Net Cash Provided by Operating Activities		**724,474**	**187,372**

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

	Note	2019	2018
INVESTING ACTIVITIES			
Decrease in placement with other banks before loss allowance for placements	*5.*	203,483	42,811
Purchase of securities at fair value through other comprehensive income	*7.*	(2,392,184)	(1,644,093)
Proceeds from sale of securities at fair value through other comprehensive income	*7.*	2,258,296	1,896,981
Net increase in investments	*9.*	(3,908)	(6,308)
Dividends received		6,096	5,490
Purchase of securities at amortized cost	*10.*	(4,749,976)	(2,615,632)
Redemption of securities at amortized cost	*10.*	4,600,424	2,188,898
Purchase of property, equipment and intangible assets	*11.*	(267,652)	(104,199)
Proceeds from disposals of property, equipment and intangible assets	*11.*	31,612	37,404
Net increase in investment properties before loss allowance	*12.*	(3,022)	(2,974)
Net cash paid for acquisition	*38.*	(38,410)	-
Net Cash Used in Investing Activities		**(355,241)**	**(201,622)**
FINANCING ACTIVITIES			
Net decrease in amounts due to banks, the National Governments, deposits from the National Banks and other banks	*15.*	(239,947)	(111,891)
Net (decrease) / increase in financial liabilities at fair value through profit or loss	*16.*	(6,833)	31,986
Cash received from issuance of securities	*18.*	9,732	224,413
Cash used for redemption of issued securities	*18.*	(31,969)	(57,401)
Cash payments for the principal portion of the lease liability	*32.*	(12,440)	-
Increase in subordinated bonds and loans	*22.*	140,387	5,733
Payments to ICES holders	*24.*	(1,334)	(1,256)
Sale of Treasury shares	*25.*	10,943	7,138
Purchase of Treasury shares	*25.*	(8,888)	(14,238)
Dividends paid	*24.*	(61,307)	(61,164)
Net Cash (Used in) / Provided by Financing		**(201,656)**	**23,320**
Cash and cash equivalents at the beginning of the period		**819,979**	**800,689**
Foreign currency translation		79,034	10,220
Net increase in cash and cash equivalents		167,577	9,070
Adjustment due to discontinued operation		(16,853)	-
Cash and cash equivalents at the end of the period	*4.*	**1,049,737**	**819,979**

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

1.1. General information

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

The Bank's registered office address is 16, 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.

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

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

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

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

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

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

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

1.2. Basis of Accounting

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

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

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

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

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 2019

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

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

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

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

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

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

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

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

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

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 17 "Insurance Contracts"** (effective for annual periods beginning on or after 1 January 2021),

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

1.2. Basis of Accounting [continued]

1.2.3. Standards and Interpretations issued by IASB, but not yet adopted by the EU [continued]

- **Amendments to IFRS 3 "Business Combinations"** - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period),
- **Amendments to IAS 1 "Presentation of Financial Statements"** - Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IFRS 10 "Consolidated Financial Statements"** and **IAS 28 "Investments in Associates and Joint Ventures"** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded).

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of Presentation

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

The presentation of Consolidated Financial Statements in conformity with IFRS as adopted by the EU requires the Management of the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
Future changes in economic conditions, business strategies, regulatory requirements, accounting rules and other factors could result in a change in estimates that could have a material impact on future financial statements.

2.2. Foreign currency translation

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.2. Foreign currency translation [continued]

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.
Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

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

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

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

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

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

2.3. Principles of consolidation

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

2.4. Accounting for acquisitions

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.4. Accounting for acquisitions [continued]

If the Group loses control of a subsidiary, derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost and recognizes any difference as a gain or loss on the sale attributable to the parent in Statement of Profit or Loss.
Goodwill acquired in a business combination is tested for impairment annually or more frequently if events or changes in circumstances indicate. The goodwill is allocated to the cost generating units that are expected to benefit from the synergies of the combinations.
The Group calculates the fair value based on discounted cash-flow model. The 3 year period explicit cash-flow model serves as a basis for the impairment test by which the Group defines the impairment need on goodwill based on the strategic factors and financial data of its cash-generating units.

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

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

2.5. Securities at amortized cost

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

2.6. Financial assets at fair value through profit or loss

2.6.1. Securities held for trading

Investments in securities are accounted for on a trade date basis and are initially measured at fair value. Securities held for trading are measured at subsequent reporting dates at fair value, so unrealized gains and losses on held for trading securities are recognized in profit or loss and included in the Consolidated Statement of Profit or Loss for the period. The Group holds held for trading securities within the business model to obtain short-term gains, consequently realised and unrealised gains and losses are recognized in the net operating income. The Group applies the FIFO[1] inventory valuation method for securities held for trading.
Such securities consist of equity instruments, shares in investment funds, Hungarian and foreign government bonds, discounted treasury bills and other securities.

2.6.2. Financial assets designated as fair value through profit or loss

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

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

[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]

2.6.3. 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.

Cross-currency interest rate swaps

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

Equity and commodity swaps

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

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]

Forward rate agreements (FRA)

A forward rate agreement is an agreement to settle amounts at a specified future date based on the difference between an interest rate index and an agreed upon fixed rate. Market risk arises from changes in the market value of contractual positions caused by movements in interest rates.
The Group limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counterparties. The Group's forward rate agreements were transacted for management of interest rate exposures and have been accounted for at mark-to-market fair value.

Foreign exchange options

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

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

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

Changes in fair value of derivatives that are designated and qualify as hedging instrument in cash-flow hedges and that prove to be highly effective in relation to the hedged risk are recognized in their effective portion as reserve in Other Comprehensive Income. Amounts deferred in Comprehensive Income are transferred to the Consolidated Statement of Profit or Loss and classified as revenue or expense in the periods during which the hedged assets and liabilities affect the Consolidated Statement of Profit or Loss for the period. The ineffective element of the changes in fair value of hedging instrument is charged directly to the Consolidated Statement of Profit or Loss.
The Group terminates the hedge relationship if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting. In case of cash-flow hedges – in line with the standard - hedge accounting is still applied by the Group as long as the underlying asset is derecognized.

2.8. Offsetting

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

2.9. Embedded derivatives

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

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.9. Embedded derivatives [continued]

- A separate financial instrument with the same terms as the embedded derivative would meet the definition of a derivative as a stand-alone instrument; and
- The host instrument is not measured at fair value or is measured at fair value but changes in fair value are recognized in Other Comprehensive Income.

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

2.10. Securities at fair value through other comprehensive income

Securities at fair value through other comprehensive income are held within a business model whose objective is achieved by both collecting of contractual cash flows and selling securities. Furthermore contractual terms of these securities give rise on specified dates to cash flows that are solely payment of principal and interest on the principal amount outstanding
Investments in securities are accounted for on a trade date basis and are initially measured at fair value. Securities at fair value through other comprehensive income are measured at subsequent reporting dates at fair value. Unrealized gains and losses on securities at fair value through other comprehensive income are recognized directly in Other Comprehensive Income, except for interest and foreign exchange gains/losses on monetary items, unless such financial asset at fair value through other comprehensive income is part of an effective hedge. Such gains and losses will be reported when realized in Consolidated Statement of Profit or Loss for the applicable period. The Group applies the FIFO[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.

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

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

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

[1] First In First Out

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.11. Loans, placements with other banks and loss allowance for loans and placements [continued]

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

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

The amount of loss allowance is the difference between the gross carrying amount and the recoverable amount, being the present value of the expected cash-flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate.
Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote. The loan is written off against the related account “Income / Expenses from write-off of loans and placements” in the Consolidated Statement of Profit or Loss.
The Group applies partial or full write-off for loans based on the definitions and prescriptions of financial instruments in accordance with IFRS 9. If the Group has no reasonable expectations regarding a financial asset (loan) to be recovered, it will be written off partially or fully at the time of emergence.
The gross amount and impairment loss of the loans shall be written off in the same amount to the estimated maximum recovery amount while the net carrying value remains unchanged. In those cases when on the previously partially or fully written-off loans or placements, which perhaps were derecognized from the books no having been reasonable expectations later nevertheless recoveries could be determined then it will be reversal of loss allowance in the Consolidated Statement of Profit or Loss on “Incomes from recoveries exceeding the gross loans and placements with other banks”.

Modified assets

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.12. Loss allowance

Loss allowance for loans and placements with other banks is recognised by the Group based on the expected credit loss model in accordance with IFRS 9. Based on the three stage model loss allowance is recognised at an amount equal to 12-month expected credit loss from the initial recognition. On financial assets with significantly increased credit risk or credit impaired financial assets (based on objective evidences) loss allowance is recognised in amount of lifetime expected credit loss.

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

Loss allowance for loans and placements with other banks represent Management assessment for potential losses in relation to these activities.

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

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

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

Classification into risk classes

According to the requirements of the 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, contract assets and lease receivables the Group applies the simplified approach and calculates only lifetime expected credit loss. Simplified approach is the following:

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.12. Loss allowance [continued]

Classification into risk classes [continued]

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

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

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

A financial instruments shows significant increase in credit risk, and is allocated to stage 2, if in respect of which any of the following triggers exist on the reporting date, without fulfilling any of the conditions for the allocation to the non-performing stage (stage 3):

- the payment delay exceeds 30 days,
- it is classified as performing forborne,
- based on individual decision, its currency suffered a significant "shock" since the disbursement of the loan,
- the transaction/client rating exceeds a predefined value or falls into a determined range, or compared to the historic value it deteriorates to a predefined degree,
- in the case retail mortgage loans, the loan-to-value ratio exceeds a predefined rate,
- default on another loan of the retail client, if no cross-default exists,
- monitoring classification of corporate and municipal clients above different thresholds defined on group level (without aiming to give an exhaustive list):
  - financial difficulties at the debtor (capital adequacy, liquidity, deterioration of the instrument quality),
  - significant decrease of the liquidity or the activity on the active market of the financial instrument can be observed,
  - the rating of the client reflects high risk but it is better than the default one,
  - significantly decrease in the value of the recovery from which the debtor would disburse the loan,
  - clients under liquidation.

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

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.12. 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.

2.13. Sale and repurchase agreements, security lending

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on the Consolidated Statement of Financial Position and the consideration received is recorded in Other liabilities or Amounts due to banks, the National Governments, deposits from the National Banks and other banks. Conversely, debt or equity securities purchased under a commitment to resell are not recognized in the Consolidated Statement of Financial Position and the consideration paid is recorded either in Placements with other banks or Deposits from customers. Interest is accrued based on the effective interest method evenly over the life of the repurchase agreement.
In the case of security lending transactions the Group doesn’t recognize or derecognize the securities because believes that the transferor retains substantially all the risks and rewards of the ownership of the securities. Only a financial liability or financial receivable is recognized for the consideration amount.

2.14. Associates and other investments

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

2.15. Property and equipment, Intangible assets

Property and equipment and Intangible assets are stated at cost, less accumulated depreciation and amortization and impairment, if any. The depreciable amount (book value less residual value) of the non-current assets must be allocated over the useful lives.

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.15. 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.

2.16. Financial liabilities

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

2.17. Leases

The Group as a lessor

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

The Group as a lessee

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

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Adjusted the right-of-use asset at the date of initial application by the amount of any provision for onerous leases in the statement of financial position.
- Applied a simplified method for contracts mature within 12 months for the date of initial application.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

2.18. Investment properties

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

2.19. Share capital

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

2.20. Treasury shares

Treasury shares are shares which are purchased on the stock exchange and the over-the-counter market by the Bank and its subsidiaries and are presented in the Consolidated Financial Position at cost as a deduction from Consolidated Shareholders' Equity.
Gains and losses on the sale of treasury shares are credited or charged directly to shareholder's equity. Derecognition of treasury shares is based on the FIFO method.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.21. Interest income and interest expense

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

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

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

2.22. Fees and Commissions

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

2.23. Dividend income

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

2.24. Income tax

The annual taxation charge is based on the tax payable under fiscal regulations prevailing in the country where the company is incorporated, adjusted for deferred taxation.

Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences between the tax bases of assets and liabilities and their carrying value for financial reporting purposes, measured at the tax rates that apply to the future period when the asset is expected to be realized or the liability is settled.

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

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

2.25. Off-balance sheet commitments and contingent liabilities

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.25. 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 2.12.).

2.26. Share-based payment and employee benefit

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

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

Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on Management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. The Group has applied the requirement of IAS 19 Employee Benefits. IAS 19 requires to recognise employee benefits to be paid as a liability and as an expense in the Consolidated Financial Statements.

2.27. Consolidated Statement of Cash-flows

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

2.28. Segment reporting

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.
Based on the above, the segments identified by the Group are the business and geographical segments.
The Group's operating segments under IFRS 8 are therefore as follows: OTP Core Hungary, Russia, Ukraine, Bulgaria, Romania, Serbia, Croatia, Montenegro, Albania, Moldova, Slovenia, Merkantil Bank, Asset Management subsidiaries, Other subsidiaries, Corporate Center.

2.29. Comparative figures

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.29. Comparative figures [continued]

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

[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 s tatements and their reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on expected loss and other factors that are considered to be relevant. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period. Actual results could differ from those estimates. Significant areas of subjective judgement include:

3.1. Loss allowances on financial instruments

The Group regularly assesses its financial instruments portfolio for loss allowance. Management determines the adequacy of the loss allowances based upon reviews of individual loans and placements, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. The use of the three stage model was implemented for IFRS 9 purposes. The impairment methodology is used to classify financial instruments in order to determine whether credit risk has significantly increased since initial recognition and to identify the credit-impaired assets. For instruments with credit-impairment or significant increase of credit risk lifetime expected losses will be recognized (see more details in Note 33.1.)

3.2. Valuation of instruments without direct quotations

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

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

3.3. Provisions

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

Other provisions are recognized and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Group is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Group assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for. (See Note 21.)

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

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

3.4. Impairment on goodwill

Goodwill acquired in a business combination is tested for impairment annually or more frequently when there is an indication that the unit might be impaired, in accordance with IAS 36 “Impairment of assets”.

The Group calculates the fair value based on discounted cash-flow model. The 3 year period explicit cash-flow model serves as a basis for the impairment test by which the Group defines the impairment need on goodwill based on the strategic factors and financial data of its cash-generating units. In the calculation of the goodwill impairment, also the expectations about possible variations in the amount or timing of those future cash-flows, the time value of money, represented by the current market risk-free rate of interest and other factors are reflected.

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)

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

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

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

[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:

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

Interest conditions of placements with other banks:

	2019	2018
In HUF	(1.5)% - 3.84%	(1.0)% - 3.84%
In foreign currency	(2.39)% - 15.5%	(2.28)% - 13.69%

	2019	2018
Average interest rates on placements with other banks	2.06%	1.62%

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

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

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

Positive fair value of derivative financial assets held for trading

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

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

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

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

	2019	2018
Denominated in HUF (%)	25.7%	19.5%
Denominated in foreign currency (%)	74.3%	80.5%
Total	**100.0%**	**100.0%**

	2019	2018
Interest rates on securities held for trading	0.01% - 7.5%	0.01% - 7.5%

Interest conditions and the remaining maturities of **securities held for trading** can be analysed as follows:

	2019	2018
Within one year		
With variable interest	124	2,043
With fixed interest	24,496	9,015
	24,620	**11,058**
Over one year		
With variable interest	1,046	2,198
With fixed interest	65,790	24,437
	66,836	**26,635**
Non-interest bearing securities	8,592	12,746
Total	**100,048**	**50,439**

[1] CCIRS: Cross Currency Interest Rate Swaps (See Note 2.6.3.)

NOTE 6: 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:

	2019	2018
Within one year		
With variable interest	-	25
With fixed interest	866	789
	866	**814**
Over one year		
With variable interest	25	492
With fixed interest	3,511	-
	3,536	**492**
Non-interest bearing securities	34,915	26,206
Total	**39,317**	**27,512**

	2019	2018
Dividend income from shares measured at fair value through profit or loss	5,728	5,125

NOTE 7: SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (in HUF mn)

	2019	2018
Securities at fair value through other comprehensive income		
Government bonds	1,772,612	1,420,341
Discounted Treasury bills	443,690	288,613
Mortgage bonds	97,268	82,133
Corporate bonds	73,062	62,099
Listed securities:		
In HUF	*2,999*	*-*
In foreign currency	*46,486*	*37,683*
	49,485	*37,683*
Non-listed securities:		
In HUF	*18,516*	*22,974*
In foreign currency	*5,061*	*1,442*
	23,577	*24,416*
Subtotal	**2,386,632**	**1,853,186**

NOTE 7: SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (in HUF mn) [continued]

	2019	2018
Non-trading equity instruments designated to measure at fair value through other comprehensive income		
Listed securities:		
In HUF	-	-
In foreign currency	*5,443*	*5,358*
	5,443	*5,358*
Non-listed securities:		
In HUF	*539*	*576*
In foreign currency	*34,165*	*24,729*
	34,704	*25,305*
Subtotal	**40,147**	**30,663**
Total securities at fair value through other comprehensive income	**2,426,779**	**1,883,849**

An analysis of securities at fair value through other comprehensive income by currency (%):

	2019	2018
Denominated in HUF (%)	47.8%	57.8%
Denominated in foreign currency (%)	52.2%	42.2%
Total	**100.0%**	**100.0%**

	2019	2018
Dividend from shares measured at fair value through other comprehensive income		
related to derecognized equity instruments	7	-
related to equity instrument existing at the balance sheet date	236	191
Accumulated gain transferred within reserves	1,842	-

An analysis of government bonds by currency (%):

	2019	2018
Denominated in HUF (%)	39.5%	52.4%
Denominated in foreign currency (%)	60.5%	47.6%
Total	**100.0%**	**100.0%**

	2019	2018
Interest rates on securities at fair value through other comprehensive income denominated in HUF	0.16% - 7.5%	0.01% - 7.5%
Interest rates on securities at fair value through other comprehensive income denominated in foreign currency	0.25% - 17.25%	0.3% - 20.4%

NOTE 7: SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (in HUF mn) [continued]

	2019	2018
Average interest rates securities at fair value through other comprehensive income denominated in HUF	1.96%	1.69%
Average interest rates on securities at fair value through other comprehensive income denominated in foreign currency	2.24%	2.29%

Interest conditions and the remaining maturities of securities at fair value through other comprehensive income can be analysed as follows:

	2019	2018
Within one year		
With variable interest	7,799	13,732
With fixed interest	878,644	656,026
	886,443	**669,758**
Over one year		
With variable interest	60,974	101,829
With fixed interest	1,439,215	1,081,599
	1,500,189	**1,183,428**
Non-interest bearing securities	40,147	30,663
Total	**2,426,779**	**1,883,849**

Certain securities are hedged against interest rate risk. See Note 33.4.

During year 2019 the Group sold HUF 3,126 million equity instruments designated at fair value through other comprehensive income while in 2018 no equity instruments were sold.

NOTE 8: LOANS AT AMORTIZED COST AND AT FAIR VALUE (in HUF mn)

Loans at amortized cost

	2019	2018
Short-term loans and promissory notes (within one year)	3,196,480	2,517,071
Long-term loans and promissory notes (over one year)	8,373,834	5,681,357
Finance lease receivables	982,853	519,004
	12,553,167	**8,717,432**
Loss allowance on loans	(693,317)	(676,359)
Loss allowance on finance lease receivables	(13,590)	(9,005)
Loans at amortized cost	**11,846,260**	**8,032,068**

NOTE 8: LOANS AT AMORTIZED COST AND AT FAIR VALUE (in HUF mn) [continued]

An analysis of the gross loan portfolio by currency (%):

	2019	2018
In HUF	28%	34%
In foreign currency	72%	66%
Total	**100%**	**100%**

Interest rates of the loan portfolio are as follows:

	2019	2018
Short-term loans denominated in HUF	0.0% - 34%[1]	0.0% - 37.45%
Long-term loans denominated in HUF	0.0% - 34%[1]	0.01% - 38.98%
Short-term loans denominated in foreign currency	(0.45)% - 90.0%[2]	(0.64)% - 90.0%
Long-term loans denominated in foreign currency	(0.45)% - 90.0%[2]	(0.64)% - 90.0%

	2019	2018
Average interest rates on loans denominated in HUF	6.13%	6.87%
Average interest rates on loans denominated in foreign currency	5.76%	7.05%

An analysis of the change in the loss allowance on loans is as follows:

	2019	2018
Balance as at 1 January	**676,359**	**738,795**
Effect of transition due to IFRS 9 application	-	47,626
Loss allowance on finance lease[3]	-	(9,005)
Loss allowance for the period	480,962	460,340
Release of loss allowance	(277,779)	(271,375)
Use of loss allowance	(94,458)	(126,747)
Partial write-off[4]	(112,198)	(169,904)
Decrease due to IFRS 5	(27,616)	-
Reclassification	-	26
Foreign currency translation difference	48,047	6,603
Closing balance	**693,317**	**676,359**

Movement in loss allowance on loans and placements is summarized as below:

	2019	2018
(Release of loss allowance) / Loss allowance on placements and gains from write-off and sale of placements	(235)	144
Loss allowance on loans and gains from write-off and sale of loans	44,027	22,472
Total[5]	**43,792**	**22,616**

[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.
3 See details in Note 32.
[4] See details in Note 2.11.
[5] See details in Note 28.

NOTE 8: LOANS AT AMORTIZED COST AND AT FAIR VALUE (in HUF mn) [continued]

Loans mandatorily at fair value through profit or loss

	2019	2018
Short-term loans at fair value through profit or loss with market risk value adjustment	2,663	3,487
Long-term loans at fair value through profit or loss with market risk value adjustment	31,866	32,854
Accumulated negative changes in fair value	(1,727)	(1,816)
Loans measured at fair value through profit or loss	**32,802**	**34,525**

An analysis of the loan portfolio mandatorily at fair value through profit or loss by currency (%):

	2019	2018
In HUF	91%	95%
In foreign currency	9%	5%
Total	**100%**	**100%**

Interest rates of the loan portfolio mandatorily at fair value through profit or loss are as follows:

	2019	2018
Short-term loans denominated in HUF	1.5% - 10.08%	1.19% - 10.08%
Long-term loans denominated in HUF	1.5% - 10.08%	1.19% - 10.08%
Short-term loans denominated in foreign currency	8.3%	8.3%
Long-term loans denominated in foreign currency	2.5% - 4.5%	3.25% - 3.5%

NOTE 9: A SSOCIATES AND OTHER INVESTMENTS (in HUF mn)

	2019	2018
Investments		
Investments in associates (non-listed)	14,254	11,904
Other investments (non-listed) at cost	15,384	11,279
	29,638	**23,183**
Impairment on investments	(8,816)	(5,592)
Total	**20,822**	**17,591**

NOTE 9: A SSOCIATES AND OTHER INVESTMENTS (in HUF mn) [continued]

An analysis of the change in the impairment on investments is as follows:

	2019	2018
Balance as at 1 January	**5,592**	**4,404**
Impairment for the period	3,342	1,232
Reclassification to securities at fair value through other comprehensive income	(80)	(41)
Foreign currency translation difference	(38)	(3)
Closing balance	**8,816**	**5,592**

NOTE 10: SECURITIES AT AMORTIZED COST (in HUF mn)

	2019	2018
Government bonds	1,933,837	1,733,391
Corporate bonds	22,719	10,068
Mortgage bonds	7,739	-
Discounted Treasury bills	6,516	-
	1,970,811	**1,743,459**
Loss allowance on securities at amortized cost	(2,739)	(2,939)
Total	**1,968,072**	**1,740,520**

Interest conditions and the remaining maturities of securities at amortized cost can be analysed as follows:

	2019	2018
Within one year		
With variable interest	-	-
With fixed interest	261,358	177,203
	261,358	**177,203**
Over one year		
With variable interest		-
With fixed interest	1,709,453	1,566,256
	1,709,453	**1,566,256**
Total	**1,970,811**	**1,743,459**

NOTE 10: SECURITIES AT AMORTIZED COST (in HUF mn) [continued]

An analysis of securities at amortized cost by currency (%):

	2019	2018
Denominated in HUF (%)	86.5%	93.1%
Denominated in foreign currency (%)	13.5%	6.9%
Total	**100.0%**	**100.0%**

	2019	2018
Interest rates of securities at amortized cost with variable interest	-	-
Interest rates of securities at amortized cost with fixed interest	0.5% - 13.5%	0.5% - 18.0%

	2019	2018
Average interest rates on securities at amortized cost	3.36%	3.98%

An analysis of the change in the loss allowance on securities at amortized cost is as follows:

	2019	2018
Balance as at 1 January	**2,939**	**716**
Effect of transition due to IFRS 9 application	-	2,014
Loss allowance for the period	593	995
Release of loss allowance	(755)	(783)
Use of loss allowance	(52)	(46)
Foreign currency translation difference	14	43
Closing balance	**2,739**	**2,939**

NOTE 11: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn)

For the year ended 31 December 2019

Cost	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Tangible assets subject to operating lease[1]	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)**
Disposal due to IFRS 5	(12,692)	(9,188)	(7,646)	(91)	-	**(29,617)**
Change in consolidation scope	783	26	267	4	-	**1,080**
Balance as at 31 December	**432,436**	**279,538**	**215,448**	**22,717**	**31,799**	**981,938**

Depreciation and Amortization	Intangible assets and goodwill	Property	Office equipment and vehicles	Construction in progress	Tangible assets subject to operating lease[1]	Total
Balance as at 1 January	**156,558**	**68,251**	**135,536**	**-**	**14,467**	**374,812**
Charge for the period (without goodwill impairment)	34,548	7,802	20,418	-	5,397	**68,165**
Goodwill impairment	4,887	-	-	-	-	**4,887**
Foreign currency translation differences	831	2,932	4,275	-	110	**8,148**
Disposals	-	(3,016)	(9,052)	-	(9,085)	**(21,153)**
Disposal due to IFRS 5	(7,581)	(4,885)	(6,021)	-	-	**(18,487)**
Change in consolidation scope	171	1	165	-	-	**337**
Impairment	**803**	**-**	**1,337**	**-**	**440**	**2,580**
Balance as at 31 December	**190,217**	**71,085**	**146,658**	**-**	**11,329**	**419,289**
Carrying value						
Balance as at 1 January	**166,711**	**171,388**	**59,504**	**22,881**	**23,378**	**443,862**
Balance as at 31 December	**242,219**	**208,453**	**68,790**	**22,717**	**20,470**	**562,649**

[1] Assets subject to operating lease in 2018 are recognized under IAS17 and are presented in the Consolidated Statement of Financial Position within other assets (see details in Note 14.). However assets subject to operating lease in 2019 under IFRS16 are presented based on the nature of the underlying asset, so they were transferred to tangible assets.

NOTE 11: 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**
Amortization	(2,396)	(181,434)	**(183,830)**
Carrying value	**2,904**	**134,016**	**136,920**

An analysis of the changes in the goodwill for year ended 31 December 2019 is as follows:

	Goodwill
Gross balance as at 1 January	**97,728**
Additions	6,776
Foreign currency translation difference	7,298
Disposals	(115)
Balance as at 31 December	**111,687**

	Goodwill
Impairment as at 1 January	**5,962**
Additions	4,887
Foreign currency translation difference	(4,461)
Disposals	-
Balance as at 31 December	**6,388**

Carrying value	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**

NOTE 11: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn) [continued]

For the year ended 31 December 2019 [continued]

The Bank decided that the recoverable amount is determined based on fair value less cost of disposal. When the Bank prepares goodwill impairment tests of the subsidiaries, two methods are used based on discounted cash-flow calculation that shows the same result; however they represent different economical logics. On one hand is the free cash-flow method (FCF) that calculates the value of the subsidiaries by discounting their expected cash-flow; on the other hand the economic value added (EVA) method estimates the value of the subsidiaries from the initial invested capital and the present value of the economic profit that the companies are expected to generate in the future.

On the basis of the internal regulation of the Bank as at 31 December 2019 impairment test was prepared where a three-year cash-flow model was applied with an explicit period between 2020-2022. The basis for the estimation was the financial actual figures for November 2019, while for the three-year explicit period the Bank applied the prognosis for year 2019 and on the basis of this the prepared medium-term (2020-2022) forecasts. When the Bank prepared the calculations for the period 2020-2022, it considered the actual worldwide economic situations, the expected economic growth for the following years, their possible effects on the financial sector, the plans for growing which result from these, and the expected changes of the mentioned factors.

Present value calculation with the FCF method

The Bank calculated the expected cash-flow for the given period based on the expected after tax profit of the companies. For calculating the discount factor as risk free rates in case of OTP Bank JSC (Ukraine) the local interbank interest rate in foreign currency with a period of one year was applied, while in case of the other subsidiaries the ten-year local government bonds in foreign currency or swap yields were considered as presented in the actual macro forecasts. The Bank calculated risk premiums on the basis of information from the country risk premiums that are published on damodaran.com, which were modified with CDS spread in case of Crnogorska komercijalna banka a.d., since according to the Bank's assumption the risk free interest rate includes the country-dependent risks in an implicit way.

The growth rate in the explicit period is the growth rate of the profit after tax adjusted by the interest rate of the cash and subordinated loans. The supposed growth rates for the periods of residual values reflect the long-term economic expectations in case of every country.

The values of the subsidiaries in the FCF method were then calculated as the sum of the discounted cash-flows of the explicit period, the present value of the terminal values and the initial free capital assuming an effective capital structure.

Present value calculation with the EVA method

A company creates positive economic profit/value if the profitability of the invested capital is higher than the normal profit – the profit that can be usually generated in the banking sector –, which means that the company's profitability exceeds the expected yield. The economic profit of the subsidiaries was calculated by deducting the cost of invested capital from the net profit for the year. The applied discount factor and the indicators used for calculating the residual value (long term cost of capital and growth rate) are the same that are used in the FCF method.

Summary of the impairment test for the year ended 31 December 2019

Based on the valuations of the subsidiaries as at 31 December 2019 HUF 4,887 million goodwill impairment for OTP Bank Romania S.A. was needed to book by the Group.

NOTE 11: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn) [continued]

For the year ended 31 December 2018

Cost	**Intangible assets and goodwill**	**Property**	**Office equipment and vehicles**	**Construction in progress**	**Total**
Balance as at 1 January	**302,057**	**226,513**	**174,585**	**20,033**	**723,188**
Additions	42,443	30,452	33,878	46,009	**152,782**
Foreign currency translation differences	(3,210)	3,403	1,200	321	**1,714**
Disposals	(18,030)	(20,733)	(14,660)	(43,483)	**(96,906)**
Change in consolidation scope	9	4	37	1	**51**
Balance as at 31 December	**323,269**	**239,639**	**195,040**	**22,881**	**780,829**

Depreciation and Amortization	**Intangible assets and goodwill**	**Property**	**Office equipment and vehicles**	**Construction in progress**	**Total**
Balance as at 1 January	**125,988**	**58,146**	**125,664**	**-**	**309,798**
Charge for the year (without goodwill impairment)	27,245	7,080	17,150	-	**51,475**
Goodwill impairment	5,962	-	-	-	**5,962**
Foreign currency translation differences	732	5,229	854	-	**6,815**
Disposals	(5,577)	(2,233)	(8,187)	-	**(15,997)**
Change in consolidation scope	8	1	22	-	**31**
Impairment	**2,200**	**28**	**33**	**-**	**2,261**
Balance as at 31 December	**156,558**	**68,251**	**135,536**	**-**	**360,345**
Carrying value					
Balance as at 1 January	**176,069**	**168,367**	**48,921**	**20,033**	**413,390**
Balance as at 31 December	**166,711**	**171,388**	**59,504**	**22,881**	**420,484**

NOTE 11: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn) [continued]

For the year ended 31 December 2018 [continued]

An analysis of the intangible assets for the year ended 31 December 2018 is as follows:

Intangible assets	**Self-developed**	**Other**	**Total**
Gross values	5,924	219,617	**225,541**
Amortization	(1,975)	(148,621)	**(150,596)**
Carrying value	**3,949**	**70,996**	**74,945**

An analysis of the changes in the goodwill for the year ended 31 December 2018 is as follows:

	Goodwill
Gross balance as at 1 January	**101,489**
Additions	-
Foreign currency translation difference	(3,761)
Disposals	-
Balance as at 31 December	**97,728**

	Goodwill
Impairment as at 1 January	**513**
Additions	5,962
Foreign currency translation difference	-
Disposals	(513)
Balance as at 31 December	**5,962**

Carrying value	**Goodwill**
Balance as at 1 January	**100,976**
Balance as at 31 December	**91,766**

Carrying value of the goodwill allocated to the appropriate cash generation units

List of units	**HUF mn**
JSC "OTP Bank" (Russia)	38,048
DSK Bank EAD	28,541
OTP banka Hrvatska d.d.	18,664
OTP Bank Romania S.A.	6,388
Other[1]	125
Total	**91,766**

Summary of the impairment test for the year ended 31 December 2018

Based on the valuations of the subsidiaries as at 31 December 2018 HUF 229 million goodwill impairment for OTP Real Estate Lease Ltd. and HUF 5,733 million for Monicomp Ltd was needed to book on Group level.

[1] Other category includes: Nimo 2002 Ltd., POK DSK-Rodina a.d.

NOTE 12: INVESTMENT PROPERTIES (in HUF mn)

An analysis of the change in gross values of investment properties is as follows:

Gross values	2019	2018
Balance as at 1 January	**49,256**	**50,887**
Increase due to transfer from inventories or owner-occupied properties	3,752	11,249
Increase from purchase	2,516	553
Increase due to transfer from held-for-sale properties	366	649
Increase from acquisition	299	-
Other additions	12	1,522
Disposal due to transfer to inventories or owner-occupied properties	(778)	(4,140)
Disposal due to transfer to held-for-sale properties	(999)	(440)
Disposal due to sale	(1,278)	(12,477)
Other disposal	(7)	(1)
Foreign currency translation difference	767	1,454
Closing balance	**53,906**	**49,256**

The applied depreciation and amortization rates were the following:

	2019	2018
Depreciation and amortization rates	1% - 22.2%	1% - 50.0%

An analysis of the movement in the depreciation and amortization on investment properties is as follows:

Depreciation and amortization	2019	2018
Balance as at 1 January	**7,139**	**7,422**
Additions due to transfer from inventories or owner-occupied properties	1,482	-
Charge for the period	926	761
Additions due to transfer from held-for-sale properties	2	-
Disposal due to sale	(655)	(422)
Disposal due to transfer to inventories or owner-occupied properties	(710)	(801)
Other disposal for the period	-	(52)
Foreign currency translation difference	168	231
Closing balance	**8,352**	**7,139**

An analysis of the movement in the impairment on investment properties is as follows:

Impairment	2019	2018
Balance as at 1 January	**4,002**	**8,080**
Impairment for the period	255	451
Release of impairment for the period	(378)	(207)
Use of impairment	(27)	(4,593)
Foreign currency translation difference	142	271
Closing balance	**3,994**	**4,002**

NOTE 12: INVESTMENT PROPERTIES (in HUF mn) [continued]

Carrying values	2019	2018
Balance as at 1 January	38,115	35,385
Balance as at 31 December	41,560	38,115
Fair values	45,768	44,616

Income and expenses	2019	2018
Rental income	2,061	2,945
Direct operating expenses of investment properties – income generating	687	75
Direct operating expenses of investment properties – non income generating	8	9

NOTE 13: POSITIVE FAIR VALUE OF DERIVATIVE FINANCIAL ASSETS DESIGNATED AS HEDGE ACCOUNTING

Positive fair value of derivative financial assets designated as fair value and as cash-flow hedge

	2019	2018
Interest rate swaps designated as fair value hedge	3,758	5,610
CCIRS and mark-to-market CCIRS designated as fair value hedge	3,705	4,003
Interest rate swaps designated as cash flow hedge	-	3,751
MIRS[1] designated as cash-flow hedge	-	1,837
Total	**7,463**	**15,201**

NOTE 14: OTHER ASSETS[2] (in HUF mn)

	2019	2018
Inventories	58,420	59,146
Prepayments and accrued income	42,671	34,245
Receivables from card operations	28,749	49,265
Other advances	18,294	10,197
Receivables, subsidies from the State, Government	17,910	4,456
Trade receivables	17,861	11,821
Receivables due from pension funds and investment funds	15,668	989
Current income tax receivable	12,769	14,258
Settlement and suspense accounts	6,282	4,953
Stock exchange deals	6,058	12,092
Receivables from investment services	3,896	6,985
Subtotal	**228,578**	**208,407**

[1] Monetary policy interest rate swaps.
[2] 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 14: OTHER ASSETS (in HUF mn) [continued]

	2019	2018
Giro clearing accounts	2,817	4,652
Receivables from leasing activities	1,768	1,609
Advances for securities and investments	746	679
Receivable from the National Asset Management	62	1,487
Tangible assets subject to operating lease[1]	-	23,378
Other assets	19,866	25,323
Loss allowance on other assets	(26,488)	(27,603)
Total other assets	**227,349**	**237,932**
Fair value of derivative financial assets designated as hedge accounting relationship[2]	7,463	15,201
Deferred tax assets[3]	26,543	20,769
Subtotal	**34,006**	**35,970**
Total	**261,355**	**273,902**

An analysis of the movement in the loss allowance on other assets is as follows:

	2019	2018
Balance as at 1 January	**27,603**	**28,595**
Effect of transition due to IFRS 9 application		(218)
Loss allowance / (Release of loss allowance) for the period	5,277	(47)
Use of loss allowance	(6,345)	(1,107)
Transfer due to IFRS 5	(420)	-
Transfer of tangible assets subject to operating lease[1]	(585)	-
Reclassification	-	79
Foreign currency translation difference	958	301
Closing balance	**26,488**	**27,603**

[1] Assets subject to operating lease in 2018 are recognized under IAS17 and are presented in the Consolidated Statement of Financial Position within other assets. However assets subject to operating lease in 2019 under IFRS16 are presented based on the nature of the underlying asset, so they were transferred to tangible assets (see details in Note 11.)

[2] See Note 13.
[3] See Note 31.

NOTE 15: AMOUNTS DUE TO BANKS, THE NATIONAL GOVERNMENTS, DEPOSITS FROM THE NATIONAL BANKS AND OTHER BANKS (in HUF mn)

	2019	2018
Within one year		
In HUF	275,359	51,090
In foreign currency	166,813	128,467
	442,172	**179,557**
Over one year		
In HUF	151,415	124,512
In foreign currency	219,812	56,406
	371,227	**180,918**
	813,399	**360,475**

Interest rates on amounts due to banks, the National Governments, deposits from the National Banks and other banks are as follows:

	2019	2018
Within one year		
In HUF	(0.85)% - 0.9%	(15.0)% - 2.67%
In foreign currency	(0.89)% - 21.5%[1]	(0.8)% - 21.5%
Over one year		
In HUF	0.0% - 3.84%	0.0% - 2.67%
In foreign currency	(0.45)% - 17.6%[1]	0.0% - 21.5%

	2019	2018
Average interest rates on amounts due to banks, the National Governments, deposits from the National Banks and other banks denominated in HUF	1.14%	2.21%
Average interest rates on amounts due to banks, the National Governments, deposits from the National Banks and other banks denominated in foreign currency	2.05%	1.71%

NOTE 16: FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn)

	2019	2018
Financial liabilities at fair value through profit or loss		
Within one year in HUF	2,679	3,422
Over one year in HUF	28,183	28,809
	30,862	**32,231**

[1] The highest interest rate for within and over one year due to banks relate to loans taken from EBRD in Ukraine.

NOTE 16: FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn) [continued]

A reconciliation of the carrying amount of financial liabilities designated as fair value through profit or loss is as follows:

	2019	2018
Contractual amount	29,590	30,911
Fair value adjustment due to market risk	1,272	1,320
Carrying amount	**30,862**	**32,231**

NOTE 17: DEPOSITS FROM CUSTOMERS (in HUF mn)

	2019	2018
Within one year		
In HUF	5,454,729	4,893,454
In foreign currency	8,977,145	6,100,941
	14,431,874	**10,994,395**
Over one year		
In HUF	302,049	251,723
In foreign currency	437,385	38,967
	739,434	**290,690**
Total	**15,171,308**	**11,285,085**

Interest rates on deposits from customers are as follows:

	2019	2018
Within one year		
In HUF	(3.13)% - 7.96%	(5.11)% - 9.69%
In foreign currency	(0.6)% - 9.7%	(0.42)% - 23.0%
Over one year		
In HUF	(5.09)% - 7.96%	0.0% - 9.96%
In foreign currency	0.0% - 15.0[1]%	0.0% - 17.57%

	2019	2018
Average interest rates on deposits from customers denominated in HUF	0.08%	0.11%
Average interest rates on deposits from customers denominated in foreign currency	0.69%	0.75%

[1] The highest interest rate regarding over one year foreign currency deposits relate to individually agreed deposits in Ukraine.

NOTE 17: DEPOSITS FROM CUSTOMERS (in HUF mn) [continued]

An analysis of deposits from customers by type, without accrued interest liability, is as follows:

	2019		2018	
Retail deposits	9,195,778	61%	6,840,516	61%
Corporate deposits	5,171,579	34%	3,863,176	34%
Municipality deposits	803,951	5%	581,393	5%
Total	**15,171,308**	**100%**	**11,285,085**	**100%**

NOTE 18: LIABILITIES FROM ISSUED SECURITIES (in HUF mn)

	2019	2018
With original maturity		
Within one year		
In HUF	26,139	49,931
In foreign currency	3,816	5,091
	29,955	**55,022**
Over one year		
In HUF	363,159	362,856
In foreign currency	53	88
	363,212	**362,944**
Total	**393,167**	**417,966**

Interest rates on liabilities from issued securities are as follows:

	2019	2018
Issued securities denominated in HUF	0.0% - 9.0%	0.2% - 9.48%
Issued securities denominated in foreign currency	0.74% - 6.70%	0.6% - 7.0%

	2019	2018
Average interest rates on issued securities denominated in HUF	1.80%	2.33%
Average interest rates on issued securities denominated in foreign currency	0.06%	1.66%

NOTE 18: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

Issued securities denominated in HUF as at 31 December 2019 (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	OTP 2020/Ax	25/03/2010	30/03/2020	238	326	indexed	NaN	hedged
2	OTP 2020/Bx	28/06/2010	09/07/2020	267	285	indexed	NaN	hedged
3	OTP 2020/Cx	11/11/2010	05/11/2020	166	221	indexed	NaN	hedged
4	OTP 2020/Dx	16/12/2010	18/12/2020	177	193	indexed	NaN	hedged
5	OTP 2020/Ex	18/06/2014	22/06/2020	2,939	2,903	indexed	0.70	hedged
6	OTP 2020/Fx	10/10/2014	16/10/2020	2,650	2,551	indexed	0.20	hedged
7	OTP 2020/Gx	15/12/2014	21/12/2020	2,372	2,273	indexed	0.30	hedged
8	OTP 2021/Ax	01/04/2011	01/04/2021	192	253	indexed	NaN	hedged
9	OTP 2021/Bx	17/06/2011	21/06/2021	255	424	indexed	NaN	hedged
10	OTP 2021/Cx	19/09/2011	24/09/2021	231	198	indexed	NaN	hedged
11	OTP 2021/Dx	21/12/2011	27/12/2021	274	305	indexed	NaN	hedged
12	OTP 2022/Ax	22/03/2012	23/03/2022	217	235	indexed	NaN	hedged
13	OTP 2022/Bx	18/07/2012	18/07/2022	183	318	indexed	1.70	hedged
14	OTP 2022/Cx	29/10/2012	28/10/2022	217	278	indexed	1.70	hedged
15	OTP 2022/Dx	28/12/2012	27/12/2022	265	379	indexed	1.70	hedged
16	OTP 2023/Ax	22/03/2013	24/03/2023	340	370	indexed	1.70	hedged
17	OTP 2023/Bx	28/06/2013	26/06/2023	214	268	indexed	0.60	hedged
18	OTP 2024/Ax	18/06/2014	21/06/2024	241	253	indexed	1.30	hedged
19	OTP 2024/Bx	10/10/2014	16/10/2024	311	302	indexed	0.70	hedged
20	OTP 2024/Cx	15/12/2014	20/12/2024	259	249	indexed	0.60	hedged
21	OTP 2020/RF/A	12/07/2010	20/07/2020	2,152	2,252	indexed	NaN	hedged
22	OTP 2020/RF/B	12/07/2010	20/07/2020	1,276	1,429	indexed	NaN	hedged
23	OTP 2020/RF/C	11/11/2010	05/11/2020	2,622	2,662	indexed	NaN	hedged
24	OTP 2021/RF/A	05/07/2011	13/07/2021	2,402	2,804	indexed	NaN	hedged
25	OTP 2021/RF/B	20/10/2011	25/10/2021	2,655	2,858	indexed	NaN	hedged
26	OTP 2021/RF/C	21/12/2011	30/12/2021	505	558	indexed	NaN	hedged
27	OTP 2021/RF/D	21/12/2011	30/12/2021	357	385	indexed	NaN	hedged
28	OTP 2021/RF/E	21/12/2011	30/12/2021	67	68	indexed	NaN	hedged
29	OTP 2022/RF/A	22/03/2012	23/03/2022	1,869	1,797	indexed	1.70	hedged
30	OTP 2022/RF/B	22/03/2012	23/03/2022	728	698	indexed	1.70	hedged
31	OTP 2022/RF/C	28/06/2012	28/06/2022	171	205	indexed	1.70	hedged
32	OTP 2022/RF/D	28/06/2012	28/06/2022	249	278	indexed	1.70	hedged
33	OTP 2022/RF/E	29/10/2012	31/10/2022	661	645	indexed	1.70	hedged
34	OTP 2022/RF/F	28/12/2012	28/12/2022	538	532	indexed	1.70	hedged
35	OTP 2023/RF/A	22/03/2013	24/03/2023	760	746	indexed	1.70	hedged
36	OJB 2020/I	19/11/2004	12/11/2020	5,503	5,599	9.0	fixed	
37	OJB 2020/II	31/05/2011	12/11/2020	1,487	1,502	9.0	fixed	
38	OJB 2021/I	15/02/2017	27/10/2021	114,000	112,979	2.0	fixed	
39	OJB 2023/I	05/04/2018	24/11/2023	43,600	44,137	1.75	fixed	
40	OJB 2024/A	17/09/2018	20/05/2024	48,475	48,130	0.72	floating	
41	OJB 2024/B	18/09/2018	24/05/2024	55,829	55,461	0.72	floating	
42	OJB 2024/II	10/10/2018	24/10/2024	92,000	90,771	2.50	fix	
43	Other			218	218			
	Total issued securities in HUF			**390,132**	**389,298**			

NOTE 18: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

Issued securities denominated in foreign currency as at 31 December 2019 (in HUF mn)

	Name	Date of issue	Maturity	Type of FX	Nominal value (FX mn)	Nominal value (HUF mn)	Amortized cost (FX mn)	Amortized cost (HUF mn)	Interest conditions (actual interest rate in % p.a.)	
1	OTP_VK_USD_1_2020/I	21/02/2019	21/02/2020	USD	1.53	450	1.54	452	1.48	floating
2	OTP_VK_USD_1_2020/II	04/04/2019	04/04/2020	USD	2.47	727	2.48	731	1.42	floating
3	OTP_VK_USD_1_2020/III	16/05/2019	16/05/2020	USD	0.89	263	0.89	263	1.32	floating
4	OTP_VK_USD_1_2020/IV	27/06/2019	27/06/2020	USD	1.87	552	1.87	552	1.32	floating
5	OTP_VK_USD_1_2020/V	15/08/2019	15/08/2020	USD	2.00	589	2.01	591	1.20	floating
6	OTP_VK_USD_1_2020/VI	26/09/2019	26/09/2020	USD	0.75	220	0.75	221	1.20	floating
7	OTP_VK_USD_1_2020/VII	07/11/2019	07/11/2020	USD	1.68	494	1.68	495	1.10	floating
8	OTP_VK_USD_1_2020/VIII	19/12/2019	19/12/2020	USD	1.52	448	1.52	448	1.10	floating
9	Other[1]				22	103	24	116		
	Total issued securities in FX				**34.71**	**3,846**	**36.74**	**3,869**		
	Total issued securities							**393,167**		

Hedge accounting

Certain structured bonds are hedged by interest rate swaps ("IRS") which may transfer to a transferee a fixed rate and enter into an interest rate swap with the transferee to receive a fixed interest rate and pay a variable interest rate and additional amount of the structure considered. The amount of the structure is calculated based on a notional amount which is equal to the notional amount of the hedged bond. In certain cases the amount of the structure is hedged by options which give the owner the right to get amount of the structure which is equal to the structure of the hedged bond.
This hedging relationship meets all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument
- the effect of credit risk does not dominate the value changes that result from that economic relationship
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Bank actually hedges and the quantity of the hedging instrument that the Bank actually uses to hedge that quantity of hedged item

The cash-flows of the fixed rate securities issued by the Bank are exposed to the changes in the HUF/EUR foreign exchange rate and the risk of change in the quoted interest rates of EUR and HUF. The interest rate risk and foreign exchange risk related to these securities are hedged with EUR and HUF IRS transactions, where the fixed interests were swapped to payments linked to 3 month HUF BUBOR and EURIBOR, resulting in a decrease in the interest rate and foreign exchange exposure of issued securities.

Term Note Program in the value of HUF 200 billion for the year of 2019/2020

On 23 April 2019 the Bank initiated term note program in the value of HUF 200 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 25 June 2019 the prospectus of Term Note Program and the disclosure as at 28 June 2019. The prospectus is valid for 12 months following the disclosure.
The Issuer can initiate to introduce the bonds issued under the program to the Hungarian, Slovakian, Romanian, Bulgarian and Croatian Stock Exchange without any obligations.

Term Note Program in the value of HUF 200 billion for the year of 2018/2019

On 19 July 2018 the Bank initiated term note program in the value of HUF 200 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 13 August 2018 the prospectus of Term Note Program and the disclosure as at 16 August 2018. The prospectus is valid for 12 months following the disclosure.
The Issuer can initiate to introduce the bonds issued under the program to the Hungarian, Slovakian, Romanian, Bulgarian and Croatian Stock Exchange without any obligations.

[1] Other category includes promissory notes issued by JSC "OTP Bank" (Russia) in the amount of HUF 116 million.

NOTE 19: DERIVATIVE FINANCIAL LIABILITIES HELD-FOR-TRADING (in HUF mn)

Negative fair value of derivative financial liabilities held for trading by type of contracts

	2019	2018
Held-for-trading interest rate swaps	46,717	27,956
Held-for-trading foreign exchange swaps	28,453	27,120
Held-for-trading foreign exchange forward contracts	5,561	2,982
Held-for-trading option contracts	3,128	3,631
Held-for-trading CCIRS and mark-to-market CCIRS	1,037	9,165
Held-for-trading forward rate agreements (FRA)	32	57
Held-for-trading forward security agreements	8	9
Held-for-trading other transactions	1,807	2,396
Total	**86,743**	**73,316**

NOTE 20: NEGATIVE FAIR VALUE OF DERIVATIVE FINANCIAL LIABILITIES DESIGNATED AS HEDGE ACCOUNTING (in HUF mn)

The negative fair value of derivative financial liabilities designated as fair value and as cash-flow hedge by type of contracts

	2019	2018
Interest rate swaps designated as fair value hedge	8,839	6,458
CCIRS and mark-to-market CCIRS designated as fair value hedge	1,870	352
Interest rate swaps designated as cash-flow hedge	-	523
MIRS designated as cash-flow hedge	-	74
Total	**10,709**	**7,407**

NOTE 21: OTHER LIABILITIES[1] (in HUF mn)

	2019	2018
Provision on off-balance sheet commitments and contingent liabilities	102,449	83,014
Liabilities from investment services	101,417	67,976
Liabilities connected to Cafeteria benefits	80,003	37,187
Accrued expenses	58,425	40,120
Accounts payable	50,974	35,562
Current income tax payable	35,928	21,402
Clearing, settlement and suspense accounts	35,393	38,797
Salaries and social security payable	24,937	25,741
Liabilities from card transactions	20,563	46,430
Advances received from customers	15,555	12,246
Insurance technical reserve	10,396	4,312
Liabilities due to refunding assets	9,133	9,417
Subtotal	**545,173**	**422,204**

[1] Other liabilities – except deferred tax liabilities and fair value of derivative financial liabilities designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Unrealised gains/losses on derivative financial instruments is recovering in accordance with their maturity. Besides the total other liabilities mentioned above, which are expected to be recovered or settled more than twelve months after the reporting period are the following: accrued contractual liabilities, compulsory pension reserve, loans from government and liabilities from preferential dividend shares.

NOTE 21: OTHER LIABILITIES (in HUF mn) [continued]

	2019	2018
Liabilities due to short positions	7,040	13,784
Liabilities related to housing loans	6,055	8,037
Giro clearing accounts	3,935	6,888
Provision due to CHF loans conversion at foreign subsidiaries	1,985	2,415
Loans from government	1,291	878
Dividend payable	108	48
Liabilities connected to loans for collection	-	806
Other	62,881	43,747
Total other liabilities	**628,468**	**498,807**
Fair value of derivative financial liabilities designated as hedge accounting[1]	10,709	7,407
Deferred tax liabilities[2]	29,195	6,865
Subtotal	**39,904**	**14,272**
Total	**668,372**	**513,079**

The provision on off-balance sheet commitments and contingent liabilities are detailed as follows:

	2019	2018
Commitments and guarantees given	48,662	28,144
Pending legal issues and tax litigation	28,650	25,930
Pensions and other post employment defined benefit obligations	11,253	12,236
Restructuring	2,626	799
Other long-term employee benefits	2,343	1,690
Provision due to CHF loans conversion at foreign subsidiaries	1,985	2,415
Other provision	8,915	14,215
Total	**104,434**	**85,429**

The movements of provision for impairment on off-balance sheet commitments and contingent liabilities can be summarized as follows:

	2019	2018
Balance as at 1 January	**85,429**	**81,857**
Effect of transition due to IFRS 9 application	-	4,989
Provision for the period	62,115	49,032
Release of provision for the period	(50,462)	(50,873)
Use of provision	(4,266)	(1,457)
Change due to acquisition	9,698	-
Transfer due to IFRS 5	(1,355)	-
Foreign currency translation differences	3,275	1,881
Closing balance	**104,434**	**85,429**

[1] See Note 20.
[2] See Note 31.

NOTE 22: SUBORDINATED BONDS AND LOANS (in HUF mn)

	2019	2018
Within one year:		
In foreign currency	2,700	458
Over one year:		
In foreign currency	247,238	80,971
Total	**249,938**	**81,429**

Types of subordinated bonds and loans	**2019**	**2018**
Debt securities issued	244,924	76,627
Deposits	5,014	4,802
Total	**249,938**	**81,429**

Interest rates on subordinated bonds and loans are as follows:

	2019	2018
Denominated in foreign currency	2.60% - 5.00%	2.68% - 5.00%

	2019	2018
Average interest rates on subordinated bonds and loans	2.82%	2.76%

Subordinated bonds and loans can be detailed as follows:

Type	Nominal value	Date of issuance	Date of maturity	Issue price	Interest conditions	Interest rate as at 31 December 2019
Subordinated bond	EUR 234.4 million	07/11/2006	Perpetual	99.375%	Three-month EURIBOR + 3%, variable after year 10 (payable quarterly)	2.600%
Subordinated bond	EUR 500 million	15/07/2019	15/07/2029	99.738%	Fixed 2.875% annual in the first 5 years and callable after 5 years, variable after year 5 (payable annually) calculated as a sum of the initial margin (320 basis point) and the 5 year mid-swap rate prevailing at the end of the 5 year.	2.875%
Subordinated loan	USD 17.0 million	05/06/2018	05/06/2025	100.00%	Bullet repayment, once at the end of the loan agreement	5.00%

NOTE 23: SHARE CAPITAL (in HUF mn)

	2019	2018
Authorized, issued and fully paid:		
Ordinary shares	28,000	28,000

NOTE 24: RETAINED EARNINGS AND RESERVES[1] (in HUF mn)

In 2019 the Bank paid dividends of HUF 61,320 million from the profit of the year 2018, which meant HUF 219 dividend per share payable to the shareholders. In 2020 dividend of HUF 69,440 million are expected to be proposed by the Management from the profit of the year 2019, which means HUF 248 dividend per share payable to the shareholders.

The retained earnings and reserves according to IFRS contains the retained earnings (HUF 632,436 million and HUF 592,917 million) and reserves (HUF 1,686,827 million and HUF 1,271,287 million) as at 31 December 2019 and 2018 respectively. The reserves include mainly the option reserve, other reserves, the fair value adjustment of financial instruments at fair value through other comprehensive income, fair value of hedge transactions, additional reserves of Income Certificates Exchangeable for Shares ("ICES"), changes in equity accumulated in the previous years at the subsidiaries and due to consolidation as well as translation of foreign exchange differences.
In the Consolidated Financial Statements the Group recognizes the non-monetary items at historical cost. The difference between the historical cost of the non-monetary items in forint amount and the translated foreign currencies into the presentation currency using the exchange rate at the balance sheet date, is presented in the shareholders' equity as a translation difference. The accumulated amounts of exchange differences were HUF (72,404) million and HUF (151,439) million as at 31 December 2019 and 2018 respectively.

Share capital

Share capital is the portion of a the Bank's equity that has been obtained by the issue of shares in the corporation to a shareholder, usually for cash.

Share-based payment reserve

Share-based payment reserve represents the increase in the equity due to the goods or services were received by the Bank in an equity-settled share-based payment transaction, valued at the fair value of the goods or services received.

Retained earnings

Profit of previous years generated by the Group that are not distributed to shareholders as dividends.

Put option reserve

Put option reserve represents the written put option over OTP ordinary shares were accounted as a deduction from equity at the date of OTP-MOL share swap transaction.

Other comprehensive income

Other comprehensive income comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other IFRSs.

[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 24: RETAINED EARNINGS AND RESERVES[1] (in HUF mn) [continued]

	2019	2018
Retained earnings	632,436	592,917
Capital reserve	52	52
Option reserve	(55,468)	(55,468)
Other reserves	87,035	79,829
Fair value of financial instruments measured at fair value through other comprehensive income	68,314	39,670
Share-based payment reserve	39,179	35,632
Fair value of derivative financial instruments designated as cash-flow hedge	2	(9)
Net investment hedge in foreign operations	(18,814)	(16,288)
Extra reserves	89,935	89,935
Net profit for the period	412,241	318,233
Changes in equity accumulated in the previous years at the subsidiaries and due to consolidation	1,136,755	931,140
Foreign currency translation differences	(72,404)	(151,439)
Retained earnings and other reserves	**2,319,263**	**1,864,204**

On 19 October 2006, the Bank sold 14.5 million Treasury shares owned by the Group through an issue of ICES. Within the transaction 10 million shares owned by OTP Bank, and a further 4.5 million shares owned by the Group were sold during the underwriting period of ICES on the weighted average market price (HUF 7,080) of the Budapest Stock Exchange. The shares have been purchased by Opus Securities S.A. ("OPUS"), which issued an exchangeable bond with a total face value of EUR 514,274,000 backed by those shares. The exchangeable bonds have been sold at a 32% premium over the selling price of the shares. The EUR denominated exchangeable bonds are perpetual and the investors can exercise the conversion right between years 6 and 10. The bonds carry a fixed coupon of 3.95% during the first 10 years, and thereafter the Issuer has the right to redeem the bonds at face value. Following year 10, the bonds carry a coupon of 3 month EURIBOR +3%. OTP Bank has a discretional right to cancel the interest payments. The interest payable is non-cumulative.

Due to the conditions described above, ICES was accounted as an equity instrument and therefore any payment was accounted as equity distribution paid to ICES holders.

NOTE 25: TREASURY SHARES (in HUF mn)

	2019	2018
Nominal value (Ordinary shares)	1,778	1,848
Carrying value at acquisition cost	60,931	67,999

The changes in the carrying value of treasury shares are due to repurchase and sale transactions on market authorised by the General Assembly.

Change in number of shares:

	2019	2018
Number of shares as at 1 January	**18,475,833**	**18,274,010**
Additions	906,194	1,358,018
Disposals	(1,602,182)	(1,156,195)
Closing number of shares	**17,779,845**	**18,475,833**

[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 25: TREASURY SHARES (in HUF mn) [continued]

Change in carrying value:

	2019	2018
Balance as at 1 January	**67,999**	**63,289**
Additions	8,887	14,238
Disposals	(15,955)	(9,528)
Closing balance	**60,931**	**67,999**

NOTE 26: NON-CONTROLLING INTEREST (in HUF mn)

	2019	2018
Balance as at 1 January	**2,452**	**3,465**
Increase due to business combination	1,736	-
Non-controlling interest included in net profit for the period	341	89
Changes due to ownership structure	(10)	(11)
Effect of transition due to IFRS 9 application	-	(127)
Purchase of non-controlling interest	-	(752)
Foreign currency translation difference	437	(212)
Closing balance	**4,956**	**2,452**

NOTE 27: INTEREST INCOMES AND EXPENSES (in HUF mn)

	2019	2018
Interest income calculated using the effective interest method from / on		
loans	614,051	509,829
securities at amortized cost	62,468	59,205
securities at fair value through other comprehensive income	46,521	37,912
finance lease receivables	40,914	33,072
placements with other banks	9,777	7,525
banks and balances with the National Banks	2,037	421
liabilities (negative interest expense)	1,532	(320)
non-trading securities mandatorily at fair value through profit or loss	202	6
Subtotal	**777,502**	**647,650**
Income similar to interest income from		
swap deals related to placements with other banks	78,113	64,874
swap deals related to credit institutions	28,710	22,239
rental income	9,819	11,266
Subtotal	**116,642**	**98,379**
Total interest income	**894,144**	**746,029**

NOTE 27: INTEREST INCOMES AND EXPENSES (in HUF mn) [continued]

	2019	2018
Interest expense due to / from / on		
swaps related to banks, National Governments and to deposits from the National Banks	81,261	39,175
deposits from customers	59,242	46,588
swaps related to deposits from customers	24,789	22,304
banks, National Governments and on deposits from the National Banks	10,321	9,067
issued securities	6,749	6,310
depreciation of assets subject to operating lease, and investment properties	6,147	7,308
subordinated and supplementary bonds and loans	4,743	2,169
on assets (negative interest income)	2,036	(326)
leases	1,652	-
other	155	49
Total interest expense	**197,095**	**132,644**

NOTE 28: LOSS ALLOWANCES AND PROVISION (in HUF mn)

	2019	2018
Loss allowance on loans		
Loss allowance for the period	390,182	338,701
Release of loss allowance	(285,570)	(258,408)
Income from loan recoveries	(60,735)	(55,880)
Modification gains on loans measured at amortized cost	150	(1,941)
	44,027	**22,472**
Loss allowance on finance lease	4,440	-
Losses on finance lease	888	-
	49,355	**22,472**
(Release of loss allowance) / Loss allowance on placements		
Allowance for the period	3,561	2,879
Release of allowance	(3,650)	(2,683)
Gains on placements due to write-off and sale	(146)	(52)
	(235)	**144**
Release of loss allowance on securities at fair value through other comprehensive income and on securities at amortized cost		
Allowance for the period	746	175
Release of allowance	(755)	(782)
	(9)	**(607)**
(Release of loss allowance) / Loss allowance of intangible, tangible assets subject to operating lease and of investment properties		
Allowance for the period	2,246	533
Release of allowance	(2,526)	(207)
	(280)	**326**

NOTE 28: LOSS ALLOWANCES AND PROVISION (in HUF mn) [continued]

	2019	2018
Provision for commitments and guarantees given		
Provision for the period	49,832	43,149
Release of provision	(41,837)	(36,668)
	7,995	**6,481**
Loss allowances and provisions	**56,826**	**28,816**

NOTE 29: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn)

Income from fees and commissions	**2019**	**2018**
Fees and commissions related to lending[1]	**25,687**	**22,134**
Deposit and account maintenance fees and commissions	166,483	142,459
Fees and commissions related to the issued bank cards	76,247	59,242
Fees related to cash withdrawal	40,206	34,169
Fees and commissions related to fund management	35,354	20,233
Fees and commissions related to security trading	24,293	19,442
Insurance fee income	14,670	14,946
Other	30,408	20,457
Fees and commissions from contracts with customers	**387,661**	**310,948**
Total	**413,348**	**333,082**

Fee type	**Nature and timing of obligation settlement, and the significant payment terms**	**Revenue recognition under IFRS 15**
Deposit and account maintenance fees and commissions and fees related to cash withdrawal	The Group provides a number of account management services for both retail and corporate customers in which they charge a fee. Fees related to these services can be typically account transaction fees (money transfer fees, direct debit fees, money standing order fees, etc.), internet banking fees, account control fees (e.g. sms fee), or other fees for occasional services (account statement fees, other administration fees, etc.). Fees for ongoing account management services are charged to the customer's account on a monthly basis. The fees are commonly fix amounts that can be vary per account package and customer category. In the case of the transaction based fees where the services include money transfer the fee is charged when the transaction takes place. The rate of the fee is typically determined in a certain % of the transaction amount. In case of other transaction-based fees (e.g. SMS fee), the fee is settled monthly. In case of occasional services the Group basically charges the fees when the services are used by the customer. The fees can be fixed fees or they can be set in %. The rates are reviewed by the Group regularly.	Fees for ongoing account management services are charged on a monthly basis during the period when they are provided. Transaction-based fees are charged when the transaction takes place or charged monthly at the end of the month.

[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 29: 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 commission related to the issued bank cards	The Group provides a variety of bank cards to its customers, for which different fees are charged. The fees are basically charged in connection with the issuance of cards and the related card transactions. The annual fees of the cards are charged in advance in a fixed amount for those cards which are in use by the clients. The amount of the annual card fee depends on the type of card. In case of transaction-based fees (e.g. cash withdrawal/payment fee, merchant fee, interchange fee, etc.), the settlement of the fees will take place immediately after the transaction or on a monthly basis. The fee is typically determined in % of the transaction with a fixed minimum amount. For all other cases where the Group provides a continuous service to the customers (e.g. card closing fee), the fees are charged monthly. The fee is calculated in a fix amount. The rates are reviewed by the Group regularly.	Fees for ongoing services are charged on a monthly basis during the period when they are provided. Transaction-based fees are charged when the transaction takes place or charged monthly at the end of the month.
Fees and commissions related to security trading	The Group provides its clients security account management services. Fees will be charged for account management and transactions on accounts. Account management fees are typically charged quarterly or annually. The amount is determined in %, based on the stocks of securities managed by the clients on the account in a given period. Fees for transactions on the securities account are charged immediately after the transaction. They are determined in %, based on the transaction amount. Fees for complex services provided to clients (e.g. portfolio management or custody) are typically charged monthly or annually. The fees are fixed monthly amounts and in some cases a bonus fee are charged.	Fees for ongoing services are charged quarterly or annually during the period when they are provided. The fees are accrued monthly. Transaction-based fees are charged when the transaction takes place.
Fees and commissions related to fund management	Fees from fund management services provided to investment funds and from portfolio management provided to insurance companies, funds. The fee incomes are calculated on the basis of market value of the portfolio and by the fee rates determined in the contracts about portfolio management.	
Net insurance fee income	Due to the fact that the Group rarely provides insurance services to its clients, only acts as an agent, the fee income charged to the customers and fees payable to the insurance company are presented net in the fee income. In addition, agency fee charged for the sale of insurance contracts is also recorded in this line. The fee is charged on a monthly basis and determined in %.	

NOTE 29: 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
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.

Expense from fees and commissions	2019	2018
Fees and commissions related to issued bank cards	29,528	23,134
Interchange fees	15,405	10,419
Fees and commissions related to deposits	5,422	4,453
Cash withdrawal transaction fees	3,642	2,541
Fees and commissions paid on loans	3,146	3,640
Fees and commissions related to security trading	3,132	3,076
Insurance fees	1,122	4,018
Postal fees	975	898
Fees and commissions related to collection of loans	948	693
Money market transaction fees and commissions	73	136
Other	9,510	5,938
Total	**72,903**	**58,946**
Net profit from fees and commissions	**340,445**	**274,136**

NOTE 30: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn)

Other operating income	2019	2018
Negative goodwill due to acquisition	80,667	-
Gains on transactions related to property activities	8,230	1,890
Rental income	1,308	-
Gains on transactions related to insurance activity	848	673
Non-repayable assets received	174	575
Gains on sale of receivables	-	5,894
Other income from non-financial activities	19,866	16,840
Total	**111,093**	**25,872**

NOTE 30: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn) [continued]

Other operating expenses	2019	2018
Financial support for sport association and organization of public utility	9,568	7,123
Provision / (Release of provision) for off-balance sheet commitments and contingent liabilities	3,827	(6,537)
Loss allowance on other assets	6,255	861
Non-repayable assets contributed	3,627	2,342
Loss allowance on investments[1]	3,342	1,232
Impairment on tangible and intangible assets	2,358	2,262
Expenses from losses due to foreign currency loan conversion at foreign subsidiaries	274	377
Fine imposed by Competition Authority	143	1,441
Release of provision due to foreign currency loan conversion at foreign subsidiaries	(169)	(1,700)
Other	15,533	11,772
Total	**44,758**	**19,173**

Other administrative expenses	2019	2018
Personnel expenses		
Wages	214,409	187,213
Taxes related to personnel expenses	40,902	37,845
Other personnel expenses	21,443	19,542
Subtotal	**276,754**	**244,600**
Depreciation and impairment of tangible, intangible assets and goodwill impairment	**81,935**	**56,100**
	2019	**2018**
Other administrative expenses		
Taxes, other than income tax [2]	96,932	86,146
Services	88,579	66,510
Professional fees	38,362	32,303
Administration expenses	32,041	36,538
Advertising	18,794	17,519
Rental fees	7,820	20,807
Subtotal	**282,528**	**259,823**
Total	**641,217**	**560,523**

[1] See details in Note 9.

[2] Special tax of financial institutions was paid by the Group in the amount of HUF 12,043 million and HUF 11,514 million for the year 2019 and 2018 respectively, recognized as an expense thus decreased the corporate tax base. For the year ended 31 December 2019 financial transaction duty was paid by the Bank in the amount of HUF 61 billion.

NOTE 30: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn) [continued]

The table below contains the detailing of the fees for non-audit services:

Deloitte Auditing and Consulting Ltd.

	2019	2018
OTP – annual audit – separate financial statements	53	52
OTP – annual audit – consolidated financial statements	14	13
Other audit services based on statutory provisions to OTP Group members	970	473
Other services providing assurance	4	9
Other non-audit services	92	27
Total	**1,133**	**574**

Deloitte Network

	2019	2018
Audit based on statutory provisions	779	722
Other services providing assurance	27	2
Tax consulting services	46	182
Other non-audit services	710	550
Total	**1,562**	**1,456**

NOTE 31: INCOME TAXES (in HUF mn)

The Group is presently liable for income tax at rates between 9% and 35% of taxable income.

Deferred tax is calculated at the income tax rate of 9% in Hungary and Montenegro, 10% in Bulgaria, 12% in Moldova, 12.5% in Cyprus, 15% in Serbia and Albania, 16% in Romania, 18% in Ukraine and Croatia, 19% in Slovenia, 20% in Russia, 25% in the Netherlands and 35% in Malta.

The breakdown of the income tax expense is:

	2019	2018
Current tax expense	42,591	22,482
Deferred tax expense	7,311	11,518
Total	**49,902**	**34,000**

A reconciliation of the net deferred tax asset/liability is as follows:

	2019	2018
Balance as at 1 January	**13,904**	**20,148**
Effect of transition due to IFRS 9 application	-	2,678
Deferred tax expense in profit or loss	(7,311)	(11,357)
Deferred tax related to items recognized directly in equity and in Comprehensive Income	(877)	2,780
Due to acquisition of subsidiary	(9,068)	-
Foreign currency translation difference	700	(345)
Closing balance	**(2,652)**	**13,904**

NOTE 31: INCOME TAXES (in HUF mn) [continued]

A breakdown of the deferred tax assets are as follows:

	2019	2018
Loss allowance on granted loans	12,187	2,553
Premium and discount amortization on bonds	4,975	2,838
Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments	3,948	3,714
Loss allowance / impairment on other financial and non-financial assets	3,238	2,334
Fair value adjustment of securities at fair value through profit or loss and through other comprehensive income	2,766	2,335
Difference in depreciation and amortization	1,074	925
Tax accrual caused by negative taxable income	902	2,319
Temporary differences arising on consolidation	827	-
Fair value adjustment of derivative financial instruments	553	19
Difference due to IFRS 9	483	505
Unused tax allowance	398	5,348
Adjustment from effective interest rate method	254	465
Amounts unenforceable by tax law	210	13
Difference in accounting for leases	156	32
Difference due to transition to IFRS	-	4,748
Refundable tax in accordance with Acts on Customer Loans	-	245
Other	6,825	3,752
Deferred tax asset	**38,796**	**32,145**

A breakdown of the deferred tax liabilities are as follows:

	2019	2018
Fair value adjustment of securities at fair value through profit or loss and through other comprehensive income	(13,798)	(7,435)
Deferred tax due to acquisition	(9,720)	(4,461)
Difference in depreciation and amortization	(9,200)	(3,127)
Premium and discount amortization on bonds	(2,588)	(1)
Temporary differences arising on consolidation	(598)	(25)
Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments	(408)	(408)
Amounts unenforceable by tax law	(104)	-
Loss allowance / impairment on other financial and non-financial assets	(75)	(73)
Difference due to IFRS 9	(70)	-
Loss allowance on granted loans	(23)	-
Fair value adjustment of derivative financial instruments	-	(850)
Difference in accounting for leases	-	(631)
Difference due to transition to IFRS	-	(264)
Other	(4,864)	(966)
Deferred tax liabilities	**(41,448)**	**(18,241)**
Net deferred tax (liability) / asset (net amount presented in the statement of financial positions)	**(2,652)**	**13,904**
Deferred tax assets	26,543	20,769
Deferred tax liabilities	(29,195)	(6,865)

NOTE 31: INCOME TAXES (in HUF mn) [continued]

A reconciliation of the income tax income / expense is as follows:

	2019	2018
Profit before income tax	467,152	352,908
Income tax expense at statutory tax rates	55,812	43,254
Income tax adjustments due to permanent differences are as follows:		
Deferred use of tax allowance	5,046	6,122
Share-based payment	319	342
Permanent differences from unused tax losses	-	118
Difference due to transition to IFRS	-	(422)
Amounts unenforceable by tax law	(58)	(17)
Use of tax allowance in the current year	(6,975)	(4,835)
Other	(4,242)	(10,562)
Income tax	**49,902**	**34,000**
Effective tax rate	**10.68%**	**9.63%**

NOTE 32: LEASE (in HUF mn)

The Group as a lessee:

At initial application of IFRS 16 the Group as lessee chose the modified retrospective approach (see Note 2.17.), so there are no comparative figures for 31 December 2018.

Amounts recognised at initial application	1 January 2019
Lease liability	45,460
Prepaid or accrued lease payments as at 31 December 2018	298
Right-of-use asset	45,758
therein: Property	45,438
Office equipment and vehicles	320
Cumulative impact recognized as an adjustment to the equity at the date of initial application	-

Average weighted amount of the implicit interest rate/incremental borrowing rate applied as at 1 January 2019 to recognize the lease liabilities: ~3.68 %.

Amounts recognised in profit and loss	**2019**
Interest expense on lease liabilities	1,652
Expense relating to short-term leases	5,923
Expense relating to leases of low value assets	382
Expense relating to variable lease payments not included in the measurement of lease liabilities	4
Income from subleasing right-of-use assets	6
Gains or losses arising from sale and leaseback transactions	-

NOTE 32: LEASE (in HUF mn) [continued]

The Group as a lessee [continued]:

Right-of-use assets by class of underlying assets:

	Property	Office equipment and vehicles	Total
Depreciation expense of right-of-use assets	13,272	1,008	**14,280**
Additions to right-of-use assets	21,081	842	**21,923**
Carrying amount of right-of-use assets at the end of the reporting period	52,038	912	**52,950**

The total cash outflow for leases was 20,603 HUF million in 2019.

An analysis of the changes in the gross value and amortization of the right-of-use assets for the year ended 31 December 2019 is as follows:

Gross value	**Property**	**Office equipment and vehicles**	**Total**
Balance as at 1 January	45,438	320	**45,758**
Additions due to new contracts	21,081	842	**21,923**
Derecognition due to expired contracts	(3,901)	(20)	**(3,921)**
Changes from reassessment and modification	311	(5)	**306**
Foreign currency translation difference	3,000	54	**3,054**
Closing balance	**65,929**	**1,191**	**67,120**

Amortization	**Property**	**Office equipment and vehicles**	**Total**
Balance as at 1 January	-	-	**-**
Depreciation for the period	13,272	1,008	**14,280**
Derecognition due to expired contracts	(308)	(5)	**(313)**
Changes from reassessment and modification	(33)	4	**(29)**
Foreign currency translation difference	960	(728)	**232**
Closing balance	**13,891**	**279**	**14,170**

Leasing liabilities by maturities:

Within one year	9,789
Over one year	44,404
Total	**54,194**

The Group as a lessor:

The Group's leasing activities are most significant in Hungary, Slovenia, Bulgaria, Croatia and Ukraine. The main activity of the leasing companies is finance leasing. About half of the underlying assets are passenger cars, besides this the Group leases mainly agricultural machinery, commercial vehicles, vessels and construction machinery.
In 2019, the gross value of the Group's finance lease receivables increased by 89 %, much of which is due to acquisitions in 2019.
The Group manages the risk associated with the rights held in the underlying assets by, inter alia, buy-back agreements, determining the residual values on level lower than future market values and registering pledge on the underlying asset.

NOTE 32: LEASE (in HUF mn) [continued]

The Group as a lessor [continued]:

Amounts receivable under finance leases	**2019[1]**
In less than 1 year	317,799
Between 1 and 2 years	238,249
Between 2 and 3 years	196,142
Between 3 and 4 years	139,292
Between 4 and 5 years	93,361
More than 5 years	49,639
Total receivables from undiscounted lease payments	**1,034,482**
Unguaranteed residual values	401
Gross investment in the lease	**1,034,883**
Less: unearned finance income	(52,030)
Present value of minimum lease payments receivable	**982,853**
Loss allowance	(13,590)
Net investment in the lease	**969,263**

Result from finance leases	**2019**
Selling profit or loss	(78)
Finance income on the net investment in the lease	40,914
Income relating to variable lease payments not included in the measurement of the net investment in the lease	-

An analysis of the change in the loss allowance on finance receivables is as follows:

	2019	**2018**
Balance as at 1 January	**9,005**	**7,516**
Loss allowance for the period	13,415	7,345
Release of loss allowance	(8,535)	(5,163)
Use of loss allowance	(809)	(515)
Partial write-off	-	(477)
Foreign currency translation difference	514	299
Closing balance	**13,590**	**9,005**

Amounts receivable under operating leases	**2019**
In less than 1 year	11,990
Between 1 and 2 years	6,928
Between 2 and 3 years	5,033
Between 3 and 4 years	3,955
Between 4 and 5 years	1,781
More than 5 years	491
Total receivables from undiscounted lease payments	**30,178**

Result from operating leases	**2019**
Lease income	11,127
Therein lease income relating to variable lease payments that do not depend on an index or a rate	-

[1] Amounts receivables under finance leases were recorded in loans at amortized cost at the amount of net investment in the lease of the Group, with no separate detailed disclosure in 2018. As such, there are no comparative figures for prior period 2018.

NOTE 33: FINANCIAL RISK MANAGEMENT (in HUF mn)

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
Financial instruments may result in certain risks to the Group. The most significant risks the Group faces include:

33.1. Credit risk

The Group takes on exposure to credit risk which is the risk that a counter-party will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or banks of borrowers, and to geographical areas and loan types. Such risks are monitored on a periodical basis and subject to an annual or more frequent review. The exposure to any borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is managed by obtaining collateral, corporate and personal guarantees.

Defining the expected credit loss on individual and collective basis

On individual basis:

Individually assessed are the non-retail or micro- and small enterprise exposure of significant amount on a stand-alone basis:

- exposure in stage 3,
- exposure in workout management
- purchased or originated credit-impaired instruments which are in accordance with the conditions mentioned above

The calculation of impairment must be prepared and approved by the risk management functional areas. The calculation, all relevant factors (AC, original and current EIR, contracted and expected cash flows (from business and/or collateral) for the individual periods of the entire lifecycle, other essential information enforced during the valuation) and the criteria thereof (including the factors underlying the classification as stage 3) must be documented individually.

The expected credit loss of the exposure equals the difference of the receivable's AC (gross book value) on the valuation date and the present value of the receivable's expected cash flows discounted to the valuation date by the exposure's original effective interest rate (EIR) (calculated at the initial recognition, or in the case of variable rate, recalculated due to the last interest rate change). The estimation of the expected future cash flows should be forward looking, it must also contain the effects of the possible change of macroeconomic outlook.

At least two scenarios must be used for the estimation of the expected cash flow. It should be at least one scenario in which the entity anticipates that realised cash flows will be significantly different from the contractual cash flows. Probability weights must be allocated to the individual scenarios. The estimation must reflect the probability of the occurrence and non-occurrence of the credit loss, even if the most probable result is the non-occurrence of the loss.

NOTE 33: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

33.1. 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 33: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

33.1. Credit risk [continued]

33.1.1. Financial instruments by stages

Gross carrying amount and accumulated loss allowance of financial assets at amortized cost and of interest bearing securities at fair value through other comprehensive income and financial commitments and provision on them by stages as at 31 December 2019:

	Carrying amount / Exposure	Gross carrying amount / Notional value				Accumulated loss allowance / Provision			
		Stage 1	Stage 2	Stage 3[1]	Total	Stage 1	Stage 2	Stage 3[1]	Total
Placements with other banks	**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 is recognized in the Consolidated statement of financial position as at fair value (see in Note 7). Loss allowances for securities at fair value through other comprehensive income categorized in stage 1 and stage 2 is recognized in the Other comprehensive income which is included in the accumulated loss allowance of this table.

NOTE 33: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

33.1. Credit risk [continued]

33.1.1. 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 2018:

	Carrying amount / Exposure	Gross carrying amount / Notional value				Accumulated loss allowance / Provision			
		Stage 1	Stage 2	Stage 3[1]	Total	Stage 1	Stage 2	Stage 3[1]	Total
Placements with other banks	**420,606**	419,468	1,606	29	**421,103**	463	12	22	**497**
Mortgage loans	**2,399,184**	2,121,746	184,617	275,484	**2,581,847**	3,415	8,478	170,770	**182,663**
Loans to medium and large corporates	**2,651,852**	2,432,280	182,051	194,608	**2,808,939**	23,083	16,719	117,285	**157,087**
Consumer loans	**1,833,060**	1,744,664	127,858	235,098	**2,107,620**	56,524	25,503	192,533	**274,560**
Loans to micro and small enterprises	**582,012**	494,635	78,411	63,866	**636,912**	5,379	7,152	42,369	**54,900**
Car-finance loans	**296,684**	277,750	17,122	16,108	**310,980**	1,344	818	12,134	**14,296**
Municipal loans	**269,276**	269,034	1,655	445	**271,134**	1,634	35	189	**1,858**
Loans at amortized cost	**8,032,068**	7,340,109	591,714	785,609	**8,717,432**	91,379	58,705	535,280	**685,364**
Interest bearing securities at fair value through other comprehensive income[2]	**1,853,186**	1,853,186	-	-	**1,853,186**	3,098	-	-	**3,098**
Securities at amortized cost	**1,740,520**	1,742,754	-	705	**1,743,459**	2,234	-	705	**2,939**
Financial assets total	**12,046,380**	**11,355,517**	**593,320**	**786,343**	**12,735,180**	**97,174**	**58,717**	**536,007**	**691,898**
Loan commitments given	2,008,387	1,988,798	33,881	3,551	**2,026,230**	14,941	2,082	820	**17,843**
Financial guarantees given	427,093	418,032	10,868	6,639	**435,539**	5,009	572	2,865	**8,446**
Other commitments given	531,766	521,045	11,974	511	**533,530**	1,507	167	90	**1,764**
Financial liabilities total	**2,967,246**	**2,927,875**	**56,723**	**10,701**	**2,995,299**	**21,457**	**2,821**	**3,775**	**28,053**

[1] Stage 3 includes POCI category too.
[2] Interest bearing securities at fair value through other comprehensive income is recognized in the Consolidated statement of financial position as at fair value (see in Note 7). Loss allowances for securities at fair value through other comprehensive income categorized in stage 1 and stage2 is recognized in the Other comprehensive income which is included in the accumulated loss allowance of this table.

NOTE 33: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

33.1. Credit risk [continued]

33.1.2. Movement table of loss allowance / provision on financial instruments

Movement of loss allowance on financial assets at amortized cost and on interest bearing securities at fair value through other comprehensive income and of provision of financial commitments as at 31 December 2019:

	Opening balance	Increases due to origination and acquisition	Decreases due to derecognition	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	**97,174**	**107,450**	**(26,719)**	**(70,791)**	**16,615**	**(5,070)**	**(960)**	**7,070**	**124,769**
Placements with other banks	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	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	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 33: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

33.1. Credit risk [continued]

33.1.2. 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 2018:

	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	**92,280**	**72,512**	**(17,906)**	**(196,638)**	**143,939**	**(2,247)**	**(45)**	**5,279**	**97,174**
Placements with other banks	312	1,204	(9)	-	(1,037)	-	-	(7)	463
Loans at amortized cost	86,748	69,669	(17,670)	(196,638)	146,458	(2,247)	(45)	5,104	91,379
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	5,220	1,639	(227)	-	(1,482)	-	-	182	5,332
Stage 2	**40,244**	**7,773**	**(3,602)**	**78,714**	**(54,101)**	**(940)**	**(132)**	**(9,239)**	**58,717**
Placements with other banks	1	-	-	-	13	(1)	-	(1)	12
Loans at amortized cost	40,163	7,773	(3,602)	78,714	(54,034)	(939)	(132)	(9,238)	58,705
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	80	-	-	-	(80)	-	-	-	**-**
Stage 3[1]	**653,886**	**46,631**	**(72,208)**	**117,924**	**(185,877)**	**6,507**	**(51,530)**	**20,674**	**536,007**
Placements with other banks	24	-	(2)	-	-	-	-	-	22
Loans at amortized cost	653,177	45,926	(72,206)	117,924	(184,904)	6,507	(51,530)	20,386	535,280
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	685	705	-	-	(973)	-	-	288	705
Loss allowance on financial assets total	**786,410**	**126,916**	**(93,716)**	**-**	**(96,039)**	**3,320**	**(51,707)**	**16,714**	**691,898**
Loan commitments and financial guarantees given - stage 1	14,198	4,908	(2,018)	913	1,846	171	-	1,439	21,457
Loan commitments and financial guarantees given - stage 2	1,689	1,447	(33)	(1,030)	813	(4)	-	(61)	2,821
Loan commitments and financial guarantees given - stage 3	4,433	2,631	(388)	117	(2,932)	(121)	-	35	3,775
Financial liabilities total	**20,320**	**8,986**	**(2,439)**	**-**	**(273)**	**46**	**-**	**1,413**	**28,053**

[1] Stage 3 includes POCI category too.

NOTE 33: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

33.1. Credit risk [continued]

33.1.3. Loan portfolio by countries

An analysis of the non-qualified and qualified gross loan portfolio by country is as follows:

Country	2019 Carrying amount of gross loan at amortized cost and placement with other banks portfolio	2019 Loss allowance	2018 Carrying amount of gross loan at amortized cost and placement with other banks portfolio	2018 Loss allowance
Hungary	4,122,987	134,243	3,369,319	154,995
Bulgaria	2,419,203	148,053	1,435,621	126,059
Croatia	1,380,175	68,906	1,282,367	72,827
Serbia	1,215,038	23,021	367,995	18,506
Slovenia	823,611	4,025	1,291	10
Russia	812,703	159,045	658,205	131,619
Romania	747,026	41,319	622,602	37,917
Ukraine	484,678	74,650	360,652	77,470
Montenegro	333,697	20,198	169,368	30,153
Albania	152,279	3,688	-	-
Moldova	104,796	1,797	-	-
France	92,791	63	55,888	30
Slovakia	69,158	24,769	519,264	32,155
United Kingdom	47,618	1,171	46,183	1,163
Germany	46,553	189	38,102	214
Switzerland	34,232	635	51,744	292
Belgium	24,042	98	31,092	123
Cyprus	16,221	431	19,310	635
United States of America	11,471	56	23,901	42
The Netherlands	6,491	167	19,334	234
Italy	5,811	125	11,877	129
Greece	2,147	132	870	104
Austria	2,129	16	10,804	21
Spain	893	23	629	12
Norway	568	36	2,170	38
Poland	525	21	4,300	41
Czech Republic	454	24	6,175	104
Sweden	437	45	440	43
Turkey	433	46	13,148	71
Denmark	427	10	354	1
Ireland	401	118	1,006	130
Israel	384	2	247	1
Bosnia and Herzegovina	382	44	637	202
Luxembourg	347	13	122	1
Canada	222	1	3,306	1
Australia	214	1	6,811	-
Kazakhstan	73	21	107	52
Iceland	51	49	49	48
United Arab Emirates	34	24	64	55
Latvia	29	15	28	15
Japan	19	-	61	-
Egypt	14	1	90	29
Other[1]	3,022	156	3,002	319
Total	**12,963,786**	**707,447**	**9,138,535**	**685,861**

[1] Other category as at 31 December 2019 includes e.g.: Macedonia, Malta, Algeria, Portugal, Finland, China, Republic of South-Africa, Belorussia, Armenia, Hong Kong, Syria, India, Tunisia, Jordan, Estonia, Nigeria, Brazil, Iran, Georgia, Kosovo, Morocco, Vietnam, Lithuania, South-Korea, Islamic Republic of Pakistan.

NOTE 33: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

33.1. Credit risk [continued]

33.1.3. Loan portfolio by countries [continued]

Country	Loans at fair value 2019	2018
Hungary	29,732	32,745
Croatia	489	1,780
Slovenia	2,581	-
Total	**32,802**	**34,525**

The loan portfolio increased mostly in Serbia, Bulgaria, Montenegro and Ukraine and there couldn't be noticed decreases only in Slovakia which is classified as the discontinued operation. Their stock of loss allowances increased mostly in Serbia, Russia and Bulgaria, while the decreasing tendency was the highest in Montenegro and Hungary among the countries of the Group members.

33.1.4. Collateral

The values of collateral held by the Group by type are as follows (**total collateral**). The collateral covers loans as well as off-balance sheet exposures.

Types of collateral	2019	2018
Mortgages	11,113,017	8,650,498
Guarantees of state or organizations owned by state	486,112	118,495
Assignments (revenue or other receivables)	447,820	432,671
Guarantees and warranties	423,035	399,206
Securities	186,154	94,724
Cash deposits	130,913	94,593
Other	2,216,505	1,149,140
Total	**15,003,556**	**10,939,327**

The values of collateral held by the Group by type are as follows (**to the extent of the exposures**). The collaterals cover loans as well as off-balance sheet exposures.

Types of collateral	2019	2018
Mortgages	5,184,997	3,873,185
Guarantees of state or organizations owned by state	439,148	103,148
Assignments (revenue or other receivables)	306,863	374,541
Guarantees and warranties	303,711	270,773
Securities	137,613	61,287
Cash deposits	70,910	51,485
Other	1,331,823	657,228
Total	**7,775,065**	**5,391,647**

The coverage level of the loan portfolio (total collateral) increased by 1.23%, while the coverage level to the extent of the exposures decreased by 3.05% as at 31 December 2019.

NOTE 33: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

33.1. Credit risk [continued]

33.1.5. Restructured loans

	2019		2018	
	Gross portfolio	**Loss allowance**	**Gross portfolio**	**Loss allowance**
Loans to medium and large corporations	22,418	3,948	33,218	7,863
Retail mortgage loans	16,564	1,218	23,579	3,632
Retail consumer loans	16,344	3,748	11,976	3,823
Loans to micro and small enterprises	9,344	1,728	5,356	1,171
Municipal	9	3	-	-
Other loans	305	32	299	64
Total	**64,984**	**10,677**	**74,428**	**16,553**

The forborne definition used by the Group is based on EBA (EU) 2015/227 regulation.

NOTE 33: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

33.1. Credit risk [continued]

33.1.6. Financial instruments by rating categories[1]

Securities held for trading as at fair value through profit or loss as at 31 December 2019

	Aaa	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3	Not rated	Total
Government bonds	-	-	-	-	-	-	30,070	23,715	-	11,211	6,198	-	**71,194**
Equity instruments and fund units	-	27	41	52	18	30	6	18	-	-	7	877	**1,076**
Discounted Treasury bills	-	-	-	-	-	-	-	12	-	-	38	-	**50**
Other interest bearing securities	123	-	-	-	602	-	8,807	5,377	1,404	3,078	-	821	**20,212**
Other non-interest bearing securities	-	-	-	-	-	-	-	-	-	-	-	7,516	**7,516**
Total	**123**	**27**	**41**	**52**	**620**	**30**	**38,883**	**29,122**	**1,404**	**14,289**	**6,243**	**9,214**	**100,048**

Non-trading securities mandatorily at fair value through profit or loss as at 31 December 2019

	Baa1	Baa2	Baa3	Ba2	Not rated	Total
Non-trading equity instruments mandatorily at fair value through profit or loss	8,204	461	-		26,250	**34,915**
Non-trading debt instruments mandatorily at fair value through profit or loss	-	-	866		3,536	**4,402**
Debt securities designated at fair value through profit or loss	-	-	-	2,001	-	**2,001**
Total	**8,204**	**461**	**866**	**2,001**	**29,786**	**41,318**

[1] Moody's ratings

NOTE 33: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

33.1. Credit risk [continued]

33.1.6. Financial instruments by rating categories[1] [continued]

Securities at fair value through other comprehensive income as at 31 December 2019

	Aaa	Aa2	Aa3	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3	B1	Caa1	Not rated	Total
Government bonds	12,213	7,103	-	38,730	6,536	114,296	180,974	1,013,472	-	137,353	156,000	60,930	45,005	-	**1,772,612**
Discounted Treasury bills	-	-	-	-	-	-	-	339,398	-	104,292	-	-	-	-	**443,690**
Mortgage bonds	-	-	-	-	-	65,086	-	7,841	-	-	-	-	-	24,341	**97,268**
Corporate bonds	-	-	-	-	4,700	-	3,529	34,900	4,950	892	-	-	-	24,091	**73,062**
Non-trading equity instruments	-	-	6,370	-	-	-	-	1,139	-	-	-	-	-	32,638	**40,147**
Total	**12,213**	**7,103**	**6,370**	**38,730**	**11,236**	**179,382**	**184,503**	**1,396,750**	**4,950**	**242,537**	**156,000**	**60,930**	**45,005**	**81,070**	**2,426,779**

Securities at amortized cost as at 31 December 2019

	Aa2	Baa1	Baa3	Ba2	Ba3	B1	B3	Caa1	Not rated	Total
Government bonds	41,010	42,454	1,722,028	1,444	5,520	26,442	5,218	89,721	-	**1,933,837**
Corporate bonds	-	-	-	9,975	-	-	-	-	12,744	**22,719**
Mortgage bonds	-	-	7,739	-	-	-	-	-	-	**7,739**
Discounted treasury bills	-	-	-	-	-	-	6,516	-	-	**6,516**
Total	**41,010**	**42,454**	**1,729,767**	**11,419**	**5,520**	**26,442**	**11,734**	**89,721**	**12,744**	**1,970,811**
Provision										**(2,739)**
Total	**41,010**	**42,454**	**1,729,767**	**11,419**	**5,520**	**26,442**	**11,734**	**89,721**	**12,744**	**1,968,072**

[1] Moody's ratings

NOTE 33: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

33. 2. Maturity analysis of assets, liabilities and liquidity risk

Liquidity risk is a measure of the extent to which the Group may be required to raise funds to meet its commitments associated with financial instruments. The Group maintains its liquidity profiles in accordance with regulations prescribed by the NBH.

The essential aspect of the liquidity risk management strategy is to identify all relevant systemic and idiosyncratic sources of liquidity risk and to measure the probability and severity of such events. During liquidity risk management the Group considers the effect of liquidity risk events caused by reasons arising in the bank business line (deposit withdrawal), the national economy (exchange rate shock yield curve shock) and the global financial system (capital market shock).

In line with the Group's risk management policy liquidity risks are measured and managed on multiply hierarchy levels and applying integrated unified VaR based methodology. The basic requirement is that the Group must keep high quality liquidity reserves which means it can fulfill all liabilities when they fall due without material additional costs.

The liquidity reserves can be divided in two parts. There are separate decentralized liquid asset portfolios at subsidiary level and a centralized flexible liquidity pool at a Group level. The reserves at subsidiary levels are held to cover the relevant shocks of the subsidiaries which may arise in local currencies (deposit withdrawal, local capital market shock, unexpected business expansion), while the centralized liquidity pool is held to cover the Bank's separate shocks (deposit-, yield curve- and exchange rate shocks) and all group member's potential shocks that may arise in foreign currencies (deposit withdrawal, capital market shock).

The recalculation of shocks is made at least quarterly while the recalibration of shock measurement models and review of the risk management methodology is an annual process. The monitoring of liquidity reserves for both centralized and decentralized liquid asset portfolio has been built into the daily reporting process.

Due to the balance sheet adjustment process (deleveraging) experienced in the last few years, the liquidity reserves of the Group increased significantly while the liquidity risk exposure has decreased considerably. Currently the (over)coverage of potential liquidity risk exposure by high quality liquid assets is high. In the year ended 31 December 2019 there were no material changes in the liquidity risk management process.

The contractual amounts disclosed in the maturity analyses are the contractual undiscounted cash-flows like gross finance lease obligations (before deducting finance charges); prices specified in forward agreements to purchase financial assets for cash; net amounts for pay-floating/receive-fixed interest rate swaps for which net cash-flows are exchanged; contractual amounts to be exchanged in a derivative financial instrument for which gross cash-flows are exchanged; gross loan commitments.

Such undiscounted cash-flows differ from the amount included in the statement of financial position because the amount in that statement is based on discounted cash-flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the end of the period.

The following tables provide an analysis of assets and liabilities about the non-discounted cash-flow into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

NOTE 33: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

33. 2. Maturity analysis of assets, liabilities and liquidity risk [continued]

As at 31 December 2019	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Banks	1,671,732	19,884	92,762	-	-	1,784,378
Placements with other banks, net of loss allowance for placements	215,621	69,283	110,150	16,206	1,257	412,517
Trading securities at fair value through profit or loss	10,398	13,875	53,442	13,277	3,203	94,195
Non-trading instruments mandatorily at fair value through profit or loss	227	-	3,309	10,935	19,920	34,391
Debt securities designated at fair value through profit or loss	-	-	2,001	-	-	2,001
Securities at fair value through other comprehensive income	327,488	572,117	952,654	486,814	40,186	2,379,259
Loans at amortized cost	1,812,719	2,560,969	4,901,264	3,962,681	29,721	13,267,354
Loans measured at fair value through profit or loss	1,085	2,421	13,616	16,807	-	33,929
Associates and other investments	-	-	-	-	29,638	29,638
Securities at amortized cost	143,579	124,320	1,097,138	530,139	-	1,895,176
Other financial assets[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	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**
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**

[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 got appropriate liquidity reserves as maintenance and management of liquidity risk

NOTE 33: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

33. 2. Maturity analysis of assets, liabilities and liquidity risk [continued]

As at 31 December 2018	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Banks	1,545,507	1,765	-	-	-	1,547,272
Placements with other banks, net of loss allowance for placements	217,194	151,072	32,676	23,305	388	424,635
Trading securities at fair value through profit or loss	19,043	4,922	11,855	7,079	20,852	63,751
Non-trading instruments mandatorily at fair value through profit or loss	1,184	-	-	3	5,132	6,319
Securities at fair value through other comprehensive income	257,993	412,482	875,882	276,358	25,681	1,848,396
Loans at amortized cost	1,021,119	1,978,693	2,764,680	2,740,366	5,792	8,510,650
Loans measured at fair value through profit or loss	1,071	3,178	12,770	17,506	-	34,525
Associates and other investments	-	-	-	-	17,591	17,591
Securities at amortized cost	60,240	119,592	871,365	610,122	-	1,661,319
Other financial assets[1]	54,275	35	1	-	193	54,504
TOTAL ASSETS	**3,177,626**	**2,671,739**	**4,569,229**	**3,674,739**	**75,629**	**14,168,962**
Amounts due to the National Governments, to the National Banks and other banks	102,257	43,600	145,367	69,261	-	360,485
Financial liabilities designated at fair value through profit or loss	576	2,757	10,418	18,480		32,231
Deposits from customers	9,995,997	943,409	211,109	141,113	-	11,291,628
Liabilities from issued securities	41,642	6,722	192,865	177,569	-	418,798
Other financial liabilities[1]	141,373	333	-	6	967	142,679
Subordinated bonds and loans	719	1,693	9,060	69,961	-	81,433
TOTAL LIABILITIES	**10,282,564**	**998,514**	**568,819**	**476,390**	**967**	**12,327,254**
NET POSITION	**(7,104,938)**[2]	**1,673,225**	**4,000,410**	**3,198,349**	**74,662**	**1,841,708**
Receivables from derivative financial instruments held for trading	1,330,293	396,708	340,219	257,349	-	2,324,569
Liabilities from derivative financial instruments held for trading	(1,631,984)	(691,221)	(424,756)	(513,369)	-	(3,261,330)
Net position of financial instruments held for trading	**(301,691)**	**(294,513)**	**(84,537)**	**(256,020)**	**-**	**(936,761)**
Receivables from derivative financial instruments designated as hedge accounting	27,095	91,548	241,913	45,726	-	406,282
Liabilities from derivative financial instruments designated as hedge accounting	(26,821)	(76,655)	(438,482)	(60,192)	-	(602,150)
Net position of financial instruments designated as hedge accounting	**274**	**14,893**	**(196,569)**	**(14,466)**	**-**	**(195,868)**
Net position of derivative financial instruments total	**(301,417)**	**(279,620)**	**(281,106)**	**(270,486)**	**-**	**(1,132,629)**
Commitments to extend credit	894,592	1.041,823	210,537	40,667	-	2,187,619
Bank guarantees	195,512	173,734	132,467	96,381	2,184	600,278
Off-balance sheet commitments	**1,090,104**	**1,215,557**	**343,004**	**137,048**	**2,184**	**2,787,897**

[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 got appropriate liquidity reserves as maintenance and management of liquidity risk

NOTE 33: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

33. 3. Net foreign currency position and foreign currency risk

As at 31 December 2019

	USD	EUR	CHF	Others	Total
Assets	599,946	5,532,766	72,366	5,701,836	11,906,914
Liabilities	(708,409)	(4,808,619)	(75,407)	(4,639,952)	(10,232,387)
Derivative financial instruments	182,049	(735,690)	(755)	(116,723)	(671,119)
Net position	**73,586**	**(11,543)**	**(3,796)**	**945,161**	**1,003,408**

As at 31 December 2018

	USD	EUR	CHF	Others	Total
Assets	519,763	3,340,594	71,914	3,960,318	7,892,589
Liabilities	(567,176)	(2,855,678)	(53,833)	(3,020,425)	(6,497,112)
Derivative financial instruments	62,014	(355,835)	(20,117)	(27,253)	(341,191)
Net position	**14,601**	**129,081**	**(2,036)**	**912,640**	**1,054,286**

The table above provides an analysis of the main foreign currency exposures of the Group. The remaining foreign currencies are shown within ‘Others’. ‘Others’ category contains mainly foreign currencies in RON, RSD, HRK, UAH, RUB, BGN, ALL and MDL. The Group monitors its foreign exchange position for compliance with the regulatory requirements of the National Banks and its own limit system established in respect of limits on open positions. The measurement of the open foreign currency position of the Group involves monitoring the “VaR” limit on the foreign exchange exposure of the Group.

33.4. Interest rate risk management

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk.

The majority of the interest bearing assets and liabilities of the Group are structured to match either short-term assets and short-term liabilities, or long-term assets and liabilities with repricing opportunities within one year, or long-term assets and corresponding liabilities where repricing is performed simultaneously.

In addition, the significant spread existing between the different types of interest bearing assets and liabilities enables the Group to benefit from a high level of flexibility in adjusting for its interest rate matching and interest rate risk exposure.

The following table presents the interest repricing dates of the Group. Variable yield assets and liabilities have been reported in accordance with their next repricing date. Fixed income assets and liabilities have been reported in accordance with their maturity.

NOTE 33: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

33.4. 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	**4,385**	**106,884**	**40,321**	**34,598**	**1,988**	**33,702**	**98,889**	**-**	**19,457**	**7,076**	**18,131**	**44,648**	**183,171**	**226,908**	**410,079**
fixed rate	4,385	75,852	40,321	34,597	903	26,166	98,889	-	19,457	6,254	-	-	163,955	142,869	306,824
variable rate	-	31,032	-	1	1,085	7,536	-	-	-	822	-	-	1,085	39,391	40,476
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	18,131	44,648	18,131	44,648	62,779
Trading instruments at fair value through profit or loss	**650**	**3,942**	**124**	**5,929**	**4,497**	**12,483**	**4,400**	**21,646**	**10,571**	**27,214**	**7,542**	**1,050**	**27,784**	**72,264**	**100,048**
fixed rate	18	3,927	1	5,529	4,497	12,483	4,400	21,646	10,571	27,214	-	-	19,487	70,799	90,286
variable rate	632	15	123	400	-	-	-	-	-	-	-	-	755	415	1,170
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	7,542	1,050	7,542	1,050	8,592
Non-trading instruments mandatorily at fair value through profit or loss	**-**	**-**	**-**	**25**	**-**	**866**	**-**	**-**	**-**	**3,511**	**27,810**	**7,105**	**27,810**	**11,507**	**39,317**
fixed rate	-	-	-	-	-	866	-	-	-	3,511	-	-	-	4,377	4,377
variable rate	-	-	-	25	-	-	-	-	-	-	-	-	-	25	25
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	27,810	7,105	27,810	7,105	34,915
Financial assets designated at fair value through profit or loss	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,001**	**-**	**2,001**	**2,001**
fixed rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
variable rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	2,001	-	2,001	2,001
Securities at fair value through other comprehensive income	**89,175**	**51,659**	**138,245**	**68,746**	**428,028**	**171,582**	**94,464**	**213,344**	**401,659**	**713,667**	**867**	**55,343**	**1,152,438**	**1,274,341**	**2,426,779**
fixed rate	55,863	51,659	123,562	68,197	413,278	171,034	93,464	212,521	401,659	713,667	-	-	1,087,826	1,217,078	2,304,904
variable rate	33,312	-	14,683	549	14,750	548	1,000	823	-	-	-	-	63,745	1,920	65,665
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	867	55,343	867	55,343	56,210
Loans, net of allowance for loan losses	**671,022**	**4,000,115**	**626,022**	**1,324,980**	**445,759**	**1,409,902**	**104,728**	**420,600**	**1,410,440**	**1,235,749**	**144,222**	**52,721**	**3,402,193**	**8,444,067**	**11,846,260**
fixed rate	8,995	847,866	3,325	325,968	17,804	548,240	42,160	330,099	1,176,056	835,078	-	-	1,248,340	2,887,251	4,135,591
variable rate	662,027	3,152,249	622,697	999,012	427,955	861,662	62,568	90,501	234,384	400,671	-	-	2,009,631	5,504,095	7,513,726
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	144,222	52,721	144,222	52,721	196,943
Loans mandatorily at fair value through profit or loss	**29,732**	**543**	**-**	**108**	**-**	**487**	**-**	**316**	**-**	**1,616**	**-**	**-**	**29,732**	**3,070**	**32,802**
fixed rate	-	54	-	108	-	487	-	316	-	1,616	-	-	-	2,581	2,581
variable rate	29,732	489	-	-	-	-	-	-	-	-	-	-	29,732	489	30,221
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Securities at amortized cost	**-**	**101,371**	**-**	**19,739**	**111,029**	**12,506**	**38,195**	**43,189**	**1,553,408**	**88,635**	**-**	**-**	**1,702,632**	**265,440**	**1,968,072**
fixed rate	-	101,371	-	19,739	111,029	12,506	38,195	43,189	1,553,408	88,635	-	-	1,702,632	265,440	1,968,072
variable rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fair value adjustment of derivative financial instruments	**966,352**	**432,710**	**847,077**	**359,143**	**765,880**	**459,987**	**15,461**	**273,274**	**20,584**	**85,850**	**167,569**	**362,920**	**2,782,923**	**1,973,884**	**4,756,807**
fixed rate	930,477	423,788	697,547	335,985	766,569	425,038	15,461	273,274	20,584	85,850	-	-	2,430,638	1,543,935	3,974,573
variable rate	35,875	8,922	149,530	23,158	(689)	34,949	-	-	-	-	-	-	184,716	67,029	251,745
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	167,569	362,920	167,569	362,920	530,489
Other financial assets	**16,988**	**2,343**	**94**	**367**	**-**	**5**	**-**	**3**	**-**	**1**	**48,574**	**54,678**	**65,656**	**57,397**	**123,053**
fixed rate	16,859	2,343	-	331	-	1	-	3	-	1	-	-	16,859	2,679	19,538
variable rate	129	-	94	36	-	4	-	-	-	-	-	-	223	40	263
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	48,574	54,678	48,574	54,678	103,252

NOTE 33: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

33.4. 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	**265,712**	**84,798**	**2,633**	**130,754**	**5,086**	**112,533**	**1,834**	**78,312**	**103,826**	**18,079**	**19**	**9,813**	**379,110**	**434,289**	**813,399**
fixed rate	212,975	78,022	2,633	63,143	5,085	27,300	1,834	76,875	103,826	17,715	-	-	326,353	263,055	589,408
variable rate	52,737	6,776	-	67,611	1	85,233	-	1,437	-	364	-	-	52,738	161,421	214,159
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	19	9,813	19	9,813	9,832
Financial liabilities designated at fair value through profit or loss	**28,862**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,000**	**28,862**	**2,000**	**30,862**
fixed rate	102	-	-	-	-	-	-	-	-	-	-	-	102	-	102
variable rate	28,760	-	-	-	-	-	-	-	-	-	-	-	28,760	-	28,760
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	2,000	-	2,000	2,000
Deposits from customers	**5,124,112**	**6,546,522**	**183,647**	**570,419**	**127,494**	**830,168**	**45,174**	**325,413**	**239,092**	**426,589**	**37,258**	**715,420**	**5,756,777**	**9,414,531**	**15,171,308**
fixed rate	434,026	2,729,694	183,647	570,286	127,494	828,984	45,174	325,411	239,092	426,583	-	-	1,029,433	4,880,958	5,910,391
variable rate	4,690,086	3,816,828	-	133	-	1,184	-	2	-	6	-	-	4,690,086	3,818,153	8,508,239
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	37,258	715,420	37,258	715,420	752,678
Liabilities from issued securities	**16,708**	**592**	**144,381**	**1,273**	**8,347**	**1,936**	**112,697**	**-**	**106,267**	**53**	**898**	**15**	**389,298**	**3,869**	**393,167**
fixed rate	218	40	-	8	6,901	-	112,697	-	106,267	53	-	-	226,083	101	226,184
variable rate	16,490	552	144,381	1,265	1,446	1,936	-	-	-	-	-	-	162,317	3,753	166,070
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	898	15	898	15	913
Fair value adjustment of derivative financial instruments	**1,275,341**	**129,626**	**828,476**	**357,746**	**623,403**	**588,552**	**281,358**	**8,789**	**37,297**	**72,359**	**370,245**	**167,431**	**3,416,120**	**1,324,503**	**4,740,623**
fixed rate	1,224,793	123,378	687,545	341,726	623,287	567,367	281,358	8,789	37,297	72,148	-	-	2,854,280	1,113,408	3,967,688
variable rate	50,548	6,248	140,931	16,020	116	21,185	-	-	-	211	-	-	191,595	43,664	235,259
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	370,245	167,431	370,245	167,431	537,676
Leasing liabilities	**1,252**	**4,951**	**126**	**1,113**	**1,120**	**7,393**	**924**	**6,082**	**5**	**24,800**	**99**	**6,329**	**3,526**	**50,668**	**54,194**
fixed rate	1,252	4,878	126	902	1,120	6,551	924	5,026	5	21,374	-	-	3,427	38,731	42,158
variable rate	-	73	-	211	-	842	-	1,056	-	3,426	-	-	-	5,608	5,608
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	99	6,329	99	6,329	6,428
Other financial liabilities	**4,920**	**171**	**575**	**1,816**	**-**	**2,039**	**-**	**255**	**-**	**503**	**230,989**	**96,752**	**236,484**	**101,536**	**338,020**
fixed rate	4,177	136	-	1,816	-	2,039	-	239	-	503	-	-	4,177	4,733	8,910
variable rate	743	35	575	-	-	-	-	16	-	-	-	-	1,318	51	1,369
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	230,989	96,752	230,989	96,752	327,741
Subordinated bonds and loans	**-**	**-**	**-**	**77,934**	**-**	**166,602**	**-**	**-**	**-**	**5,397**	**-**	**5**	**-**	**249,938**	**249,938**
fixed rate	-	-	-	-	-	-	-	-	-	5,397	-	-	-	5,397	5,397
variable rate	-	-	-	77,934	-	166,602	-	-	-	-	-	-	-	244,536	244,536
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	5	-	5	5
Net position	(4,960,992)	(1,495,897)	493,963	757,185	991,731	577,220	(85,850)	561,889	2,929,632	1,634,523	(99,898)	365,609	(731,414)	2,400,529	1,669,115

NOTE 33: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

33.4. Interest rate risk management [continued]

As at 31 December 2018

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	**29,189**	**344,793**	**4**	**88**	**-**	**18**	**-**	**-**	**-**	**-**	**202,807**	**970,373**	**232,000**	**1,315,272**	**1,547,272**
fixed rate	27,852	342,282	-	88	-	17	-	-	-	-	-	-	27,852	342,387	370,239
variable rate	1,337	2,511	4	-	-	1	-	-	-	-	-	-	1,341	2,512	3,853
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	202,807	970,373	202,807	970,373	1,173,180
Placements with other banks, net of allowance for placements losses	**104,946**	**139,379**	**8,870**	**56,902**	**29,379**	**30,111**	**861**	**-**	**-**	**826**	**31,233**	**18,099**	**175,289**	**245,317**	**420,606**
fixed rate	5,536	98,584	8,870	50,537	58	28,518	861	-	-	826	-	-	15,325	178,465	193,790
variable rate	99,410	40,795	-	6,365	29,321	1,593	-	-	-	-	-	-	128,731	48,753	177,484
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	31,233	18,099	31,233	18,099	49,332
Trading securities at fair value through profit or loss	**1,073**	**4,328**	**1,510**	**441**	**6,086**	**6,044**	**-**	**1,459**	**-**	**18,496**	**6,440**	**4,562**	**15,109**	**35,330**	**50,439**
fixed rate	2	2,583	67	441	5,095	6,044	-	1,459	-	18,496	-	-	5,164	29,023	34,187
variable rate	1,071	1,745	1,443	-	991	-	-	-	-	-	-	-	3,505	1,745	5,250
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	6,440	4,562	6,440	4,562	11,002
Non-trading instruments mandatorily at fair value through profit or loss	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**22,403**	**5,109**	**22,403**	**5,109**	**27,512**
fixed rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
variable rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	22,403	5,109	22,403	5,109	27,512
Securities at fair value through other comprehensive income	**68,525**	**42,076**	**142,135**	**81,260**	**408,288**	**52,665**	**119,081**	**64,060**	**349,897**	**523,535**	**1,965**	**30,362**	**1,089,891**	**793,958**	**1,883,849**
fixed rate	48,869	42,076	60,922	81,260	351,691	52,665	119,081	59,750	348,910	523,535	-	-	929,473	759,286	1,688,759
variable rate	19,656	-	81,213	-	56,597	-	-	4,310	987	-	-	-	158,453	4,310	162,763
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	1,965	30,362	1,965	30,362	32,327
Loans at amortized cost	**441,995**	**2,749,040**	**880,215**	**659,955**	**131,993**	**623,734**	**280,605**	**205,738**	**1,137,939**	**819,655**	**61,697**	**39,501**	**2,934,444**	**5,097,623**	**8,032,067**
fixed rate	14,422	720,941	1,933	108,312	22,887	324,938	219,491	168,363	709,526	399,139	-	-	968,259	1,721,693	2,689,952
variable rate	427,573	2,028,099	878,282	551,643	109,106	298,796	61,114	37,375	428,413	420,516	-	-	1,904,488	3,336,429	5,240,917
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	61,697	39,501	61,697	39,501	101,198
Loans measured at fair value through profit or loss	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**32,745**	**1,780**	**32,745**	**1,780**	**34,525**
fixed rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
variable rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	32,745	1,780	32,745	1,780	34,525
Securities at amortized cost	**-**	**37,214**	**5,062**	**571**	**122,161**	**8,780**	**107,518**	**16,740**	**1,383,536**	**56,328**	**2,535**	**75**	**1,620,812**	**119,708**	**1,740,520**
fixed rate	-	37,214	5,062	571	122,161	8,780	107,518	16,740	1,383,536	56,328	-	-	1,618,277	119,633	1,737,910
variable rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	2,535	75	2,535	75	2,610
Fair value adjustment of derivative financial instruments	**842,714**	**477,367**	**907,278**	**442,794**	**645,969**	**447,455**	**19,192**	**264,128**	**23,172**	**84,528**	**234,315**	**120,494**	**2,672,640**	**1,836,766**	**4,509,406**
fixed rate	814,440	475,377	756,860	408,892	643,141	409,431	19,192	264,128	23,172	84,528	-	-	2,256,805	1,642,356	3,899,161
variable rate	28,274	1,990	150,418	33,902	2,828	38,024	-	-	-	-	-	-	181,520	73,916	255,436
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	234,315	120,494	234,315	120,494	354,809
Other financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**37,922**	**16,744**	**37,922**	**16,744**	**54,666**
fixed rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
variable rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	37,922	16,744	37,922	16,744	54,666

NOTE 33: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

33.4. Interest rate risk management [continued]

As at 31 December 2018 [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 the Hungarian Government, to the National Banks and other banks	**32,140**	**149,357**	**1,259**	**9,753**	**1,159**	**6,727**	**2,463**	**6,463**	**128,135**	**6,436**	**9,253**	**7,431**	**174,409**	**186,167**	**360,576**
fixed rate	8,655	111,126	1,254	6,929	1,152	3,907	2,463	6,463	128,135	6,436	-	-	141,659	134,861	276,520
variable rate	23,485	38,231	5	2,824	7	2,820	-	-	-	-	-	-	23,497	43,875	67,372
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	9,253	7,431	9,253	7,431	16,684
Financial liabilities designated at fair value through profit or loss	**32,130**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**32,130**	**-**	**32,130**
fixed rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
variable rate	32,130	-	-	-	-	-	-	-	-	-	-	-	32,130	-	32,130
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deposits from customers	**767,504**	**4,038,620**	**190,038**	**449,593**	**97,267**	**595,259**	**39,958**	**50,021**	**4,041,988**	**747,734**	**3,062**	**264,041**	**5,139,817**	**6,145,268**	**11,285,085**
fixed rate	437,707	1,508,239	190,026	446,960	97,266	595,017	39,958	50,017	4,041,988	747,709	-	-	4,806,945	3,347,942	8,154,887
variable rate	329,797	2,530,381	12	2,633	1	242	-	4	-	25	-	-	329,810	2,533,285	2,863,095
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	3,062	264,041	3,062	264,041	267,103
Liabilities from issued securities	**23,608**	**1,065**	**133,223**	**1,903**	**4,211**	**2,098**	**5,611**	**42**	**242,710**	**47**	**3,424**	**24**	**412,787**	**5,179**	**417,966**
fixed rate	-	227	39,265	-	2,156	4	5,611	42	242,710	47	-	-	289,742	320	290,062
variable rate	23,608	838	93,958	1,903	2,055	2,094	-	-	-	-	-	-	119,621	4,835	124,456
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	3,424	24	3,424	24	3,448
Fair value adjustment of derivative financial instruments	**1,095,148**	**227,313**	**963,041**	**363,943**	**615,257**	**464,843**	**273,251**	**14,581**	**39,995**	**60,652**	**214,445**	**139,054**	**3,201,137**	**1,270,386**	**4,471,523**
fixed rate	1,068,144	216,646	823,357	341,469	612,805	441,177	273,251	14,581	39,995	60,652	-	-	2,817,552	1,074,525	3,892,077
variable rate	27,004	10,667	139,684	22,474	2,452	23,666	-	-	-	-	-	-	169,140	56,807	225,947
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	214,445	139,054	214,445	139,054	353,499
Leasing liabilities	**-**	**10**	**-**	**9**	**-**	**27**	**-**	**4**	**-**	**-**	**-**	**-**	**-**	**50**	**50**
fixed rate	-	10	-	9	-	27	-	4	-	-	-	-	-	50	50
variable rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**106,999**	**35,664**	**106,999**	**35,664**	**142,663**
fixed rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
variable rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	106,999	35,664	106,999	35,664	142,663
Subordinated bonds and loans	**-**	**-**	**-**	**76,498**	**-**	**-**	**-**	**-**	**-**	**4,903**	**-**	**28**	**-**	**81,429**	**81,429**
fixed rate	-	-	-	-	-	-	-	-	-	4,903	-	-	-	4,903	4,903
variable rate	-	-	-	76,498	-	-	-	-	-	-	-	-	-	76,498	76,498
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	28	-	28	28
Net position	(462,088)	(622,168)	657,513	340,312	625,982	99,853	205,974	481,014	(1,558,284)	683,596	296,879	760,857	(234,024)	1,743,464	1,509,440

NOTE 33: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

33.5. Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group applies a 'Value-at-Risk' (VaR) methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Management Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis. (Analysis of liquidity risk, foreign currency risk and interest rate risk is detailed in Notes 33.2., 33.3. and 33.4., respectively.)

33.5.1. Market Risk sensitivity analysis

The VaR risk measure estimates the potential loss in pre-tax profit over a given holding period for a specified confidence level.

The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99% VaR number used by the Group reflects the 99% probability that the daily loss will not exceed the reported VaR.

VaR methodologies are employed to calculate daily risk numbers include the historical and variance-covariance approach. The diversification effect has not been validated among the various market risk types when capital calculation happens.
In addition to these two methodologies, Monte Carlo simulations are applied to the various portfolios on a monthly basis to determine potential future exposure.

The VaR of the trading portfolio can be summarized as follows (in HUF mn):

Historical VaR (99%, one-day) by risk type	**Average**	
	2019	**2018**
Foreign exchange	479	504
Interest rate	172	212
Equity instruments	21	33
Diversification	-	-
Total VaR exposure	**672**	**749**

The table above shows the VaR figures by asset classes. Since processes driving the value of the major asset classes are not independent (for example the depreciation of HUF against the EUR mostly coincide with the increase of the yields of Hungarian Government Bonds), a diversification impact emerges, so the overall VaR is less than the sum of the VaR of each individual asset class.

While VaR captures the Group's daily exposure to currency and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year. The longer time frame of sensitivity analysis complements VaR and helps the Group to assess its market risk exposures. Details of sensitivity analysis for foreign currency risk are set out in Note 33.5.2., for interest rate risk in Note 33.5.3., and for equity price sensitivity analysis in Note 33.5.4.

NOTE 33: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

33.5. Market risk [continued]

33.5.2. Foreign currency sensitivity analysis

The following table details the Group's sensitivity to an increase and decrease in the HUF exchange rate against the EUR and USD, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents Management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign activities.
The strategic open position related to the foreign operations was short and amounted to EUR 310 million (kept to hedge the currency risk of the expected FX-denominated net earnings of the main foreign subsidiaries) as at 31 December 2019[1]. 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	
	2019	2018
	In HUF billion	In HUF billion
1%	(12.2)	(12.2)
5%	(8.4)	(8.3)
25%	(3.5)	(3.5)
50%	(0.4)	(0.4)
25%	2.6	2.6
5%	6.8	6.7
1%	9.7	9.6

Notes:
(1) The short term loss on the strategic open position is compensated by the long-term exchange rate gain on the foreign operations.
(2) Monte Carlo simulation is based on the empirical distribution of the historical exchange rate movements between 2002 and 2019.

The effect on equity of the foreign currency sensitivity analysis is not significant either for the year ended 31 December 2019 or 2018.

33.5.3. Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. The analysis is prepared assuming the amount of assets and liabilities outstanding at the balance sheet date was outstanding for the whole year. The analysis was prepared by assuming only adverse interest rate changes. The main assumptions were as follows:

- Floating rate assets and liabilities were repriced to the modelled benchmark yields at the repricing dates assuming the unchanged margin compared to the last repricing.
- Fixed rate assets and liabilities were repriced at the contractual maturity date.
- As for liabilities with discretionary repricing feature by the Bank were assumed to be repriced with two-weeks delay, assuming no change in the margin compared to the last repricing date.
- Assets and liabilities with an interest rate lower than 0.3% were assumed to be unchanged for the whole period.

[1] Significant events after the reporting period related to strategic open position please see Note 48.

NOTE 33: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

33.5 Market risk [continued]

33.5.3. 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 stays unchanged and BUBOR decreases gradually to 0.0% (probable scenario)
(2) HUF base rate stays unchanged and BUBOR decreases gradually by 50 bps over the next year (alternative scenario)

The net interest income in a one year period after 1 January 2020 would be decreased by HUF 1,205 million (probable scenario) and HUF 3,060 million (alternative scenario) as a result of these simulation. The same simulation indicated HUF 1,309 million (probable scenario) and HUF 3,424 million (alternative scenario) decrease in the Net interest income in a one year period after 31 December 2018.
This effect is counterbalanced by capital gains HUF 223 million (or probable scenario), HUF 2,670 million (for alternative scenario) as at 31 December 2019 and (HUF 268 million for probable scenario, HUF 3,331 million for alternative scenario) as at 31 December 2018 on the government bond portfolio held for hedging (economic).

Furthermore, the effects of an instant 10bps parallel shift of the HUF, EUR and USD yield-curves on net interest income over a one-year period and on the market value of the hedge government bond portfolio booked against capital was analysed. The results can be summarized as follows (in HUF million):

	2019		2018	
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	(1,742)	558	(1,815)	671
EUR (0.1%) parallel shift	(1,261)	-	(373)	-
USD (0.1%) parallel shift	(253)	-	(172)	-
Total	**(3,256)**	**558**	**(2,360)**	**671**

33.5.4. Equity price sensitivity analysis

The following table shows the effect of the equity price sensitivity. The Group uses VaR calculation with 1 day holding period and a 99% confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. The daily loss will not exceed the reported VaR number with 99% of probability.
The stress test assumes the largest price movement of the last year and calculates with it as the adverse direction. These scenarios show the loss of the portfolio when all prices change with the maximum amount of the last year.

Description	**2019**	**2018**
VaR (99%, one day, HUF million)	21	33
Stress test (HUF million)	(52)	(43)

NOTE 33: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

33.6. Capital management

Capital management

The primary objective of the capital management of the Group is to ensure the prudent operation, the entire compliance with the prescriptions of the regulator for a persistent business operation and maximising the shareholder value, accompanied by an optimal financing structure.
The capital management of the Group members includes the management and evaluation of the shareholders` equity available for hedging risks, other types of funds to be recorded in the equity and all material risks to be covered by the capital.
The basis of the capital management of the Group members in the short run is the continuous monitoring of their capital position, in the long run the strategic and the business planning, which includes the monitoring and forecast of the capital position.
The Group members maintain the capital adequacy required by the regulatory bodies and the planned risk taking mainly by means of ensuring and developing their profitability. In case the planned risk level of a Group member exceeded its Core and the previously raised Supplementary capital, it ensures the prudent operation by occasional measures. A further tool in the capital management of the Bank is the dividend policy, and the transactions performed with the treasury shares.

Capital adequacy

The Capital Requirements Directive package (CRDIV/CRR) transposes the new global standards on banking regulation (known as the Basel III agreement) into the EU legal framework. The new rules are applied from 1 January 2014. They set stronger prudential requirements for institutions, requiring them to keep sufficient capital reserves and liquidity. This new framework makes institutions in the EU more solid and strengthens their capacity to adequately manage the risks linked to their activities, and absorb any losses they may incur in doing business.
The capital adequacy of the Group is supervised based on the financial statements data prepared in accordance with IFRS applying the current directives, rulings and indicators from 1 January 2014.

The Group has entirely complied with the regulatory capital requirements in year 2019 as well as in year 2018.

The Group uses the standard method for determining the regulatory capital requirements of the credit risk and market risk, and parallel to that, the base indicator method and the advanced method (AMA) in case of the operational risk.

For international comparison purposes, the Group calculated the Regulatory capital based on IFRS data as adopted by the EU, and the consolidated Capital adequacy ratio based on this in accordance with the regulations of Basel III. The Capital adequacy ratio of the Group (IFRS) was 16.3%, the Regulatory capital was HUF 2,321,248 million and the Total regulatory capital requirement was HUF 1,140,976 million as at 31 December 2019. The same ratios calculated as at 31 December 2018 were the following: 18.3%, HUF 1,731,970 million and HUF 759,113 million.

NOTE 33: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

33.6. Capital management [continued]

Capital adequacy [continued]

Calculation on IFRS basis	**2019**	**2018**
Core capital (Tier 1) = Common Equity Tier 1 (CET 1)	***1,985,666***	***1,565,247***
Issued capital	28,000	28,000
Reserves	2,139,079	1,805,382
Fair value corrections	49,501	23,374
Other capital components	(33,225)	(115,807)
Non-controlling interests	2,571	1,313
Treasury shares	(60,931)	(67,999)
Goodwill and other intangible assets	(230,017)	(168,911)
Other adjustments	90,688	59,895
Additional Tier 1 (AT1)	-	-
Supplementary capital (Tier 2)	***335,582***	***166,723***
Subordinated bonds and loans	244,536	76,496
Other issued capital components	89,935	89,935
Components recognized in T2 capital issued by subsidiaries	1,111	292
Regulatory capital[1]	**2,321,248**	**1,731,970**
Credit risk capital requirement	1,002,390	637,284
Market risk capital requirement	15,905	32,379
Operational risk capital requirement	122,681	89,450
Total requirement regulatory capital	**1,140,976**	**759,113**
Surplus capital	**1,180,272**	**972,857**
CET 1 ratio	13.9%	16.5%
Tier 1 ratio	13.9%	16.5%
Capital adequacy ratio	**16.3%**	**18.3%**

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 contains the profit decreased by all the planned dividend payment and foreseeable charges.

NOTE 34: RECLASSIFICATION AND TRANSFER OF FINANCIAL INSTRUMENTS (in HUF mn)

Reclassification from securities held-for-trading to securities at fair value through other comprehensive income:

Date of reclassification	Reason for reclassification	Type of securities	Nominal value at reclassification	Fair value at the date of reclassification	EIR at the date of reclassification	Interest income
1 September 2018	Change in business model	Retail Hungarian government bonds	66,506	66,484	2%-6.4%	643

During the year 2018, securities issued by the Hungarian Government with the nominal value of HUF 66,506 million were transferred from the trading portfolio to the securities at fair value through other comprehensive income. The Bank has previously held retail government bonds in the portfolio at fair value through other comprehensive income. During 2018 the Bank changed the business model of the retail government bonds to manage all on the basis of a single business model aimed at collecting the future contractual cash flows and/or selling them.
In 2018, the terms and conditions of sale of retail government bonds and the pricing environment have changed significantly, as a result of which the Bank is no longer able to maintain its sole trading intent with these securities that the Bank applied earlier. Furthermore there is an option-agreement between the Bank and the Government Debt Management Agency ("GDMA") that GDMA will buy back this portfolio therefore it has been reclassified.

Financial assets transferred but not derecognised

	2019		2018	
	Transferred assets 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	-	-	493	461
Total	**-**	**-**	**493**	**461**
Financial assets at fair value through other comprehensive income				
Debt securities	40,912	40,253	26,663	24,921
Total:	**40,912**	**40,253**	**26,663**	**24,921**
Financial assets at amortised cost				
Debt securities			1,797	1,804
Loans and advances	5,263	2,555	460	-
Total	**5,263**	**2,555**	**2,257**	**1,804**
Total	**46,175**	**42,808**	**29,413**	**27,186**

As at 31 December 2019 and 2018, the Group had obligation from repurchase agreements about HUF 111 billion and HUF 1.8 billion respectively. Securities sold temporarily under repurchase agreements will continue to be recognized in the Consolidated Statement of Financial Position of the Group in the appropriate securities category. The related liability is measured at amortized cost in the Consolidated Statement of Financial Position as "Amounts due to the National Governments, to the National Banks and other banks".

NOTE 35: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn)

In the normal course of business, the Group becomes a party to various financial transactions that are not reflected on the Consolidated Statement of Financial Position and are referred to as off-balance sheet financial instruments. The following represent notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

NOTE 35: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn) [continued]

Contingent liabilities

	2019	2018
Commitments to extend credit	3,027,112	2,187,619
Guarantees arising from banking activities	966,649	600,278
Confirmed letters of credit	33,296	9,798
Contingent liabilities and commitments total in accordance with IFRS 9	**4,027,057**	**2,797,695**
Legal disputes (disputed value)	30,844	30,644
Other	285,296	255,271
Contingent liabilities and commitments total in accordance with IAS 37	**316,140**	**285,915**
Total	**4,343,197**	**3,083,610**

Legal disputes

At the balance sheet date the Group was involved in various claims and legal proceedings of a nature considered normal to its business. The level of these claims and legal proceedings corresponds to the level of claims and legal proceedings in previous years.

The Group believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash-flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation. Provisions due to legal disputes were HUF 28,650 million as at 31 December 2019 and HUF 25,930 million as at 31 December 2018, respectively. (See Note 21.)

Commitments to extend credit, guarantees and letters of credit

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans. The Management of the Group believes the market risk associated with guarantees, irrevocable letters of credit and undrawn loan commitments are minimal.

Guarantees, payment undertakings arising from banking activities

Payment undertaking is a promise by the Group to assume responsibility for the debt obligation of a borrower if that borrower defaults until a determined amount, until a determined date, in case of fulfilling conditions, without checking the underlying transactions. The guarantee's liability is joint and primary with the principal, in case of payment undertaking, while the Group assumes the obligation derived from guarantee independently by the conditions established by the Group.
A guarantee is most typically required when the ability of the primary obligor or principal to perform its obligations under a contract is in question, or when there is some public or private interest which requires protection from the consequences of the principal's default or delinquency. A contract of guarantee is subject to the statute of frauds (or its equivalent local laws) and is only enforceable if recorded in writing and signed by the surety and the principal.

NOTE 35: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn) [continued]

Guarantees, payment undertakings arising from banking activities [continued]

If the surety is required to pay or perform due to the principal's failure to do so, the law will usually give the surety a right of subrogation, allowing the surety to use the surety's contractual rights to recover the cost of making payment or performing on the principal's behalf, even in the absence of an express agreement to that effect between the surety and the principal.

Derivatives

The Group maintains strict control limits on net open derivative positions, i.e. the difference between purchase and sale contracts, by both amount and term. At any time the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets), which in relation to derivatives is only a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except for trading with clients, where the Group in most of the cases requires margin deposits.

NOTE 36: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn)

Previously approved option program required a modification thanks to the introduction of the Bank Group Policy on Payments accepted in resolution of Annual General Meeting regarding to the amendment of CRD III. Directives and Act on Credit Institutions and Financial Enterprises.
Key management personnel affected by the Bank Group Policy receive compensation based on performance assessment generally in the form of cash bonus and equity shares in a ratio of 50-50%. Assignment is based on OTP shares, furthermore performance based payments are deferred in accordance with the rules of Credit Institutions Act. The Bank ensures the share-based payment part for the management personnel of the Group members.
During implementation of the Remuneration Policy of the Group appeared that in case of certain foreign subsidiaries it is not possible to ensure the originally determined share-based payment because of legal reasons – incompatible with relevant EU-directives –, therefore a decision was made to cancel the share-based payment in affected countries, and virtual share based payment – cash payment fixed to share price - was made from 2017.

The quantity of usable shares for individuals calculated for settlement of share-based payment shall be determined as the ratio of the amount of share-based payment and share price determined by Supervisory Board[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 36: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn) [continued]

The parameters for the share-based payment relating to years from 2014 by the Board of Directors and from 2015 by the Supervisory Board for periods of each year as follows:

Year	Share purchasing at a discounted price		Price of remuneration exchanged to share	Share purchasing at a discounted price		Price of remuneration exchanged to share	Share purchasing at a discounted price		Price of remuneration exchanged to share
	Exercise price	Maximum earnings		Exercise price	Maximum earnings		Exercise price	Maximum earnings	
					HUF per share				
	for the year 2014			for the year 2015			for the year 2016		
2015	3,930	2,500	-	-	-	-	-	-	-
2016	3,930	3,000	-	4,892	2,500	6,892	-	-	-
2017	3,930	3,000	-	4,892	3,000	6,892	7,200	2,500	9,200
2018	3,930	3,000	-	4,892	3,000	6,892	7,200	3,000	9,200
2019	-	-	-	4,892	3,000	6,892	7,200	3,500	9,200
2020	-	-	-	-	-	-	7,200	4,000	9,200

Year	Share purchasing at a discounted price		Price of remuneration exchanged to share	Share purchasing at a discounted price		Price of remuneration exchanged to share
	Exercise price	Maximum earnings		Exercise price	Maximum earnings	
			HUF per share			
	for the year 2017			for the year 2018		
2018	8,064	3,000	10,064	-	-	-
2019	8,064	3,500	10,064	10,413	4,000	12,413
2020	8,064	4,000	10,064	10,413	4,000	12,413
2021	8,064	4,000	10,064	10,413	4,000	12,413
2022	8,064	4,000	10,064	10,913	4,000	12,413
2023	-	-	-	10,913	4,000	12,413
2024	-	-	-	10,913	4,000	12,413
2025	-	-	-	10,913	4,000	12,413

NOTE 36: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn) [continued]

Based on parameters accepted by Board of Directors relating to the year **2014** effective pieces are follows as at 31 December 2019:

	Approved pieces of shares	Exercised until 31 December 2019	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 31 December 2019
Share purchasing period started in 2015	176,459	176,459	5,828	-	-
Share purchasing period started in 2016	360,425	359,524	7,011	901	-
Share purchasing period started in 2017	189,778	189,778	9,362	-	-
Share purchasing period started in 2018	223,037	223,037	10,311	-	-

Based on parameters accepted by Supervisory Board relating to the year **2015** effective pieces are follows as at 31 December 2019:

	Approved pieces of shares	Exercised until 31 December 2019	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 31 December 2019
Share purchasing period started in 2016	152,247	152,247	7,373	-	-
Remuneration exchanged to share provided in 2016	10,947	10,947	6,509	-	-
Share purchasing period started in 2017	299,758	299,758	9,403	-	-
Remuneration exchanged to share provided in 2017	20,176	20,176	9,257	-	-
Share purchasing period started in 2018	166,047	166,047	10,238	-	-
Remuneration exchanged to share provided in 2018	9,229	9,229	10,098	-	-
Share purchasing period started in 2019	199,215	199,215	12,025	-	-
Remuneration exchanged to share provided in 2019	9,774	9,774	11,813	-	-

Based on parameters accepted by Supervisory Board relating to the year **2016** effective pieces are follows as at 31 December 2019:

	Approved pieces of shares	Exercised until 31 December 2019	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 31 December 2019
Share purchasing period started in 2017	147,984	147,984	9,544	-	-
Remuneration exchanged to share provided in 2017	4,288	4,288	9,194	-	-
Share purchasing period started in 2018	321,528	321,528	10,387	-	-
Remuneration exchanged to share provided in 2018	8,241	8,241	10,098	-	-
Share purchasing period started in 2019	161,446	148,111	11,794	-	13,335
Remuneration exchanged to share provided in 2019	4,033	4,033	11,813	-	-
Share purchasing period starting in 2020	-	-	-	-	172,356
Remuneration exchanged to share applying in 2020	-	-	-	-	4,567

NOTE 36: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn) [continued]

Based on parameters accepted by Supervisory Board relating to the year **2017** effective pieces are follows as at 31 December 2019:

	Approved pieces of shares	Exercised until 31 December 2019	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 31 December 2019
Share purchasing period started in 2018	108,243	108,243	11,005	-	-
Remuneration exchanged to share provided in 2018	11,926	11,926	10,098	-	-
Share purchasing period started in 2019	216,253	198,195	12,101	-	14,087
Remuneration exchanged to share provided in 2019	26,538	26,538	11,813	-	-
Share purchasing period starting in 2020	-	-	-	-	101,577
Remuneration exchanged to share applying in 2020	-	-	-	-	12,838
Share purchasing period starting in 2021	-	-	-	-	120,981
Remuneration exchanged to share applying in 2021	-	-	-	-	12,838
Share purchasing period starting in 2022	-	-	-	-	42,820
Remuneration exchanged to share applying in 2022	-	-	-	-	3,003

Based on parameters accepted by Supervisory Board relating to the year **2018** effective pieces are follows as at 31 December 2019:

	Approved pieces of shares	Exercised until 31 December 2019	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 31 December 2019
Share purchasing period started in 2019	82,854	82,854	13,843		-
Remuneration exchanged to share provided in 2019	17,017	17,017	11,829		-
Share purchasing period starting in 2020					150,230
Remuneration exchanged to share applying in 2020					33,291
Share purchasing period starting in 2021					74,529
Remuneration exchanged to share applying in 2021					16,167
Share purchasing period starting in 2022					99,341
Remuneration exchanged to share applying in 2022					17,042
Share purchasing period starting in 2023					45,155
Remuneration exchanged to share applying in 2023					4,114
Remuneration exchanged to share applying in 2024					864
Remuneration exchanged to share applying in 2025					432

Effective pieces relating to the periods starting in 2019-2025 settled during valuation of performance of year 2016-2018, can be modified based on risk assessment and personal changes.

In connection with shares given as a part of payments detailed in the *Direction of Chief Executive about the Remuneration of Work in OTP Bank* and the share-based compensation for Board of Directors and connecting compensation based on performance assessment accounted as equity-settled share based transactions, HUF 3,548 million and HUF 3,797 million was recognized as expense for the year ended 31 December 2019 and 2018 respectively.

NOTE 37: RELATED PARTY TRANSACTIONS (in HUF mn)

The compensation of key management personnel, such as the members of the Board of Directors, members of the Supervisory Board, key employees of the Bank and its major subsidiaries involved in the decision-making process in accordance with the compensation categories defined in IAS 24 Related Party Disclosures, is summarised below:

Compensations	2019	2018
Short-term employee benefits	8,453	7,817
Share-based payment	2,732	2,431
Other long-term employee benefits	636	390
Termination benefits	40	36
Post-employment benefits	35	26
Total	**11,896**	**10,700**

	2019	2018
Loans provided to companies owned by the Management (normal course of business)	55,517	62,971
Commitments to extend credit and guarantees	27,708	37,809
Credit lines of the members of Board of Directors and the Supervisory Board and their close family members and Treasury credit lines of the members of Board of Directors and their close family members (at normal market conditions)	666	3,692

	2019		2018	
Types of transactions	Non-consolidated subsidiaries	Associated companies	Non-consolidated subsidiaries	Associated companies
Loans provided	2,656	513	5,136	22
Client deposits	5,335	-	4,753	628
Net interest income on loan provided	32	-	144	-
Net fee incomes	30	-	39	-

An analysis of **credit line "A"** is as follows:

	2019	2018
Members of Board of Directors and their close family members	152.9	130.7
Executives	-	117
Members of Supervisory Board and their close family members	4.0	4.4
Total	**156.9**	**252.1**

An analysis of credit limit related to **MasterCard Gold** is as follows:

	2019	2018
Members of Board of Directors and their close family members	38.9	29
Executives	1	5
Total	**39.9**	**34**

An analysis of credit limit related to **MasterCard Bonus** is as follows:

	2019	2018
Executives	-	2
Total	**-**	**2**

NOTE 37: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

An analysis of credit limit related to **Visa Card** is as follows:

	2019	2018
Members of Board of Directors and their close family members	38.5	31.5
Members of Supervisory Board and their close family members	2.4	0.3
Total	**40.9**	**31.8**

An analysis of credit limit related to **AMEX Blue credit card loan** is as follows:

	2019	2018
Members of Board of Directors and their close family members	-	2.2

An analysis of credit limit related to **AMEX Gold credit card loan** is as follows:

	2019	2018
Members of Board of Directors and their close family members	7.3	4.2
Executives	33	35
Total	**40.3**	**39.2**

An analysis of credit limit related to **AMEX Platinum credit card loan** is as follows:

	2019	2018
Members of Board of Directors and their close family members	20	17
Executives and their close family members	69	79
Members of Supervisory Board and their close family members	5	-
Total	**94**	**96**

The Members of Board of Directors and their close family members owned credit limit related to other – above not listed - credit card in the amount of HUF 26.9 million and HUF 23.8 million as at 31 December 2019 and 2018.

An analysis of **Lombard loans**, **Personal loans** and **Loans distributed by the Bank in its capacity of employee** at the Bank is as follows:

	2019	2018
Members of Board of Directors and their close family members	53,661	29,084
Executives and their close family members	1,419	230
Members of Supervisory Board and their close family members	10	-
Total Lombard loans	**55,090**	**29,314**
Members of Board of Directors and their close family members	214	-
Executives	7	12
Total Personal loans	**221**	**12**
Executives	-	2
Total loans distributed by the Bank in its capacity of employee	**-**	**2**

An analysis of payment to executives of the Group related to their activity in Board of Directors and Supervisory Board is as follows:

	2019	2018
Members of Board of Directors	3,060	2,262
Members of Supervisory Board	227	202
Total	**3,287**	**2,464**

In the normal course of business, the Bank enters into other transactions with its unconsolidated subsidiaries of the Group, the amounts and volumes of which are not significant to these consolidated financial statements taken as a whole. Related party transactions were made on terms equivalent to those that prevail in arm's length transactions and such terms can be substantiated.

NOTE 38: ACQUISITION (in HUF mn)

Purchase and consolidation of subsidiaries

The Société Générale Group made a strategic decision about the disposal of its bank subsidiaries in the Central and Eastern European countries and the Balkan Region, in order to be able to strengthen its position in other regions. The strategic goal of OTP Group is to strengthen its presence in the Central and Eastern European region and to enter other markets of strategic importance. By completing these transactions the parties achieved part of their strategic goals. Based on market standards, OTP Group made the due diligence of the subsidiaries using data provided by the Vendor, then in line with the process defined by the Vendor, after several biddings, the decision was made about the selected subsidiaries. Following the agreement in principles the parties finalized the details of the purchase agreements which were fixed in contracts.
A comprehensive due diligence was performed before every acquisition decision, where in accordance with the main statements of the due diligence, the market environment, the historical performance of the target and the expected profit-making capacity of the target for the period after the closing according to the business plan, the realistic range of the purchase price was defined. Having taken into consideration some other aspects, management laid down the proposed purchase price. Purchasing an entity with positive or negative goodwill is reasoned by altogether the expected cost synergies arising from the market situation and the survey of joint profit-making capacity, the size of the marge typical for the markets, and other strategic considerations (gain of new market shares or increasing them).
Individually the purchase prices were not made public – as it was agreed with the Vendor – however, the aggregated purchase price was HUF 460,077 million.

On 13 December 2019 the financial closure of the Slovenian transaction has been completed (after the acquisition agreement was signed on 2 May 2019). As a result, OTP Bank has become 99.73% owner of **SKB Banka**, the Slovenian subsidiary of 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 38: 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	(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 38: 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	260,395	15,870	30,518	229,216	18,762	139,753
Financial liabilities at fair value through profit or loss	2,005	-	-	-	-	-
Deposits from customers	886,419	152,145	127,663	541,005	175,534	874,910
Liabilities from issued securities	-	-	-	-	-	-
Derivative financial liabilities held for trading	-	-	-	-	-	3,497
Derivative financial liabilities designated as hedge accounting	3,016	-	-	-	-	-
Leasing liabilities	1,909	-	246	2,422	1,257	4,838
Other liabilities	16,976	3,305	11,739	16,425	1,838	16,886
Subordinated bonds and loans	-	-	-	24,244	-	3,878
Total liabilities	**1,170,720**	**171,320**	**170,166**	**813,312**	**197,391**	**1,043,762**
Net assets	**(137,965)**	**(32,749)**	**(23,663)**	**(149,570)**	**(22,433)**	**(165,316)**

	2019
Net assets total	(531,696)
Non-controlling interest	4,103[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 38: 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
Összesen	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
Összesen	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 39: SIGNIFICANT SUBSIDIARIES AND ASSOCIATES (in HUF mn)

The control is established when the Group has the right and exposure over the variable positive yield of the investee but the same time put up with the consequences of the negative returns and the Group by its decisions is able to influence the extent of the yields.
The Group primarily considering the following factors in the process of determining the existing of the control:
- investigation of the decision making mechanism of the entity,
- authority of the Board of Directors, Supervisory Board and General meeting based on the deed of association,
- existence of investments with preferential voting rights.

If the control can't be obviously determined then it should be supposed that the control does not exist.
Significant influence is presumed by the Group to exist – unless the contrary case is proven – when the Group holds 20% or more of the voting power of an investee but does not have a control.

Investments in companies in which the Bank has a controlling interest are detailed below. They are fully consolidated companies and incorporated in Hungary unless otherwise stated. The Bank considers the subsidiaries as cash generating units.

Significant subsidiaries

Name	Ownership (Direct and Indirect) 2019	2018	Activity
DSK Bank EAD (Bulgaria)	100.00%	100.00%	commercial banking services
Expressbank AD (Bulgaria)	99.74%	-	commercial banking services
OTP Bank JSC (Ukraine)	100.00%	100.00%	commercial banking services
JSC "OTP Bank" (Russia)	97.91%	97.90%	commercial banking services
OTP banka Hrvatska d.d. (Croatia)	100.00%	100.00%	commercial banking services
OTP Bank Romania S.A. (Romania)	100.00%	100.00%	commercial banking services
Vojvodjanska banka a.d. Novi Sad (Serbia)	100.00%	100.00%	commercial banking services
OTP banka Srbija a.d. Beograd (Serbia)	100.00%	-	commercial banking services
Crnogorska komercijalna banka a.d. (Montenegro)	100.00%	100.00%	commercial banking services
Podgorička banka AD Podgorica (Montenegro)	100.00%	-	commercial banking services
Banka OTP Albania SH.A. (Albania)	100.00%	-	commercial banking services
Mobiasbanca - OTP Group S.A. (Moldova)	98.26%	-	commercial banking services
SKB Banka d.d. Ljubljana (Slovenia)	99.66%	-	commercial banking services
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 39: SIGNIFICANT SUBSIDIARIES AND ASSOCIATES (in HUF mn) [continued]

Significant associates and joint ventures[1]

Most significant indicators of associates and joint ventures which are accounted for using equity method (Szallas.hu and D-ÉG Thermoset Ltd.) or accounted on cost (Company for Cash Services Ltd.) is as follows:

As at 31 December 2019

	Szallas.hu Ltd.	*D-ÉG Thermoset Ltd.*	*Company for Cash Services Ltd.*	*Total*
Total assets	4,939	3,883	2,736	**11,558**
Total liabilities	1,429	4,629	186	**6,244**
Shareholders' equity	3,510	(746)	2,550	**5,314**
Total revenues	3,405	2,386	1,315	**7,106**
Ownership	50.0%	0.10%	25.0%	

As at 31 December 2018

	Szallas.hu Ltd.	*D-ÉG Thermoset Ltd.*	*Company for Cash Services Ltd.*	*Total*
Total assets	2,135	3,883	2,377	**8,395**
Total liabilities	813	4,629	112	**5,554**
Shareholders' equity	1,322	(746)	2,265	**2,841**
Total revenues	4,172	2,386	1,136	**7,694**
Ownership	30.0%	0.10%	20.0%	

NOTE 40: TRUST ACTIVITIES (in HUF mn)

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds. As these loans and related funds are not considered to be assets or liabilities of the Group, they have been excluded from the accompanying Consolidated Statement of Financial Position.

	2019	**2018**
The amount of loans managed by the Group as a trustee	37,320	38,647

NOTE 41: CONCENTRATION OF ASSETS AND LIABILITIES

	2019	**2018**
In the percentage of the total assets		
Receivables from, or securities issued by the Hungarian Government or the NBH	15.63%	18.98%

There were no other significant concentrations of the assets or liabilities of the Group as at 31 December 2019 or 2018 respectively.

The Group continuously provides the Authority with reports on the extent of dependency on large depositors as well as the exposure of the biggest 50 depositors towards the Group.

[1] Based on unaudited financial statements.

NOTE 41: 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 42: CONSOLIDATED EARNINGS PER SHARE (in HUF mn)

Consolidated Earnings per share attributable to the ordinary shares of the Group are determined by dividing consolidated Net profit for the period attributable to ordinary shareholders, after the deduction of declared preference dividends, by the weighted average number of ordinary shares outstanding during the year. Dilutive potential ordinary shares are deemed to have been converted into ordinary shares.

Consolidated earnings per share from continuing and discontinued operations

	2019	**2018**
Consolidated net profit for the period attributable to ordinary shareholders (in HUF mn)	412,241	318,233
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	261,593,299	261,816,188
Basic Earnings per share (in HUF)	**1,576**	**1,215**
Consolidated net profit for the period attributable to ordinary shareholders (in HUF mn)	412,241	318,233
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	261,660,993	261,939,080
Diluted Earnings per share (in HUF)	**1,575**	**1,215**

NOTE 42: CONSOLIDATED EARNINGS PER SHARE (in HUF mn) [continued]

	2019	2018
Consolidated earnings per share from continuing operations		
Consolidated net profit for the period attributable to ordinary shareholders (in HUF mn)	416,909	318,811
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	261,593,299	261,816,188
Basic Earnings per share (in HUF)	1,594	1,218
Consolidated net profit for the period attributable to ordinary shareholders (in HUF mn)	416,909	318,811
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	261,660,993	261,939,080
Diluted Earnings per share (in HUF)	1,593	1,217

	2019	2018
	Number of shares	
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	18,406,711	18,183,822
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	**261,593,299**	**261,816,188**
Dilutive effects of options issued in accordance with the remuneration policy and convertible into ordinary shares[1]	67,694	122,892
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	**261,660,993**	**261,939,080**

NOTE 43: NET GAIN OR LOSS REALIZED ON FINANCIAL INSTRUMENTS (in HUF mn)

As at 31 December 2019

	Net interest / similar to interest gain and loss	Net non-interest gain and loss	Loss allowances	Other Comprehensive Income
Cash, amounts due from banks and balances with the National Banks	2,037	-	-	-
Placements with other banks, net of loss allowance for placements	11,309	-	235	-
Trading securities at fair value through profit or loss	-	2,542	-	-
Non-trading instruments mandatorily at fair value through profit or loss	202	1,914	-	-
Securities at fair value through other comprehensive income	46,521	8,485[2]	(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[3]	-	280	-
Derivative financial instruments	773[2]	(996)	-	-
Total result on financial assets	**781,947**	**35,200**	**(48,831)**	**30,224**

[1] Both in year 2019 and in year 2018 the dilutive effect is in connection with the Remuneration Policy and the Management Option Program.

[2] For the year ended 31 December 2019 and 2018 HUF 8,485 million and HUF 301 million net non-interest gain on securities at fair value through other comprehensive income was transferred from other comprehensive income to profit or loss.

[3] Gains from other financial assets and derivative financial instruments recognised in net interest income as Income similar to interest income.

NOTE 43: NET GAIN OR LOSS REALIZED ON FINANCIAL INSTRUMENTS (in HUF mn) [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	(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**

As at 31 December 2018

	Net interest / similar to interest gain and loss	Net non-interest gain and loss	Loss allowances	Other Comprehensive Income
Cash, amounts due from banks and balances with the National Banks	421	-	-	-
Placements with other banks, net of loss allowance for placements	7,205	-	(144)	-
Trading securities at fair value through profit or loss	-	598	-	-
Non-trading instruments mandatorily at fair value through profit or loss	6	-	-	-
Securities at fair value through other comprehensive income	37,912	301[1]	820	(22,333)
Loans at amortized cost	542,101	18,519	(22,472)	-
Loans measured at fair value through profit or loss	800	-	-	-
Securities at amortized cost	59,205	-	(213)	-
Other financial assets	3,958[2]	-	(326)	-
Derivative financial instruments	25,634[2]	9,409	-	-
Total result on financial assets	**677,242**	**28,827**	**(22,335)**	**(22,333)**
Amounts due to the National Governments, to the National Banks and other banks	(8,386)	-	-	-
Financial liabilities designated at fair value through profit or loss	(355)	144	-	-
Deposits from customers	(46,637)	195,323	-	-
Liabilities from issued securities	(6,310)	-	-	-
Leasing liabilities	-	-	-	-
Subordinated bonds and loans	(2,169)	-	-	-
Total result on financial liabilities	**(63,857)**	**195,467**	**-**	**-**
Total result on financial instruments	**613,385**	**224,294**	**(22,335)**	**(22,333)**

NOTE 44: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn)

In determining the fair value of a financial asset or liability the Group in the case of instruments that are quoted on an active market uses the market price. In most cases market price is not publicly available so the Group has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 44. d) for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.

To provide a reliable estimate of the fair value of those financial instrument that are originally measured at amortized cost, the Group used the discounted cash-flow analyses (loans, placements with other banks, amounts due to banks, deposits from customers). The fair value of issued securities and subordinated bonds is based on quoted prices (e.g. Reuters). Cash and amounts due from banks and balances with the National Banks represent amounts available immediately thus the fair value equals to the cost.

The assumptions used when calculating the fair value of financial assets and liabilities when using valuation technique are the following:

- the discount rates are the risk free rates related to the denomination currency adjusted by the appropriate risk premium as of the end of the reporting period,
- the contractual cash-flows are considered for the performing loans and for the non-performing loans, the amortized cost less impairment is considered as fair value,
- the future cash-flows for floating interest rate instruments are estimated from the yield curves as of the end of the reporting period,
- the fair value of the deposit which can be due in demand cannot be lower than the amount payable on demand.

Classes of assets and liabilities not measured at fair value in the statement of financial position, the income approach was used to convert future cash-flows to a single current amount. Fair value of current assets is equal to carrying amount, fair value of liabilities from issued securities and other bond-type classes of assets and liabilities not measured at fair value measured based on Reuters market rates, and fair value of other classes not measured at fair value of the statement of financial position is measured at discounted cash-flow method. Fair value of loans, net of loss allowance for loans measured at discount rate adjustment technique, the discount rate is derived from observed rates of return for comparable assets or liabilities that are traded in the market.

Fair value measurements – in relation to instruments measured not at fair value – are categorized in level 2 of the fair value hierarchy.

NOTE 44: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

a) Fair value of financial assets and liabilities

	2019		2018	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash, amounts due from banks and balances with the National Banks	1,784,378	1,784,378	1,547,272	1,547,272
Placements with other banks, net of loss allowance for placements	410,079	383,455	420,606	419,458
Financial assets at fair value through profit or loss	251,990	251,990	181,356	181,356
Trading securities at fair value through profit or loss	*100,048*	*100,048*	*50,439*	*50,439*
Fair value of derivative financial assets held for trading	*110,624*	*110,624*	*103,405*	*103,405*
Non-trading instruments mandatorily at fair value through profit or loss	*39,317*	*39,317*	*27,512*	*27,512*
Financial assets designated at fair value through profit or loss	*2,001*	*2,001*	-	-
Securities at fair value through other comprehensive income	2,426,779	2,426,779	1,883,849	1,883,849
Loans at amortized cost[1]	11,846,260	12,546,426	8,032,068	8,524,607
Loans measured at fair value through profit or loss	32,802	32,802	34,525	34,525
Securities at amortized cost	1,968,072	2,087,633	1,740,520	1,810,096
Derivative financial assets designated as hedge accounting	7,463	7,463	15,201	15,201
Other financial assets	123,053	123,053	54,666	54,666
Financial assets total	**18,850,876**	**19,643,979**	**13,910,063**	**14,471,030**
Amounts due to the National Governments, to the National Banks and other banks	813,399	1,071,520	360,475	349,810
Financial liabilities designated at fair value through profit or loss	30,862	30,862	32,231	32,231
Deposits from customers	15,171,308	15,240,968	11,285,085	11,274,889
Liabilities from issued securities	393,167	494,196	417,966	488,905
Held-for-trading derivative financial liabilities	86,743	86,743	73,316	73,316
Derivative financial liabilities designated as hedge accounting	10,709	10,709	7,407	7,407
Leasing liabilities	54,194	54,194	50	50
Other financial liabilities	338,020	338,020	142,663	142,663
Subordinated bonds and loans	249,938	237,381	81,429	72,623
Financial liabilities total	**17,148,340**	**17,564,593**	**12,319,193**	**12,369,271**

[1] Higher discount rate due to the lower yield environment resulted in higher fair value comparing to the carrying values.

NOTE 44: 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:

	Fair value	
	2019	**2018**
Interest rate swaps held for trading		
Positive fair value of interest rate swaps held for trading	61,198	44,120
Negative fair value of interest rate swaps held for trading	(46,717)	(27,956)
Foreign exchange swaps held for trading		
Positive fair value of foreign exchange swaps held for trading	35,602	31,994
Negative fair value of foreign exchange swaps held for trading	(28,453)	(27,120)
CCIRS held for trading		
Positive fair value of CCIRS held for trading	1,216	12,417
Negative fair value of CCIRS held for trading	(1,037)	(9,165)
Other derivative contracts held for trading		
Positive fair value of other derivative contracts held for trading	12,608	14,874
Negative fair value of other derivative contracts held for trading	(10,536)	(9,075)
Interest rate swaps designated as fair value hedge		
Positive fair value of interest rate swaps designated as fair value hedge	3,758	5,610
Negative fair value of interest rate swaps designated as fair value hedge	(8,839)	(6,458)
CCIRS designated as fair value hedge		
Positive fair value of CCIRS designated as fair value hedge	3,705	4,003
Negative fair value of CCIRS designated as fair value hedge	(1,870)	(352)
Interest rate swaps designated as cash-flow hedge		
Positive fair value of interest rate swaps designated as cash-flow hedge	-	3,751
Negative fair value of interest rate swaps designated as cash-flow hedge	-	(523)
MIRS designated as cash-flow hedge		
Positive fair value of MIRS designated as cash-flow hedge	-	1,837
Negative fair value of MIRS designated as cash-flow hedge	-	(74)
Derivative financial assets total	**118,087**	**118,606**
Derivative financial liabilities total	**(97,452)**	**(80,723)**
Derivative financial instruments total	**20,635**	**37,883**

NOTE 44: 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 31 December 2019

Type of hedge	Type of risk	Type of instrument	Within one month	Within three months and over one month	Within one year and over three months	Within five years and over one year	More than five years	Total
Fair Value Hedge	**Interest rate risk**	**Interest rate swap**						
		HUF						
		Notional	-	-	229,600	65,268	145,510	**440,378**
		Average Interest Rate (%)	-	-	1.84%	1.29%	1.26%	
		EUR						
		Notional	-	20	-	177	27	**224**
		Average Interest Rate (%)	-	3.88%	-	0.14%	0.61%	
		USD						
		Notional	-	-	8	437	29	**474**
		Average Interest Rate (%)	-	-	2.64%	1.92%	2.35%	
		RUB						
		Notional	-	-	-	2,100	-	**2,100**
		Average Interest Rate (%)	-	-	-	7.38%	-	
Fair Value Hedge	**FX & IR risk**	**Cross currency interest rate swap**						
		EUR/HUF						
		Notional	-	-	2	15	14	**31**
		Average Interest Rate (%)	-	-	(1.60%)	(1.63%)	(1.66%)	
		Average FX Rate	-	-	310.37	309.79	308.69	

NOTE 44: 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	**FX 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	-	
	Other	**Interest rate swap**						
		HUF						
		Notional	-	(310)	13,644	15,763	-	**29,097**

Amount, timing and uncertainty of future cash flows – hedging instruments as at 31 December 2018

Type of hedge	Type of risk	Type of instrument	Within one month	Within three months and over one month	Within one year and over three months	Within five years and over one year	More than five years	Total
Fair Value Hedge	**Interest rate risk**	**Interest rate swap**						
		HUF						
		Notional	-	-	163,114	289,600	368	**453,082**
		Average Interest Rate (%)	-	-	1.72%	1.73%	1.57%	

NOTE 44: 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 2018 [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**	**Interest rate swap**						
		EUR						
		Notional	10	-	-	187	27	**224**
		Average Interest Rate (%)	6.00%	-	-	0.54%	0.58%	
		USD						
		Notional	-	-	6	400	74	**480**
		Average Interest Rate (%)	-	-	2.68%	1.91%	2.22%	
Fair Value Hedge	**FX & IR risk**	**Cross currency interest rate swap**						
		EUR/HUF						
		Notional	-	1	-2	15	16	**30**
		Average Interest Rate (%)	(1.67%)	(1.58%)	(1.70%)	(1.61%)	(1.63%)	
		Average FX Rate	306.30	310.86	304.09	309.85	308.81	
Fair Value Hedge	**FX risk**	**Cross currency interest rate swap**						
		RON/HUF						
		Notional	-	-	-	1,200	-	**1,200**
		Average FX Rate	-	-	-	68.66	-	
		RUB/HUF						
		Notional	-	-	-	7,000	-	**7,000**
		Average FX Rate	-	-	-	4.23	-	
Fair Value Hedge	**Other**	**Interest rate swap**						
		HUF						
		Notional	-	2,879	1,776	30,479	837	**35,971**
Cash flow Hedge	**Interest rate risk**	**Interest rate swap**						
		HUF						
		Notional	-	-	-	24,388	56,054	**80,442**
		Average FX Rate	-	-	-	1.77	2.46	

NOTE 44: 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 instrument	Type of risk	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument as at 31 December 2019		Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness for the year ended 31 December 2019
				Assets	Liabilities		
Fair value hedge							
	Interest rate swap	Interest rate risk	687,820	2,251	(8,839)	Derivative financial instruments designated as hedge accounting	341
	Cross-currency swap	FX & IR risk	11,681	-	(488)	Derivative financial instruments designated as hedge accounting	(103)
	Cross-currency swap	FX risk	137,390	3,705	(1,382)	Derivative financial instruments designated as hedge accounting	(271)
	Interest rate swap	Other	30,983	1,507	-	Derivative financial instruments designated as hedge accounting	7

As at 31 December 2018 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 2018		Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness for the year ended 2018
				Assets	Liabilities		
Fair value hedge							
	Interest rate swap	Interest rate risk	661,704	2,649	(6,051)	Derivative financial instruments designated as hedge accounting	1,551
	Cross-currency swap	FX & IR risk	12,998	735	(181)	Derivative financial instruments designated as hedge accounting	(160)
	Cross-currency swap	FX risk	115,060	4,003	(170)	Derivative financial instruments designated as hedge accounting	(438)
	Interest rate swap	Other	38,834	1,818	-	Derivative financial instruments designated as hedge accounting	(3)
Cash flow hedge							
	Interest rate swap	Interest rate risk	173,600	5,588	(597)	Derivative financial instruments designated as hedge accounting	(278)

NOTE 44: 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 as at 31 December 2019		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item for the year ended 31 December 2019		Line item in the statement of financial position in which the hedged item is included
		Assets	Liabilities	Assets	Liabilities	
Fair value hedges						
- Loans	***Interest rate risk***	36,709	-	521	-	Loans
- Government bonds	***Interest rate risk***	578,026	-	109	-	Securities at amortised cost
- Government bonds	***Interest rate risk***	144,234	-	1,074	-	Securities at fair value through other comprehensive income
- Government bonds	***Interest rate risk***	-	-	-	-	Financial assets at fair value through profit or loss
- Other securities	***Interest rate risk***	85,231	-	166	-	Securities at fair value through other comprehensive income
- Loans	***FX & IR risk***	12,242	-	2	-	Loans
- Loans	***FX risk***	136,088	-	1,465	-	Loans
- Other securities	***Other risk***	-	(29,018)	-	(5,765)	Liabilities from issued securities
Fair value hedges total		**992,530**	**(29,018)**	**3,337**	**(5,765)**	

NOTE 44: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Types of hedge accounting [continued]

As at 31 December 2018 is as follows:

Type of hedge	Type of risk	Carrying amount of the hedged item for the year ended 2018		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item for the year ended 2018		Line item in the statement of financial position in which the hedged item is included
		Assets	Liabilities	Assets	Liabilities	
Fair value hedges						
- Loans	***Interest rate risk***	25,958	-	(162)	-	Loans
- Government bonds	***Interest rate risk***	1,236,599	-	(2,298)	-	Securities at amortised cost
- Government bonds	***Interest rate risk***	101,707	-	(280)	-	Securities at fair value through other comprehensive income
- Government bonds	***Interest rate risk***	1,891	-	(1,563)	-	Financial assets at fair value through profit or loss
- Other securities	***Interest rate risk***	185,576	-	(68)	-	Securities at fair value through other comprehensive income
- Loans	***FX & IR risk***	13,308	-	7	-	Loans
- Loans	***FX risk***	103,905	-	(590)	-	Loans
- Other securities	***Other risk***	-	(35,716)	-	5,978	Liabilities from issued securities
Fair value hedges total		**1,668,944**	**(35,716)**	**(4,954)**	**5,978**	
Cash flow hedges						
- Loans	***Interest rate risk***	-	(17)	1,100	-	Due to banks

NOTE 44: 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 instrument	Type of risk	Change in the value of the hedging instrument recognised in cash flow hedge reserve	Hedge effectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness
Interest rate swap	Interest rate risk	2,086	(98)	Interest income from placements with other banks, net of allowance for placement losses

As at 31 December 2018 is as follows:

Type of instrument	Type of risk	Change in the value of the hedging instrument recognised in cash flow hedge reserve	Hedge effectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness
Interest rate swap	Interest rate risk	(17)	17	Interest income from placements with other banks, net of allowance for placement losses

As at 31 December 2019 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	Fx risk	310[1]	OTP HB Perpet bonds	2,776.3

As at 31 December 2018 is as follows:

Type of hedge	Type of risk	Carrying amount of the hedged item as at 31 December 2018	Type of hedging instrument	Changes in fair value used for calculating hedge ineffectiveness for the year ended 31 December 2018
		EUR million		HUF million
Net investment hedge for foreign subsidiaries				
Fx assets in foreign subsidiaries	Fx risk	310[1]	OTP HB Perpet bonds	3,744.5

[1] Companies included: DSK Bank EAD, OTP banka Hrvatska d.d., OTP Banka Slovensko, a.s., Crnogorska Komercijalna Banka AD.

NOTE 44: 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 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 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**

[1] The portfolio includes mainly Visa Inc. "C" convertible preferred stock and common shares and HUF 44,098 million Alban government bonds.

NOTE 44: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) Fair value levels [continued]

As at 31 December 2018	**Total**	**Level 1**	**Level 2**	**Level 3**
Financial assets at fair value through profit or loss	181,356	73,063	108,293	-
from this: trading securities at fair value through profit or loss	50,439	47,498	2,941	-
from this: positive fair value of derivative financial assets held for trading	103,405	299	103,106	-
from this: non-trading instruments mandatorily at fair value through profit or loss	27,512	25,266	2,246	-
Securities at fair value through other comprehensive income	1,883,849	1,474,497	398,662	10,690[1]
Loans mandatorily measured at fair value through profit or loss	34,525	-	-	34,525
Positive fair value of derivative financial assets designated as fair value hedge	9,613	-	9,613	-
Positive fair value of derivative financial assets designated as cash-flow hedge	5,588	-	5,588	-
Financial assets measured at fair value total	**2,114,931**	**1,547,560**	**522,156**	**45,215**
Financial liabilities at fair value through profit or loss	32,231	-	-	32,231
Negative fair value of held-for-trading derivative financial liabilities	73,316	1,294	72,022	-
Negative fair value of derivative financial liabilities designated as fair value hedge	6,810	-	6,810	-
Negative fair value of derivative financial liabilities designated as cash-flow hedge	597	-	597	-
Financial liabilities measured at fair value total	**112,954**	**1,294**	**79,429**	**32,231**

Movements in Level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

	Opening balance	**Purchase (+)**	**Issue (+)**	**Settlement / Close (-)**	**Sale (-)**	**Revaluation**	**Closing balance**
Trading securities at fair value through profit or loss	-	-	3,511	-	-	-	3,511
Securities at fair value through other comprehensive income	10,690	47,213	949	(217)	(1,295)	2,355	59,695
Loans mandatorily measured at fair value through profit or loss	34,525	-	-	(5,337)	-	543	29,731
Financial assets measured at fair value total	**45,215**	**47,213**	**4,460**	**(5,554)**	**(1,295)**	**2,898**	**92,937**
Financial liabilities at fair value through profit or loss	32,231	-	-	(3,349)	-	(21)	28,861
Financial liabilities measured at fair value total	**32,231**	**-**	**-**	**(3,349)**	**-**	**(21)**	**28,861**

There were no movements among the levels of fair value hierarchy neither in the year ended 31 December 2019 or 2018 respectively.

[1] The portfolio includes Visa Inc. "C" convertible preferred stock and common shares.

NOTE 45: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF mn)

The Group distinguishes business and geographical segments. The report on the base of the business and geographical segments is reported below.

The operations in the Slovakian segment were discontinued in the current year. The segment information reported on the next pages does not include any amounts for these discontinued operations, which are described in more details in Note 46.

The reportable segments of the Group on the base of IFRS 8 are the following:
OTP Core Hungary, Russia, Ukraine, Bulgaria, Romania, Serbia, Croatia, Montenegro, Albania, Moldova, Slovenia, Merkantil Bank, Asset Management subsidiaries, Other subsidiaries and Corporate Center.

OTP Core is an economic unit for measuring the result of core business activity of the Group in Hungary. Financials for OTP Core are calculated from the partially consolidated financial statements of the companies engaged in the Group's underlying banking operation in Hungary. These companies include OTP Bank Hungary Plc., OTP Mortgage Bank Ltd., OTP Building Society Ltd., OTP Factoring Ltd., OTP Financial Point Ltd., and companies providing intragroup financing. The Bank Employee Stock Ownership Plan Organization was included from the fourth quarter of 2016; OTP Card Factory Ltd., OTP Facility Management Llc., Monicomp Ltd. and OTP Real Estate Lease Ltd. were included from the first quarter of 2017 (from the first quarter of 2019 OTP Real Estate Lease Ltd. was eliminated from OTP Core); OTP Mobile Service Llc. and OTP Ingatlanpont Llc. were included from the first quarter of 2019. The consolidated accounting results of these companies are segmented into OTP Core and Corporate Centre. Latter is a virtual entity.

Within the Group, the Corporate Centre acts as a virtual entity established by the equity investment of OTP Core for managing the wholesale financing activity for all the subsidiaries within the Group but outside OTP Core. Therefore the balance sheet of the Corporate Centre is funded by the equity and intragroup lending received from OTP Core, the intragroup lending received from other subsidiaries, and the subordinated debt and senior notes arranged by OTP under its running EMTN program. From this funding pool, the Corporate Centre is to provide intragroup lending to, and hold equity stakes in OTP subsidiaries outside OTP Core. Main subsidiaries financed by Corporate Centre are as follows: Hungarians: Merkantil Bank Ltd, Merkantil Leasing Ltd, OTP Fund Management Ltd, OTP Real Estate Fund Management Ltd, OTP Life Annuity Ltd; foreigners: banks, leasing companies, factoring companies.

The results of OTP Factoring Ukraine LLC, OTP Factoring SRL, OTP Factoring Bulgaria LLC, OTP Factoring Serbia d.o.o., and OTP Factoring Montenegro d.o.o. are included into the foreign banks segment.

Companies comprising Foreign Leasing in previous periods (OTP Leasing Romania IFN S.A. (Romania), OTP Leasing d.d. and SB Leasing d.o.o. (Croatia), DSK Leasing AD (Bulgaria), OTP Lizing d.o.o, OTP Services d.o. (Serbia)) were presented as part of the operations in the given countries starting from the first quarter of 2019.

From the first quarter of 2019 Expressbank AD and its subsidiaries, OTP Leasing EOOD and Express Factoring EOOD (altogether: Express Group) were included into the Bulgarian operation, so from the first quarter of 2019 the statement of recognised income and balance sheet of DSK Leasing AD was included into this segment too.

The Serbian segment, OTP banka Srbija 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 és 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 45: 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 activity, such as: OTP Real Estate Ltd., OTP Life Annuity Ltd, OTP Funds Servicing and Consulting Ltd., OTP Building s.r.o., OTP Real Slovensko s.r.o.

The reportable business and geographical segments of the Group are those components where:

- separated incomes and ex penses, assets and liabilities can be identified and assignable to the segments,
- transactions between the different segments were eliminated,
- the main decisive board of the Group regularly controls the operating results,
- separated financial information is available.

Adjustments

Goodwill / investment impairment and their tax saving effect:

As at 31 December 2019 HUF 8,427 million was recognized on goodwill / investment impairment from which HUF 4,887 million was recognized on OTP Bank Romania S.A as goodwill impairment and HUF 3,540 million negative tax effect was recognized due to the impairment and release of impairment on investments, which is mainly related to the release of the previously recognized impairment on OTP Bank JSC (Ukraine).
As at 31 December 2018 HUF 4,136 million tax shield was recognized due to impairment on investment, the effect of which was partly compensated by HUF 2,903 million release of impairment. Altogether with HUF 5,962 million goodwill impairment on OTP Real Estate Lease Ltd. and Monicomp Ltd. negative tax effect was recognized in the amount of HUF 4,729 million.

Special tax on financial institutions (after income tax):
Special tax on financial institutions includes the special tax paid by the Hungarian financial institutions, the Slovakian banking levy and as well as from the fourth quarter of 2019 the banking tax paid by the Romanian bank, subsidiary of OTP Group. Besides, it also contains the Slovakian Deposit Protection Fund contributions being introduced again in 2014, and the contribution into the Resolution Fund in Slovakia, too.

Effect of acquisitions (after income tax):
The following main items might appear on this line: the potential negative goodwill related to acquisitions which improves the accounting result, effects related to the planned sale of the Slovenian bank, expenses related directly to the acquisitions and integration processes, and the volume of Day1 impairment under IFRS 9 booked after the consolidation of the newly acquired subsidiaries during the year 2019.

One-off impact of regulatory changes related to FX consumer contracts in Serbia (after income tax):
HUF (1.6) billion as a negative result on the optional conversion of the Serbian CHF mortgage exposure into EUR.

Information regarding the Group's reportable segments is presented below:

NOTE 45: 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+12+16+17	2	3=4+…+11	4	5	6	7	8	9	10	11			12=13+14+15	13	14	15	16	17
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 45: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF mn) [continued]

As at 31 December 2019 [continued]

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 (Serbia)	SKB Banka (Slovenia)	OTP Bank Romania S.A. (Romania)	OTP Bank JSC (Ukraine)	JSC "OTP Bank" (Russia) and Touch Bank	Crnogorska komercijalna banka a.d. + Podgorička banka AD (Montenegro)	Banka OTP Albania SHA (Albania)	Mobiasbanca - OTP Group S.A. (Moldova)	Non-banking subsidiaries subtotal	Leasing subsidiaries	Asset Management subsidiaries	Other subsidiaries	Corporate Centre	Eliminations and adjustments
	a	b	1=a+b 1= 2+3+12+16+17	2	3=4+…+11	4	5	6	7	8	9	10	11			12=13+14+15	13	14	15	16	17
Net profit for the year from continued and discontinued operations	**412,582**		**412,582**																		
Net profit for the year from discontinued operations	4,668		4,668																		
Net profit for the year from continued opearations	**417,250**		**417,250**																		
Adjustments (total)		**(1,803)**	**(1,803)**																		
Dividends and net cash transfers (after income tax)		505	505																		
Goodwill /investment impairment (after income tax)		(8,427)	(8,427)																		
Bank tax on financial institutions (after income tax)		(16,170)	(16,170)																		
Effect of acquisition (after income tax)		23,933	23,933																		
One-off impact of regulatory changes related to FX consumer contracts in Serbia (after income tax)		(1,644)	(1,644)																		
Consolidated adjusted net profit for the year	**417,250**	**1,802**	**419,052**	**193,991**	**187,963**	**66,947**	**29,762**	**10,284**	**0**	**6,694**	**35,222**	**28,127**	**6,377**	**2,615**	**1,935**	**33,703**	**8,763**	**15,209**	**9,731**	**3,478**	**(83)**
Profit before income tax	**467,152**	**-1,179**	**465,973**	**206,659**	**218,147**	**74,043**	**36,218**	**9,797**	**0**	**7,292**	**42,159**	**36,399**	**7,056**	**3,074**	**2,109**	**36,706**	**9,751**	**16,656**	**10,299**	**3,906**	**555**
Adjusted operating profit	**523,978**	**-13,932**	**510,046**	**177,030**	**288,858**	**82,482**	**40,443**	**12,534**	**0**	**11,778**	**44,353**	**84,946**	**5,692**	**3,702**	**2,928**	**39,395**	**12,014**	**16,642**	**10,739**	**3,906**	**857**
Adjusted total income	1,165,195	(87,467)	1,077,728	435,048	556,694	153,935	80,259	42,211	0	36,282	67,451	146,582	16,120	7,952	5,902	76,834	23,125	21,186	32,523	4,490	4,662
Adjusted net interest income	697,049	9,249	706,298	261,754	401,259	107,709	52,393	29,936	0	27,401	48,128	113,572	11,464	6,697	3,959	26,273	21,479	3	4,791	4,490	12,522
Adjusted net profit from fees and commissions	340,445	(57,941)	282,504	126,911	122,471	41,609	16,491	9,439	0	2,930	14,877	31,012	4,215	1,007	891	30,386	1,164	20,475	8,747	0	2,736
Adjusted other net non-interest income	127,701	(38,775)	88,926	46,383	32,964	4,617	11,375	2,836	0	5,951	4,446	1,998	441	248	1,052	20,175	482	708	18,985	0	(10,596)
Adjusted other administrative expenses	(641,217)	73,535	(567,682)	(258,018)	(267,836)	(71,453)	(39,816)	(29,677)	0	(24,504)	(23,098)	(61,636)	(10,428)	(4,250)	(2,974)	(37,439)	(11,111)	(4,544)	(21,784)	(584)	(3,805)
Total risk costs	**(56,826)**	**9,719**	**(47,107)**	**26,595**	**(70,711)**	**(8,439)**	**(4,225)**	**(2,737)**	**0**	**(4,486)**	**(2,194)**	**(48,547)**	**1,364**	**(628)**	**(819)**	**(2,689)**	**(2,263)**	**14**	**(440)**	**0**	**(302)**
Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX)	(56,826)	27,352	(29,474)	30,332	(57,433)	(5,338)	(1,371)	(1,214)	0	(2,261)	(1,433)	(46,123)	1,293	(249)	(737)	(2,468)	(2,377)	0	(91)	0	95
Other provision (adjustment)	0	(17,633)	(17,633)	(3,737)	(13,278)	(3,101)	(2,854)	(1,523)	0	(2,225)	(761)	(2,424)	71	(379)	(82)	(221)	114	14	(349)	0	(397)
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)	**(30,184)**	(7,096)	(6,456)	487	0	(598)	(6,937)	(8,272)	(679)	(459)	(174)	**(3,003)**	(988)	(1,447)	(568)	(428)	(638)
Total Assets[2]	**19,659,696**	**0**	**19,659,696**	**9,641,692**	**11,740,479**	**3,640,049**	**1,963,296**	**1,628,831**	**1,130,871**	**923,873**	**646,295**	**908,388**	**439,836**	**247,997**	**211,043**	**1,134,626**	**716,897**	**35,846**	**381,883**	**2,946,936**	**(5,804,037)**
Total Liabilities[3]	**17,467,983**	**0**	**17,467,983**	**7,920,820**	**9,996,766**	**3,115,437**	**1,677,532**	**1,381,651**	**998,204**	**808,582**	**537,167**	**705,628**	**373,648**	**222,393**	**176,524**	**864,562**	**657,999**	**9,123**	**197,440**	**1,599,877**	**(2,914,042)**

( ) 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 45: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF mn) [continued]

As at 31 December 2018

Main components of the Consolidated Statement of Profit or Loss in HUF million	OTP Group - consolidated - in the Consolidated Statement of Profit or Loss - structure of accounting reports	Adjustments on the accounting in Recognized Income	OTP Group - consolidated - in the Consolidated Statement of Profit or Loss - structure of management reports	OTP CORE (Hungary)	Foreign banks subtotal (without adjustments)	DSK Bank EAD (Bulgaria)	OTP banka Hrvatska d.d. (Croatia)	OTP banka Srbija a.d. and Vojvodjanska banka a.d. (Serbia)	OTP Bank Romania S.A. (Romania)	OTP Bank JSC (Ukraine)	JSC "OTP Bank" (Russia) and Touch Bank	Crnogorska komercijalna banka a.d. (Montenegro)	Non-banking subsidiaries subtotal	Leasing subsidiaries	Asset Management subsidiaries	Other subsidiaries	Corporate Centre	Eliminations and adjustments
	a	b	1=a+b 1= 2+3+12+16+17	2	3=4+…+11	4	5	6	8	9	10	11	12=13+14+15	13	14	15	16	17
Net profit for the year	**318,322**		**318,322**															
Net profit for the year from discontinued operations	586		586															
Net profit for the year from continued opearations	**318,908**		**318,908**															
Adjustments (total)		**(7,014)**	**(7,014)**															
Dividends and net cash transfers (after income tax)		457	457															
Goodwill /investment impairment (after income tax)		(4,729)	(4,729)															
Bank tax on financial institutions (after income tax)		(15,286)	(15,286)															
Effect of acquisition (after income tax)		(6,844)	(6,844)															
Impact of fines imposed by the Hungarian Competition Authority (after income tax)		565	565															
Initial NPV gain on the monetary policy interest rate swap (MIRS) deals (after income tax)		18,823	18,823															
Consolidated adjusted net profit for the year	**318,908**	**6,425**	**325,333**	**184,439**	**120,800**	**47,295**	**23,607**	**3,000**	**3,850**	**24,415**	**16,420**	**2,213**	**15,989**	**9,828**	**4,160**	**2,001**	**6,189**	**(2,084)**
Profit before income tax	**352,908**	**9,825**	**362,733**	**199,156**	**141,349**	**51,603**	**28,959**	**3,138**	**4,901**	**29,175**	**21,034**	**2,539**	**16,855**	**9,780**	**4,573**	**2,502**	**6,924**	**-1,551**
Adjusted operating profit	**381,724**	**3,184**	**384,908**	**148,572**	**208,986**	**57,097**	**33,499**	**6,228**	**10,585**	**30,095**	**68,878**	**2,604**	**18,917**	**10,180**	**4,448**	**4,289**	**6,924**	**1,509**
Adjusted total income	942,247	(60,521)	881,726	382,528	431,062	107,817	74,406	30,307	30,759	47,145	129,899	10,729	53,379	20,261	7,654	25,464	7,350	7,407
Adjusted net interest income	613,385	(13,553)	599,832	245,934	307,443	69,979	50,482	20,514	23,410	33,040	102,489	7,529	23,269	19,043	31	4,195	7,350	15,836
Adjusted net profit from fees and commissions	274,136	(53,405)	220,731	107,010	98,297	30,435	15,576	7,286	3,563	11,444	26,766	3,227	12,655	879	7,844	3,932	0	2,769
Adjusted other net non-interest income	54,726	6,437	61,163	29,584	25,322	7,403	8,348	2,507	3,786	2,661	644	(27)	17,455	339	(221)	17,337	0	(11,198)
Adjusted other administrative expenses	(560,523)	63,705	(496,818)	(233,956)	(222,076)	(50,720)	(40,907)	(24,079)	(20,174)	(17,050)	(61,021)	(8,125)	(34,462)	(10,081)	(3,206)	(21,175)	(426)	(5,898)
Total risk costs	**(28,816)**	**2,648**	**(26,168)**	**46,591**	**(67,637)**	**(5,494)**	**(4,540)**	**(3,090)**	**(5,684)**	**(920)**	**(47,844)**	**(65)**	**(2,062)**	**(400)**	**125**	**(1,787)**	**0**	**(3,060)**
Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX)	(28,816)	9,533	(19,283)	48,192	(64,205)	(9,532)	(2,803)	(3,146)	(4,794)	(1,680)	(42,204)	(46)	(145)	(174)	0	29	0	(3,125)
Other provision (adjustment)	0	(6,885)	(6,885)	(1,601)	(3,432)	4,038	(1,737)	56	(890)	760	(5,640)	(19)	(1,917)	(226)	125	(1,816)	0	65
Total other adjustments (one-off items)[1]	**0**	**3,993**	**3,993**	**3,993**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Income tax	**(34,000)**	**(3,400)**	**(37,400)**	**(14,717)**	**(20,549)**	**(4,308)**	**(5,352)**	**(138)**	**(1,051)**	**(4,760)**	**(4,614)**	**(326)**	**(866)**	**48**	**(413)**	**(501)**	**(735)**	**(533)**
Total Assets[2]	**14,142,248**	**0**	**14,142,248**	**8,563,425**	**6,786,756**	**2,381,275**	**1,719,622**	**590,166**	**771,968**	**391,240**	**707,593**	**224,892**	**919,148**	**605,279**	**19,461**	**294,408**	**2,147,905**	**(4,274,986)**
Total Liabilities[3]	**12,395,247**	**0**	**12,395,247**	**7,001,737**	**5,680,188**	**1,927,384**	**1,456,294**	**505,318**	**711,922**	**333,419**	**559,595**	**186,256**	**686,953**	**555,596**	**2,690**	**128,667**	**1,065,755**	**(2,039,386)**

( ) 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 448,040 million.

[3] Relating to the discontinued operations the liabilities were HUF 368,384 million.

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NOTE 46: DISCONTINUED OPERATIONS (in HUF mn)

On 31 December 2019, the Group classified the operations of its Slovak subsidiary, OTP Banka Slovensko a.s. as discontinued operations. The classification was needed because there is intention for the sale.

The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

	2019
Cash, amounts due from banks and balances with the National Banks	57,586
Placements with other banks, net of loss allowance for placements	354
Securities at fair value through other comprehensive income	759
Loans at amortized cost	368,456
Securities at amortized cost	27,555
Tangible assets and other asset on net value	7,361
Non-current assets and disposal group classified as held-for-sale	**462,071**
Amounts due to banks, the National Governments, deposits from the National Banks and other banks	1,898
Deposits from customers	351,344
Leasing liabilities	940
Other liabilities	8,314
Disposal group liabilities classified as held-for-sale	**362,496**

The results of the discontinued operations, which have been included in the profit for the year, were as follows:

	2019
Incomes	16,942
Expenses	15,522
Profit before income tax	**1,420**
Income tax	56
Expected loss of the sale of OTP Banka Slovensko a.s.	6,032
Loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	**(4,668)**

During the year 2019, the Slovak subsidiary bank contributed to the Group's operating activity with HUF (48,377) million, to the Group's investing activity with HUF (1,197) million, and in respect of the Group's financing activity with HUF (1,086) million which were modified by the eliminations during the consolidation by HUF 23,788 million.

The Group intends to increase its market share with new acquisitions and organic increase in the Middle East European Region and although during the near 20 years attendance on the Slovak market followed this strategy, the Group hasn't managed to reach the optimal share market, the management decided to sell this member of the Group. As a result this allows of the Group to focus on those markets where it can reach significant market share and to strengthen its position in those countries where it has already operated.

HUF 6,032 million expected impairment loss was recognized on OTP Banka Slovensko a.s. classified as discontinued operations which is calculated as the difference between the proceeds of disposal and the related net assets of the Slovak bank held-for-sale. These operations, which are expected to be sold within 12 months, have been classified as a discontinued operations, so the assets, liabilities of these discontinued operations and their losses are presented separately in both the statement of financial position and statement of profit or loss.

NOTE 47: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2019

1) Term Note Program

See details in Note 18.

2) Financial closure of the acquisition in Albania

See details in Note 38.

3) Financial closure of the acquisition in Montenegro

See details in Note 38.

4) Financial closure of the acquisition in Moldova

See details in Note 38.

5) Financial closure of the acquisition in Serbia

See details in Note 38.

6) Financial closure of the acquisition in Slovenia

See details in Note 38.

7) Closing of the sale of Express Life Bulgaria

On 31 October 2019 the Express Life Bulgaria transaction was financially closed, as a result of which Groupama Zhivotozastrahovane EAD, a Bulgarian subsidiary of the Groupama Group has acquired 100% ownership of the insurance company from DSK Bank EAD and Expressbank AD, the Bulgarian subsidiaries of OTP Bank.

8) Issued securities

Notes have been issued at 99.738% of the face value on 15 July 2019 as value date, in the nominal amount of EUR 500 million. The 10 Non-Call 5 years Tier 2 Notes carry a fix coupon of 2.875% p.a., paid annually in the first five years. Starting from year 6 until maturity, the yearly fix coupon is calculated as the sum of the initial margin (320 basis points) and the 5 year mid-swap rate prevailing at the end of year 5. The notes are rated 'Ba1' by Moody's Investors Service Cyprus Limited. The Notes are listed on the Luxembourg Stock Exchange.

NOTE 48: POST BALANCE SHEET EVENTS

1) Closing of the strategic open position

At the end of 2019 the Management has decided to close during 2020 the strategic open EUR 310 million (short) position, which is kept to hedge the currency risk of the expected FX-denominated net earnings of the main foreign subsidiaries.

2) Supreme Court ruling in Croatia

In September 2019 the Supreme Court of the Republic of Croatia made a ruling, which to a large extent confirms the earlier ruling of the High Commercial Court of the Republic of Croatia dated June 2018 in the case of protection of collective interest and rights of the consumers who had taken loans with principals indexed to Swiss franc (Ruling No. Rev- 2221/2018- 11 of the Supreme Court of the Republic of Croatia, hereinafter referred to as "the Ruling"). The Civil Division of the Supreme Court announced their opinion about the statute of limitations in January 2020, and a further ruling is anticipated from the Supreme Court (due by 17 March 2020) with regard to the extent of the loan contracts to which it applies. Borrowers may, individually, sue the banks for reimbursement. The final verdict of the Supreme Court can be contested at the Constitutional Court of Republic of Croatia. At this point, it is not yet possible to ascertain the financial impact of this matter. As permitted by IAS 37.92, in order not to prejudice the outcomes of the proceedings and the interests of the Bank, no further disclosures are made about the possible outcomes in connection with the Ruling.

NOTE 48: POST BALANCE SHEET EVENTS [continued]

3) Sale of the stake in the Slovakian OTP Banka Slovensko a.s.

An agreement to sell its 99.44% stake in OTP Banka Slovensko a.s., the Slovakian subsidiary of OTP Bank has been signed with KBC Bank NV. The financial closing of the transaction is expected to take place in the coming months, subject to obtaining the necessary supervisory approvals.

4) Potential impact of COVID-19 virus

The Bank is continuously assessing the potential impact of corona virus on the social and economic environment, and the consequences of those on the lending activity and on loan portfolio performance. Based on our current knowledge it is difficult to estimate the medium and long term financial impact of the virus.

REPORT OF THE SUPERVISORY BOARD ON THE ANNUAL FINANCIAL STATEMENTS FOR 2019 AND ITS PROPOSAL REGARDING THE USE OF AFTER-TAX PROFIT

In 2019, the Supervisory Board conducted its activity and performed its duties in compliance with the procedures regulated in Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises, as well as in Act V of 2013 on the Civil Code and in its own procedural rules.

The Supervisory Board continued to perform its **controlling function** in 2019, protecting the assets of the company and the interests of the shareholders.

Within this framework, at its meetings held last year it requested reports from the executive management, heard briefings and passed resolutions. At meetings of the Bank's Board of Directors the Supervisory Board was represented by its chairman/deputy chairman.

The Supervisory Board exercised control over the management of the Company in the following manner:

- *based on the financial statements, it continuously monitored*
  - the development of the Bank's interim results,
  - the state of quality of the Group portfolio, any exposure higher than HUF 1 billion and Stage3 risk exposures,
  - compliance with the provisions of the Act on Credit Institutions and Financial Enterprises,
  - the activity of the audit units involved in the unified internal audit system,
  - the implementation of the tasks set out in action plans compiled following the audits of the MNB,
  - the fulfilment of the resolutions passed by the Supervisory Board.

- *it heard reports and briefings*
  - on OTP Bank Plc.'s business activity in 2018,
  - on OTP Bank Plc.'s business results for 2018,
  - as part of the auditor's report, on the parent company statement prepared in accordance with International Financial Reporting Standards (IFRS) in respect of the year 2018,
  - as part of the auditor's report, on the 2018 IFRS-based consolidated financial report (financial situation report, profit and loss account, comprehensive income statement, cash flow statement, statement on changes in equity, explanatory notes),
  - on the results of the audit of the 2018 financial reports received from the auditor,
  - on the findings of the assessment of compliance with the requirements prescribed for the members of OTP Bank Plc.'s management bodies and for the activities of these bodies, as well as for the executive officers and key function holders of the Bank, in the 2018 business year,
  - on the review of the operation of the Remuneration Policy of OTP Bank Plc. and the Bank Group carried out by internal audit in 2019 (with respect to 2018)
  - on the basic regulations defining the activity of the Internal Audit Directorate that is under its professional supervision,
  - on the operation of the Internal Audit Directorate in accordance with Section 154(12) of the Credit Institutions Act, and on
  - on the group-level operation of the Unified Internal Audit System and the improvement of the system,
  - on the results of the comprehensive MNB audit,
  - on the findings related to the management of complaints, on the consumer protection audit conducted by the MNB, as well as on the briefing on customer complaints received by the foreign subsidiaries, and
  - on contracts for non-prohibited non-audit services concluded with the auditor,
  - on the Group-level audit of treasury customer relations (sales) activities and the implementation of measures,

- on the activities of the Compliance Directorate,
- on the amendment of the Code of Conduct,
- on the achievement of acquisition plans and the integration of banks acquired,
- on the Risk Strategy of the OTP Group for the years 2020 to 2022,
- on the implementation of the 2017-2019 Collection Strategy and the principles of the Group's 2020-2022 Collection and NPL Strategy,
- the Lending Policy of the Hungarian operation (OTP Bank, OTP Mortgage Bank, Merkantil Bank, OTP Real Estate Leasing, OTP Building Society) for 2020, and
- on the 2020 business and financial plan of OTP and the Bank Group, and other topical issues.

➢ *approved*

- the Remuneration Guidelines of OTP Bank Plc. and, in connection with the Remuneration Policies of OTP Bank and the Banking Group,
  - ❖ the 2019 system of criteria for performance measurement and evaluation for Bank and Group senior executives subject to the Remuneration Policy,
  - ❖ the proposal on the review of the scope of the Remuneration Policy,
  - ❖ the settlement of the remuneration withheld within the performance-based remuneration due in respect of 2018,
  - ❖ the maximum amount available for rewarding good performance by the Group in 2018,
  - ❖ the results of the audit of prudent operation of OTP Bank and the Banking Group in 2018, and the accounting of instalments of the 2015, 2016 and 2017 performance rewards, payable on a deferred basis,
  - ❖ for persons subject to the Remuneration Policy, the changes in the rate of performance rewards, the level of identification and the identification of affected positions,
  - ❖ in respect of the 2018 share-based portion of the performance remuneration, the conditions applicable to the awarding of shares,
- the amendment of regulations pertaining to the group-level Remuneration Policy,
- the amendment of the remuneration policy of the OTP Bank ESOP Organisation,
- the submission to the National Bank of Hungary of the exemption request, given the lack of impact on the risk profile of certain executives identified under the personal scope of the Remuneration Policy, and
- the amended Group-level RORAC target for 2019.

➢ *accepted*

- the proposal regarding the modification and the submission to the General Meeting of OTP Bank Plc.'s Articles of Association,
- the report of the Supervisory Board on the annual financial statements of 2018 and the proposal regarding the utilisation of after-tax profit,
- the evaluation of the Supervisory Board of the performance of the senior officers during the business year and its proposal on granting them discharge from liability,
- the proposal on the selection of the Company's auditor, the determination of the remuneration and the definition of the main elements of the contract to be concluded with the auditor,
- the proposal on the election of members of OTP Bank Plc.'s Supervisory Board,
- the report on the 2018 activity of the Remuneration Committee and the operation within the Banking Group of the Remuneration Policy of OTP Bank Plc. and the Banking Group,
- the annual review of the remuneration policy of OTP Bank Plc. and the Bank Group,
- in relation to its tasks determined in its own rules of procedure, the annual report on risk management, internal control mechanisms and the operation of corporate

governance functions, in full knowledge of the preliminary opinion of the Audit Committee.
- the contents of the report on the compliance and security situation of OTP Bank Plc. and the foreign subsidiary banks,
- the Compliance Policy of OTP Bank Plc, and
- the Security Policy of OTP Bank Plc.

➢ *agreed with*

- the proposal for the utilisation of the after-tax profit of the parent company and on dividend payment,
- the material data of the Bank's consolidated and unconsolidated annual financial statements for 2018,
- the proposal for authorising the General Meeting with regard to the acquisition of treasury shares,
- the contents of the Corporate Governance Report for 2018 and its submission to the General Meeting,
- the proposal for establishing the remuneration of members of the Board of Directors, the Supervisory Board and the Audit Committee.

➢ *contributed to*

- the loan applications of customers and customer groups approved by the Board of Directors of OTP Bank Plc. and to the setting of customer group limits.

In accordance with Section 152(3)(a) of Act CCXXXVII of 2013 on credit institutions and financial companies and its Rules of Procedure, which comply with such provisions, the Supervisory Board took steps to ensure that OTP Bank Plc. has an audit system in place suitable for comprehensive and efficient operation and, furthermore, given its scope of authority, also ensured the compliant operation of the internal audit units of the credit institutions, financial firms and investment firms that are under the controlling influence of the Bank.

The Supervisory Board performed its **governance role** in accordance with the provisions of the Credit Institutions Act, through the audits performed by the internal audit unit under its professional supervision (Internal Audit Directorate) and through the audits that it, itself, performed.

As a part of its <u>professional oversight of the internal audit units</u>, the Supervisory Board

➢ commented on, and subsequently approved, the **annual audit plan** of the Internal Audit Directorate and the Bank Group members subject to consolidated supervision, which was elaborated on the basis of risk analyses. It approved the audit topics designated for group-level implementation which it deemed to be of priority importance in terms of Group-level strategy, legal compliance, the achievement of business policy goals and risk management, including in particular audits to verify compliance with the rules for preventing money laundering and terrorism, the management of IT security risks and data reported by subsidiaries for credit risk RWA calculations.

➢ requested reports from the internal audit body, at regular intervals in accordance with its work schedule, on audits carried by it and Group members submitting reports in the framework of consolidated supervision, the conclusions drawn and proposals submitted. It received unconsolidated reports providing information on the implementation of Group-level audits ordered by it and the results of such audits. Through the bank quarterly, the internal audit unit reported, to the Supervisory Board of OTP – as well as to the

Executive Bodies of the Bank – on the internal auditing activities performed within the group, completion of the tasks undertaken in action plans drawn up by the audited departments, as well as extraordinary events and findings entailing a high degree of risk that came to light in the course of internal audit activities and which are also of significance at group level.

- discussed the reports prepared by internal audit and monitored the execution of the necessary measures. Based on the findings of the audits it accepted recommendations and proposals, and prescribed further obligations to provide information.

Prior to the present ordinary annual General Meeting of 2020, the Supervisory Board, in fulfilment of its statutory obligation, **reviewed** all the material business policy reports on the agenda of the General Meeting, as well as all the proposals relating to matters that fall within the exclusive competence of the company's supreme body.

The Supervisory Board studied the Bank's **2019 financial statements** and was **briefed by the auditor**.

The Supervisory Board commented on and approved the **Corporate Governance Report** (for 2019) prior to its proposal to the General Meeting.

The Supervisory Board – based on prior agreement with the Board of Directors – **makes a proposal at the 2020 General Meeting** regarding the identity and the remuneration of the **auditor** to be selected.

The Supervisory Board evaluated **the performance of the senior officers during the business year** and made a proposal to the 2020 Annual General Meeting on whether to grant the senior officers discharge from liability.

Prior to the 2020 Annual General Meeting, the Supervisory Board ascertains that the Bank has, in compliance with its statutory obligations, **published** its material data, its declaration on remuneration, and the information that is required by law to be made public.

The Supervisory Board has, in this proposal, prepared its report on **the 2019 annual financial statements** and on the proposal for the **use of the after-tax profit,** and it will submit it to the 2020 Annual General Meeting.

Based on the documents made available to it in respect of the 2019 business year, the Supervisory Board has concluded that OTP Bank Plc. prepared its **annual financial statements** in line with the provisions of Act C of 2000 on Accounting and in compliance with the rules on the presentation of financial accounts as set out in the International Financial Reporting Standards (IFRS) as accepted by the European Union.

The Bank accounted for impairment and set aside provisions in accordance with the International Financial Reporting Standards (IFRS standards) accepted by the European Union as well as the Bank's Accounting Policy, by applying the regulations, agreed with the auditor, on valuation as set out in the International Financial Reporting Standards (IFRS).

Based on the documents made available to it in respect of the **consolidated annual financial statements** of OTP Bank Plc., the Supervisory Board has concluded that the Bank prepared the latter in accordance with the provisions of Act C of 2000 on Accounting and with international financial reporting standards (IFRS) as accepted by the European Union.

The Supervisory Board of OTP Bank Plc. judges that in the course of OTP Bank Plc.'s activity throughout the year, the principles of legality and respect for shareholder interests were upheld.

The Supervisory Board of OTP Bank Plc., in line with the contents of the auditor's report, and having accepted

- the non-consolidated annual financial statements on the 2019 business year prepared in accordance with International Financial Reporting Standards

with a balance sheet total of HUF 10,138,804 million, *and*

- the consolidated annual financial statements on the 2019 business year prepared in accordance with International Financial Reporting Standards

with a balance sheet total of HUF 20,121,767 million, *and*

- the non-consolidated ***net profit*** in accordance with International Financial Reporting Standards

with ***an amount of HUF 193,354 million***, and

- the Board of Directors' **report on business operations**,

hereby recommends the above for approval by the Company's General Meeting.

The Supervisory Board agrees on the proposal of the Board of Directors according to which the general reserve must be increased by HUF 19,335 million, and the remaining amount must be set to the retained earnings.

AUDIT COMMITTEE'S REPORT
ON THE ANNUAL FINANCIAL STATEMENTS FOR 2019
AND PROPOSAL FOR THE USE OF
THE AFTER-TAX PROFIT

In 2019 the Audit Committee (AC) conducted its activity and performed its duties in compliance with the procedures regulated in Act V of 2013 on the Civil Code, as well as in its own procedural rules accepted by the Bank's Supervisory Board.

In support of the work of the Bank's Supervisory Board, and as part of a close working relationship between the various Committees, it collaborated in the monitoring of the financial reporting system, in the selection of the auditor and in maintaining the expected and appropriate cooperation with the auditor.

The Audit Committee, in addition to what was discussed at the meetings of the Supervisory Board,

➢ *heard reports for the previous financial year,*

- as part of the auditor's report, on the 2018 financial report of the parent company prepared in accordance with the accounting laws and other domestic financial reporting rules (balance sheet, profit and loss account, cash flow statement, notes to the financial statements),
- on the proposal for the use of after-tax profit of the parent company and dividend payments;
- as part of the auditor's report, on the 2018 IFRS-based consolidated financial reports of the Bank (financial situation report, profit and loss account, comprehensive income statement, cash flow statement, statement on changes in equity, explanatory notes);
- on the results of the audit of the 2018 financial reports received from the auditor,
- as part of the audit report, on the Bank's stand-alone report prepared in accordance with International Financial Reporting Standards (IFRS) in respect of the year 2018,
- on the material data of the 2018 financial report that is to be published.

It has agreed with the contents of the reports, and proposed that these be presented to the General Meeting.

➢ *monitored*

- in the interim financial statements approved by the auditor, changes in the results, as well as the contents of the interim balance sheet and the independent auditor's reports.

➢ *it obtained information*

- on the 2019 auditing schedules of the Internal Audit Directorate,
- on the group-level operation of the Unified Internal Audit System and the improvement of the system
- on approvals and rejections concerning contracts for non-prohibited, non-auditor services,
- the state of the Group's portfolio quality,
- the proposed auditor's report for OTP Bank, Merkantil Bank Zrt., OTP Jelzálogbank Zrt. and OTP Lakástakarék Zrt., drawn up by the Company's auditor concerning the financial statements for the previous year.

- *commented on, and accepted,*
  - the proposal on the selection of the Company's auditor, the determination of the remuneration and the definition of the main elements of the contract to be concluded with the auditor,
  - the content of the report entitled "Annual report on risk management, internal control mechanisms and the operation of corporate governance functions", to be proposed to the Supervisory Board.
  - the report on management, the Company's financial position and its business policy (follow-up on the business plan) for Merkantil Bank Zrt. / OTP Jelzálogbank Zrt. / OTP Lakástakarék Zrt.

- *approved*
  - The report of the Audit Committee on the 2018 annual financial reports and the proposal regarding the use of the after-tax profit.
  - requests for non-prohibited, non-auditor services of a value below €100,000,

In connection with auditor rotation,

- *it instructed the Auditor Rotation Working Group to*
  - launch the mandatory choice of new auditor process and to forward the request for information,
  - forward the Request for Proposal ('RFP').
- *accepted*
  - the evaluation drawn up by the Tender Committee concerning the bids of the auditor to be appointed from the 2021 financial year and its compliance with applicable law,
- *recommended to the Board of Directors and the Supervisory Board*
  - the bids of auditors for consideration, and
  - Ernst & Young Tanácsadó Kft. to be appointed as the auditor for the OTP Group from the 2021 financial year.

Prior to the General Meeting the Audit Committee examined and evaluated the audited annual financial statements and the consolidated annual financial statements featuring as items on the agenda of the General Meeting, and heard the briefing of the auditor. It accepts the proposal on the selection of the Company's auditor.

Based on the documentation made available to it in respect of the 2019 business year, the Audit Committee has concluded that OTP Bank Plc. prepared its annual financial statements in accordance with the provisions of Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises, Act C of 2000 on Accounting, and Government Decree 250/2000. (XII. 24.) on special provisions regarding the annual reporting and book-keeping obligation of credit institutions and financial enterprises.

The Bank accounted for impairment and set aside risk provisions in accordance with the provisions of the Act on Credit Institutions and Financial Enterprises, the government decree on special provisions regarding the annual reporting and book-keeping obligation of credit institutions and financial enterprises, as well as of the Bank's Accounting Policy, by applying the regulations, agreed with the auditor, on rating and on valuation, impairment and provisioning.

Based on the documents made available to it in respect of the consolidated annual financial statements of OTP Bank Plc., the Audit Committee has concluded that the Bank prepared the latter in accordance with the provisions of Act C of 2000 on Accounting and with international financial reporting standards (IFRS) as accepted by the European Union.

The Audit Committee, based on the reports it has read and evaluated, and in agreement with the auditor, finds that the Bank's Board of Directors may submit for approval to the General Meeting, in respect of the 2019 Business year

- the non-consolidated annual financial statement
  with a balance sheet total of HUF 10,138,804 million,

- the consolidated annual financial statement
  with a balance sheet total of HUF 20,121,767 million, *and*

- the non-consolidated **net profit**

  with ***an amount of HUF 193,354 million***

all prepared in accordance with International Financial Reporting Standards.

The Audit Committee agrees on the proposal of the Board of Directors according to which the general reserve must be increased by HUF 19,335 million, and the remaining amount must be set to the retained earnings.

RESULTS OF THE INDEPENDENT AUDITORS'S REPORT FOR THE YEAR ENDED 2019

Deloitte.

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Company Registration Number: 01-09-071057

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of OTP Bank Plc.

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of OTP Bank Plc. (the "Bank") for the year 2019 which comprise the separate statement of financial position as at December 31, 2019 – which shows total assets of HUF 10,138,804 million –, and the related separate statement of profit or loss, separate statement of comprehensive income – which shows a net profit for the period of HUF 193,354 million –, separate statement of changes in equity and separate statement of cash-flows for the year then ended and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the Bank as at December 31, 2019 and of its financial performance and its cash-flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (the "EU IFRS"), and the separate financial statements were prepared in all material respects in accordance with the provisions of the effective Hungarian Act C of 2000 on Accounting (the "Accounting Act") relevant to the entities preparing separate financial statements in accordance with EU IFRS.

Basis for Opinion

We conducted our audit in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits. Our responsibilities under these standards are further described in the *"The Auditor's Responsibilities for the Audit of the Separate Financial Statements"* section of our report.

We are independent of the Bank in compliance with the relevant effective Hungarian regulations and the "Rules of conduct (ethical rules) of the auditor profession and the disciplinary process" of the Chamber of Hungarian Auditors and, in respect of matters not regulated therein, the "Code of Ethics for Professional Accountants" (the IESBA Code) issued by the International Ethics Standards Board for Accountants, and we have fulfilled our other ethical responsibilities in accordance with the same ethical requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key audit matter	How our audit addressed the matter
Calculation of expected credit losses on corporate and retail loans	
(See notes 9., 29., and 34.1. to the separate financial statements for the details) As described in the notes to the financial statements, the impairment losses have been determined in accordance with IFRS 9 *Financial Instruments*, which requires significant judgment to determine the expected credit losses ("ECLs"). At the year-end, the Bank reported total gross loans of HUF 3,365,255 million and provisions for impairment on loan losses of HUF 79,917 million. The determination of the ECL of loans is considered a key audit matter, as it requires application of professional judgement and use of subjective assumptions by management in case of both the application of portfolio based collective impairment models, and determination of individual specific loan loss provision. The most significant assumptions applied in determining the provision are the following: - the interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Bank's expected credit loss model; - IFRS 9 credit risk staging methodology and application, including the identification of exposures with a significant deterioration in credit quality; - model used for impairment calculations reflecting the characteristics of the portfolio, such as valuation of collateral, probability of default and recovery rates, macroeconomic factors; - the application of assumptions, where there was limited or incomplete data; and - estimation of future cash-flows expected to be realized, including application of scenarios and scenario weights.	Our response as auditors included: - testing and assessment of the modelling techniques and methodology applied by the Group in order to estimate ECLs, and evaluation of its compliance with the requirements of IFRS 9; - evaluating the design and testing of the operating effectiveness of internal controls over timely identification of exposures with significant increase in credit risk and monitoring of credit impaired exposures and calculating, and recording of allowance for expected credit losses; - assessing the collective model methodology and testing the calculations in terms of risk parameters (probability of default – PD, loss given default – LGD, expected credit loss – ECL, and macroeconomic factors) applied by the collective models including involving our credit risk specialists; - involving our credit risk specialists to assist us in re-performing the calculation of the allowance and independently assessing the appropriateness of the assumptions used, the methodologies and policies applied; - assessing on a sample basis, whether the staging and impairment triggers are captured appropriately and whether the estimation of the allowance is reasonable; - sample based testing of individual provision, including the assessment of valuation of collateral and estimation of expected future cash-flows, application of different scenarios and scenario weights and forming an independent view of the adequacy of the ECL; and - assessing the adequacy of the disclosures in the financial statements.

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Other Information

Other information comprises the information included in the section called "Management's Analysis" of the annual report and the business report of the Bank for 2019, which we obtained prior to the date of this auditor's report, and the sections called "Message to the shareholders", "Corporate Governance" and "Macroeconomic and financial environment in 2019" of the annual report, which is expected to be made available to us after that date, but does not include the separate financial statements and our independent auditor's report thereon. Management is responsible for the other information and for the preparation of the business report in accordance with the relevant provisions of the Accounting Act and other regulations. Our opinion on the separate financial statements provided in the section of our independent auditor's report entitled "Opinion" does not apply to the other information.

Our responsibility in connection with our audit of the separate financial statements is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Furthermore, in accordance with the Accounting Act, our responsibilities regarding the business report also include reviewing the business report to assess whether the business report was prepared in accordance with the relevant provisions of the Accounting Act and other regulations, if any, including the assessment whether the business report complies with the requirements of Section 95/B (2) e) and f) of the Accounting Act, and to express an opinion on the above and on whether the business report is consistent with the separate financial statements. Furthermore, in accordance with the Accounting Act we shall make a statement whether the information referred to in Section 95/B. (2) a)-d), g) and h) has been provided in the business report and whether the business report contains the non-financial statement provided for in Section 95/C.

In our opinion, the business report of the Bank for 2019 corresponds to the separate financial statements of the Bank for 2019 and the relevant provisions of the Accounting Act in all material respects. The information referred to in Section 95/B. (2) a)-d), g) and h) of the Accounting Act has been provided and the business report contains the non-financial statement provided for in Section 95/C.

As the Bank is not subject to additional requirements under any other regulation in connection with the business report, we have not formulated an opinion on this matter.

In addition to the above, based on the information obtained about the Bank and its environment, we must report on whether we became aware of any material misstatements in the other information and, if so, on the nature of such material misstatements. We have nothing to report in this regard.

When we read the sections of the annual report that were not yet made available to us until the date of this report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

The Auditor's Responsibilities for the Audit of the Separate Financial Statements

Our objectives during the audit are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue, on the basis of the above, an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits will always detect a material misstatement when it exists. Misstatements can arise from fraud or error, and they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify the opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the notes to the separate financial statements, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in the Bank's internal control that we identify during the audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In compliance with Article 10 (2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of the Auditor and the Period of Engagement
We were appointed as the auditors of the Bank by the General Meeting of Shareholders on April 12, 2019 and our uninterrupted engagement has lasted for 27 years.

Consistence with the Additional Report to the Audit Committee
We confirm that our audit opinion on the separate financial statements expressed herein is consistent with the additional report to the Audit Committee of the Bank, which we issued on March 16, 2020 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services
We declare that no prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Bank. In addition, there are no other non-audit services which were provided by us to the Bank and its controlled undertakings and which have not been disclosed in the business report.

The engagement partner on the audit resulting in this independent auditor's report is the statutory registered auditor signing this report.

Budapest, March 16, 2020

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Andrew Weekes
Deloitte Auditing and Consulting Ltd.
1068 Budapest, Dózsa György út 84/C.
Registration number: 000083

....

dr. Hruby Attila
Statutory registered auditor
Registration number: 007118

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Registered by the Capital Court of Registration
Company Registration Number: 01-09-071057

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of OTP Bank Plc.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of OTP Bank Plc. (the "Bank") and its subsidiaries (the "Group") for the year 2019 which comprise the consolidated statement of financial position as at December 31, 2019 – which shows total assets of HUF 20,121,767 million –, the related consolidated statement of profit or loss and the consolidated statement of comprehensive income – which shows a net profit for the period of HUF 412,582 million –, consolidated statement of changes in equity, and the consolidated statement of cash-flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019 and of its consolidated financial performance and its consolidated cash-flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (the "EU IFRS"), and the consolidated financial statements were prepared in all material respects in accordance with the provisions of the effective Hungarian Act C of 2000 on Accounting (the "Accounting Act") relevant to the entities preparing consolidated financial statements in accordance with EU IFRS.

Basis for Opinion

We conducted our audit in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits. Our responsibilities under these standards are further described in the *"The Auditor's Responsibilities for the Audit of the Consolidated Financial Statements"* section of our report.

We are independent of the Group in compliance with the relevant effective Hungarian regulations and the "Rules of conduct (ethical rules) of the auditor profession and the disciplinary process" of the Chamber of Hungarian Auditors and, in respect of matters not regulated therein, the "Code of Ethics for Professional Accountants" (the IESBA Code) issued by the International Ethics Standards Board for Accountants, and we have fulfilled our other ethical responsibilities in accordance with the same ethical requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key audit matter	How our audit addressed the matter
Calculation of expected credit losses on corporate and retail loans	
(See notes 8., 28., and 33.1. to the consolidated financial statements for the details) As described in the notes to the consolidated financial statements, the impairment losses have been determined in accordance with IFRS 9 *Financial Instruments*, which requires significant judgment to determine the expected credit losses ("ECLs"). At the year-end, the Group reported total gross loans of HUF 11,570,314 million and loss allowance on loans of HUF 693,317 million. The determination of the ECL of loans is considered a key audit matter, as it requires application of professional judgement and use of subjective assumptions by management in case of both the application of portfolio based collective impairment models, and determination of individual specific loan loss provision. The most significant assumptions applied in determining the provision are the following: - the interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Group's expected credit loss model; - IFRS 9 credit risk staging methodology and application, including the identification of exposures with a significant deterioration in credit quality; - model used for impairment calculations reflecting the characteristics of the portfolio, such as valuation of collateral, probability of default and recovery rates, macroeconomic factors; - the application of assumptions, where there was limited or incomplete data; and - estimation of future cash-flows expected to be realized, including application of scenarios and scenario weights.	Our response as auditors included: - testing and assessment of the modelling techniques and methodology applied by the Group in order to estimate ECLs, and evaluation of its compliance with the requirements of IFRS 9; - evaluating the design and testing of the operating effectiveness of internal controls over timely identification of exposures with significant increase in credit risk and monitoring of credit impaired exposures and calculating, and recording of allowance for expected credit losses; - assessing the collective model methodology and testing the calculations in terms of risk parameters (probability of default – PD, loss given default – LGD, expected credit loss – ECL, and macroeconomic factors) applied by the collective models including involving our specialists; - involving our credit risk specialists to assist us in re-performing the calculation of the allowance and independently assessing the appropriateness of the assumptions used, the methodologies and policies applied; - assessing on a sample basis, whether the staging and impairment triggers are captured appropriately and whether the estimation of the ECL is reasonable; - sample based testing of individual allowance, including the assessment of valuation of collateral and estimation of expected future cash-flows, application of different scenarios and scenario weights and forming an independent view of the adequacy of the ECL; and - assessing the adequacy of the disclosures in the consolidated financial statements.

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Key audit matter	How our audit addressed the matter
Accounting treatment of acquisitions	
(See note 38. to the consolidated financial statements for the details) As described in the notes to the consolidated financial statements, the Group completed a number of acquisitions during the year ended 31 December 2019. The valuation of the acquired assets and liabilities, and the identification of intangible assets have a material impact on the consolidated financial statements and is an area that involves judgment. As at 31 December 2019, as outlined in Note 38, the acquisition accounting balances remain provisional as permitted under IFRS. The accounting for the acquisition was considered a key audit matter due to the magnitude of the assets acquired, consideration paid and the judgement required by the Group to measure the fair values of the acquired assets and liabilities including: - customer base; - loans; - property, plant and equipment; - brand value; - vendor value; - and other assets and liabilities.	Our response as auditors included: - consideration of the acquisition date applied with reference to achievement of control over the acquired entity; - evaluating the Group's determination of the purchase consideration paid with reference to the underlying share purchase agreements; - evaluating and testing the design and implementation of the Group's internal controls over the approval of the purchase price allocation; - inspecting management's preliminary purchase price allocations. Our testing of the Purchase Price Allocations included evaluating the process applied to identify and value tangible and intangible assets (including goodwill and negative goodwill) and liabilities on acquisition; - involving our specialists to agree key items to underlying data and independent valuation reports used by management to determine the fair value of assets and liabilities; - reading the Sale & Purchase Agreements, ensuring the acquisition accounting reflects the facts and circumstances within the agreements; - agreeing the consideration paid and acquisition costs to supporting evidence; and - assessing the adequacy of the disclosures in the consolidated financial statements.

Other Information

Other information comprises the information included in the section called "Management's Analysis" of the annual report and the consolidated business report of the Group which we obtained prior to the date of this auditor's report, and the sections called "Message to the shareholders", "Corporate Governance" and "Macroeconomic and financial environment in 2019" of the annual report, which is expected to be made available to us after that date, but does not include the consolidated financial statements and our independent auditor's report thereon. Management is responsible for the other information and for the preparation of the

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consolidated business report in accordance with the relevant provisions of the Accounting Act and other regulations. Our opinion on the consolidated financial statements provided in the section of our independent auditor's report entitled "Opinion" does not apply to the other information.

Our responsibility in connection with our audit of the consolidated financial statements is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Furthermore, in accordance with the Accounting Act, our responsibilities regarding the consolidated business report also include reviewing the consolidated business report to assess whether the consolidated business report was prepared in accordance with the relevant provisions of the Accounting Act and other regulations, if any, including the assessment whether the consolidated business report complies with the requirements of Section 95/B (2) e) and f) of the Accounting Act, and to express an opinion on the above and on whether the consolidated business report is consistent with the consolidated financial statements. Furthermore, in accordance with the Accounting Act we shall make a statement whether the information referred to in Section 95/B. (2) a)-d), g) and h) has been provided in the consolidated business report, and whether the consolidated business report contains the non-financial statement provided for in Section 134 (5).

In our opinion, the consolidated business report of the Group for 2019 corresponds to the consolidated financial statements of the Group for 2019 and the relevant provisions of the Accounting Act in all material respects. The information referred to in Section 95/B. (2) a)-d), g) and h) of the Accounting Act has been provided and the consolidated business report contains the non-financial statement provided for in Section 134 (5).

As the Group is not subject to additional requirements under any other regulation in connection with the consolidated business report, we have not formulated an opinion on this matter.

In addition to the above, based on the information obtained about the Group and its environment, we must report on whether we became aware of any material misstatements in the other information and, if so, on the nature of such material misstatements. We have nothing to report in this regard.

When we read the sections of the annual report which had not yet been made available to us at the date of this report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

The Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives during the audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue, on the basis of the above, an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits will always detect a material misstatement when it exists. Misstatements can arise from fraud or error, and they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify the opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the notes to the consolidated financial statements, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in the Group's internal control that we identify during the audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In compliance with Article 10 (2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of the Auditor and the Period of Engagement
We were appointed as the auditors of OTP Bank Plc. by the General Meeting of Shareholders on April 12, 2019 and our uninterrupted engagement has lasted for 27 years.

Consistence with the Additional Report to the Audit Committee
We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of OTP Bank Plc., which we issued on March 16, 2020 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services
We declare that no prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Group. In addition, there are no other non-audit services which were provided by us to the OTP Bank Plc. and its controlled undertakings which have not been disclosed in the consolidated business report.

The engagement partner on the audit resulting in this independent auditor's report is the statutory registered auditor signing this report.

Budapest, March 16, 2020

....	....
Andrew Weekes	dr. Hruby Attila
Deloitte Auditing and Consulting Ltd.	Statutory registered auditor
1068 Budapest, Dózsa György út 84/C.	Registration number: 007118
Registration number: 000083	

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RESOLUTION PROPOSAL No. 1/2020

The Annual General Meeting accepts the Board of Directors' report on the Company's financial activity for the year ended 2019, furthermore with full knowledge of the Independent Auditor's Report, the Audit Committee's Report and the Supervisory Board's report, it accepts the proposal on the Bank's separate financial statements and the consolidated financial statements in accordance with the International Financial Reporting Standards for the year ended 2019, and the proposal for the allocation of the after-tax profit of the parent company.

The Annual General Meeting determines the statement of financial position for the year ended 2019 with total assets of HUF 10,138,804 million and with net profit for the period of HUF 193,354 million. The net profit for the period is allocated as follows: the general reserve must be increased by HUF 19,335 million, and the remaining amount must be set to the retained earnings.

The Annual General Meeting determines the Company's consolidated balance sheet with total assets of HUF 20,121,767 million, and with net profit continuing operations of HUF 417,250 million. The profit of continuing operations for shareholders is HUF 416,909 million. Net income from discontinued operations is HUF -4,668 million, and net income from continuing and discontinuing operations is HUF 412,582 million.

APPROVAL OF THE CORPORATE GOVERNANCE REPORT FOR Y2019

Corporate Governance Report

Introduction

OTP Bank Plc. (hereinafter: OTP Bank, Bank or Company) regards the development and maintenance of an **advanced corporate governance system** that conforms to local and international standards as being of primary importance. A reliable governance system, accurate financial planning, responsible management and the appropriate control mechanisms provide a stable basis for efficient and profitable operation.
To this end, the Bank is continuously reviewing and developing its corporate governance practices.

Our corporate governance practice is an important means of ensuring the **fulfilment of our strategic objectives**. Accordingly, within the effective statutory frameworks, we have developed a corporate governance system that simultaneously ensures the confidence and satisfaction of our customers, growth in shareholder value, and our socially responsible corporate conduct. There is no perfect, universally applicable corporate governance solution through which every goal can be achieved as efficiently as possible. For this reason we continuously monitor our governance practices, identifying any deficiencies arising as the result of external and internal changes, and effect those modifications that best serve the fulfilment of our objectives.

The resulting governance structure, optimised to suit our objectives, takes into account the special characteristics of our operations as well as the statutory, supervisory and stock-market requirements that apply to the Bank, while also endeavouring to comply with the related Budapest Stock Exchange (hereinafter: BSE) guidelines. The purpose of the BSE's corporate governance guidelines is for the governance and operating structures of stock exchange-listed companies to be **transparent and comparable** based on a uniform set of criteria. This enables investors, taking into consideration the special characteristics of a given company's operations, the complexity of its activities, and the statutory requirements related to its risk management and financial reporting, to make a well-founded judgement regarding the extent to which the given corporate governance practice ensures reliable and profitable operation.

Like all organisations that provide financial and investment services, the operations of the Bank are, to a high degree, regulated in statutory provisions. As a consequence, not only certain business activities, but our operations as a whole are regulated in detail and monitored by the authorities on a continuous basis. The individual internal control functions (risk management, compliance, and internal audit) have to conform to strict standards, and their effectiveness must be attested not only within the internal corporate governance system, but also to the satisfaction of the external supervisory authorities. All these factors guarantee purposeful, comprehensive and verified risk management procedures, as well as reliable and appropriately supervised data reporting. Therefore, our status as a financial and investment service provider requires us to implement complex and effective corporate governance practices that simultaneously ensure **responsible conduct towards clients and shareholders, reliable operation, and long-term profitability**.

1.) Statement on Corporate Governance Practice

The Bank's operation fully complies with the provisions of the relevant statutory regulations, the decrees of the supervisory authorities and the regulations of the BSE. The structure and operating conditions of the Company are contained in the Articles of Association, which are approved by the General Meeting.

1.1. General meeting

The supreme body of the Bank shall be the General Meeting consisting of the shareholders. The Articles of Association regulate the manner of convocation and operation of the General Meeting, the manner of participation, and of the exercise of voting rights.
The General Meeting shall be convened at least once annually by the Board of Directors.

1.2. Management bodies

Board of Directors

The Company's management body is the Board of Directors. The liability of the Board of Directors extends to the operation of the entire Company, as part of which the Board's main tasks include the approval of the Company's strategy, annual report, major organisational restructurings and policies, as well as making other significant company law-related decisions. In its objectives and activities, particular emphasis is placed on increasing shareholder value, profitability and efficiency, and on managing risks and complying fully with external requirements – in other words on ensuring the most effective enforcement of business, ethical and internal control policies.
The scope of its authority is defined in the effective statutory provisions, the Company's Articles of Association, General Meeting resolutions, and the Organisational and Operational Regulations. Its rules of procedure include the legal status and composition of the Board of Directors, as well as the regulations applicable to its operation and decision making.
All the obligations and prohibitions specified for executive officers under Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Credit Institutions Act) apply to the members of the Board of Directors.
The Board of Directors has an executive role in the governance of the Bank, and this is reflected in its members' remuneration, an important element of which is the share-based honorarium, which serves to harmonise the interests of the board with those of the shareholders.
It oversees the Company's operative management through the Chairman & CEO. The Chairman & CEO is authorised to decide in all matters that do not, pursuant to the Articles of Association, fall within the scope of authority of the General Meeting or the Board of Directors. The employer's rights related to the executive officers of the Company are in general exercised by the Board of Directors as a corporate body, with the proviso that in the case of the deputy CEOs, employer's rights are exercised through the Chairman & CEO, and the prior notification of the Board of Directors is required for their appointment and for the withdrawal of their appointment.
In view of the fact that the Board of Directors also has an important role to play in overseeing the work of the management, it is of substantive importance that **the principle of a majority of external (non-executive) members be implemented in respect of the Board of Directors** (3 executive members, 7 non-executive members)**.** The makeup of the Board of Directors ensures that professional expertise, experience, and a degree of impartiality that goes beyond the above-mentioned independence requirement, are brought to bear in equal measure in the decision-making processes.

The Board of Directors is an executive body elected by the General Meeting of the Bank. The Board of Directors shall be entitled and obliged to make all decisions which are not within the competence of the General Meeting, the Supervisory Board or the Audit Committee as defined by law, the Articles of Association, or a resolution of the General Meeting.

Members of the Board of Directors of OTP Bank Plc.:

The members of the Board of Directors are elected by the General Meeting for a term of five years.

Members of the Board of Directors		Beginning of Board of Directors membership	Beginning of mandate	End of mandate	External/internal member
Chairman	Dr. Sándor Csányi	15 March 1992	2016	2021	Internal member
Deputy Chairman	Tamás Erdei	27 April 2012	2016	2021	External member
Members	Mihály Baumstark	29 April 1999	2016	2021	External member
	Dr. Tibor Bíró	15 May 1992	2016	2021	External member
	Dr. István Gresa	27 April 2012	2016	2021	External member
	Antal György Kovács	15 April 2016	2017	2021	Internal member
	Dr. Antal Pongrácz	26 April 2002	2016	2021	External member
	Dr. László Utassy	25 April 2001	2016	2021	External member
	Dr. József Vörös	15 May 1992	2016	2021	External member
	László Wolf	15 April 2016	2016	2021	Internal member

Executive members:

Dr. Sándor Csányi
Chairman & CEO

Dr. Sándor Csányi graduated from the College of Finance and Accountancy in 1974 with a bachelor's degree in business administration and in 1980 from the Karl Marx University of Economic Sciences with a degree in economics. He is an economist with a specialisation in finance, and a certified auditor. After graduation he worked at the Revenue Directorate and then at the Secretariat of the Ministry of Finance, after which, between 1983 and 1986, he was a departmental head at the Ministry of Agriculture and Food Industry. From 1986 to 1989 he worked as a head of department at Magyar Hitel Bank. He was deputy CEO of K&H Bank from 1989 to 1992. He has been Chairman & CEO of OTP Bank Plc. since 1992. He is Deputy Chairman of the Board of Directors of MOL Plc., Co-Chairman of the National Association of Entrepreneurs and Employers (VOSZ), and Co-Chairman of the Chinese-Hungarian Business Council. He has been Chairman of the Hungarian Football Association (MLSZ) since July 2010, and a member of the UEFA Executive Committee since March 2015; has been the Deputy Chairman of the UEFA Executive Committee since February 2019. Since April 2017 he has been a member of the FIFA Council and the Deputy Chairman of the FIFA Council since February 2018.
As of 31 December 2019 he held 870,255 ordinary OTP shares (while the total number of OTP shares held by him directly and indirectly was 3,555,583).

Antal György Kovács
Deputy CEO
Retail Division

Antal György Kovács graduated from the Karl Marx University of Economic Sciences with a degree in economics. He began his professional career in 1990 at the Nagyatád branch of K&H Bank, where he worked as a branch manager between 1993 and 1995. He has been working at OTP Bank Plc. since 1995, first as a county director and from 1998 as the executive director of OTP Bank's South Transdanubian Region. Since 1 July 2007 he has served as OTP Bank's Deputy CEO. He has received additional training at the International Training Centre for Bankers and on various courses held by the World Trade Institute.
Between April 2007 and April 2012 he was Chairman of the Supervisory Board of OTP banka Hrvatska d.d.
He has been Chairman of the Supervisory Board of OTP Bank Romania SA since 12 December 2012. He has been Chairman of the Board of Directors of OTP Mortgage Bank Ltd. and OTP Building Society Ltd. since 24 April 2014. He is Chairman of the Supervisory Board of OTP Fund Management and OTP Mobile Kft.
He was a member of OTP Bank's Supervisory Board from 2004 to 14 April 2016.
He has been a member of OTP Bank's Board of Directors since 15 April 2016.
As of 31 December 2019 he held 35,948 ordinary OTP shares.

László Wolf
Deputy CEO
Commercial Banking Division

Mr. László Wolf graduated from the Karl Marx University of Economic Sciences in 1983.
After graduation, he worked at the Bank Relations Department of the National Bank of Hungary for 8 years, and then served as head of Treasury at BNP-KH-Dresdner Bank between 1991 and 1993.
From April 1993 he was managing director of OTP Bank's Treasury Directorate, and since 1994 he has been Deputy CEO of the Commercial Banking Division. Member of DSK Bank's Supervisory Board. He has been Chairman of the Board of Directors of OTP banka Srbija since 10 December 2010.
He has been a member of OTP Bank's Board of Directors since 15 April 2016.
As of 31 December 2019 he held 577,521 ordinary OTP shares.

<u>Non-executive members:</u>

<u>Mihály Baumstark</u>
BSc Agricultural Business Administration, MSc Economics

Mihály Baumstark graduated with a degree in agricultural business administration at Gödöllő University of Agriculture (1973), and went on to do a masters in economics at the Karl Marx University of Economic Science (1981). He was employed by the Ministry of Agriculture and Food Industry between 1978 and 1989. When he left the Ministry he was deputy head of the Investment Policy Department. After this he was managing director of Hubertus Bt., and from 1999 to 2011 he was deputy CEO and then Chairman & CEO of Villányi Winery Ltd. (now Csányi Winery Ltd.). He is currently retired. He was a member of OTP Bank's Supervisory Board from 1992 to 1999, and has been a non-executive member of OTP Bank's Board of Directors since 1999. He has been Chairman of OTP Bank's Ethics Committee since 2010, as well as a member of its Remuneration Committee since 2011, and of its Nomination Committee since 2014.
As of 31 December 2019 he held 43,600 ordinary OTP shares.

<u>Dr. Tibor Bíró</u>
College Associate Professor

Dr. Tibor Bíró graduated from the College of Finance and Accountancy (1974) and from the Karl Marx University of Economics (1978) with a degree in business administration. He has been a certified auditor and chartered accountant since 1986. He was the Head of the Financial Department of the City Council of Tatabánya from 1978 to 1982. From 1982, he was a professor at the College of Finance and Accounting, and between 1990 and 2013 head of department at the Budapest Business School. Since his retirement in 2015, he has been a visiting lecturer, and working actively in his auditing and consulting company.
From 2000 onwards, for a period of ten years, he was a member of the Presidium of the Budapest branch of the Chamber of Hungarian Auditors, and also worked as a member of the Chamber's Education Committee for five years.
He has been a non-executive member of OTP Bank's Board of Directors since 1992. He has been a member of OTP Bank's Remuneration Committee since 2009, and of its Nomination Committee since 2014.
As of 31 December 2019 he held 29,000 ordinary OTP shares.

<u>Tamás Erdei</u>
BSc Business Administration

Mr.Tamás Erdei graduated in 1978 with a degree from the College of Finance and Accounting. He began his professional career at OTP, in a variety of administrative roles (his last position was branch manager), before going on to work at the Ministry of Finance in the area of bank supervision.
Since 1983 he has been employed by the Hungarian Foreign Trade Bank (today MKB), where he gradually worked his way up through the ranks. In 1985 he became managing director, in 1990 he was appointed deputy CEO, then in 1994 he was made CEO, and from 1997 until the end of March 2012 he was chairman and CEO.
Between 1997 and 2008, and between 2009 and 2011, he was the elected president of the Hungarian Banking Association.
He is the chairman of the Supervisory Board of the International Children's Safety Service.

He has been a member of OTP Bank's Board of Directors since 27 April 2012. He has been a member of OTP Bank's Risk Assumption and Risk Management Committee, and of its Nomination Committee, since 2014.
Ha has been a member of the Board of Directors of OTP Bank Plc. since April 2019 and the Deputy Chairman of the Work-out Committee since October 2019.
He has been Chairman of the Board of Directors at OTP Factoring Ltd. between since December 2019.
As of 31 December 2019 he held 19,239 ordinary OTP shares.

Dr. István Gresa
PhD Business Administration and Economics

Dr. István Gresa graduated from the College of Finance and Accountancy in 1974 and received a degree in economics from the Karl Marx University of Economic Sciences in 1980. He earned a PhD from the University of Economic Sciences in 1983.
He has worked in the banking sector since 1989. Between 1989 and 1993 he was branch manager of Budapest Bank's Zalaegerszeg branch.
From 1993 he was director of OTP Bank's Zala County Directorate, and from 1998 he served as the managing director of the bank's West Transdanubian Region.
From 1 March 2006 until 14 April 2016 – when he retired – he was deputy CEO of the Credit Approval and Risk Management Division. He was Chairman of the Board of Directors at OTP Factoring Ltd. between 2006 and 2017.
He has been a member of OTP Bank's Board of Directors since 27 April 2012.
As of 31 December 2019 he held 154,012 ordinary OTP shares.

Dr. Antal Pongrácz
PhD Economics

Dr. Antal Pongrácz graduated from the Karl Marx University of Economic Sciences in 1969 and earned a PhD in 1971. From 1969 he worked as an analyst at the Petrochemical Investment Company, then as a group manager at the Revenue Directorate until 1975. From 1976 he held various executive positions at the Ministry of Finance. After that, he was the first Deputy Chairman of the State Office for Youth and Sports. Between 1988 and 1990 he was the first Deputy CEO of OTP Bank. Between 1991 and 1994 he was CEO, and then Chairman & CEO, of the European Commercial Bank Rt. Between 1994 and 1998 he was Chairman & CEO of Szerencsejáték Rt, then in 1998-99 he served as CEO of Hungarian flagship carrier, Malév. Since 2001 he has been managing director of OTP Bank's Staff Division and more recently – up until his retirement on 14 April 2016 – Deputy CEO.
He has been Chairman of the Supervisory Board of OTP banka Hrvatska d.d. since 12 April 2012, and was Chairman of the Supervisory Board of Splitska banka from 2 May 2017 until its successful integration (on 30 November 2018).
He has been a member of OTP Bank's Board of Directors since 2002. He was Deputy Chairman of OTP Bank's Board of Directors from 9 June 2009 to 14 April 2016.
As of 31 December 2019 he held 96,501 ordinary OTP shares.

<u>Dr. László Utassy</u>
Chairman & CEO
Merkantil Bank Zrt.

Dr. László Utassy graduated from the Faculty of Law of Eötvös Loránd University in Budapest in 1978.
He held various positions at the State Insurance Company between 1978 and 1995 and then went on to work at ÁB-Aegon Rt. He was Chairman & CEO of OTP Garancia Insurance from 1996 to 2008. He was managing director of OTP Bank between 2009 and 2010. Since 1 January 2011 he has been Chairman & CEO of Merkantil Bank Ltd.
He has been a member of OTP Bank's Board of Directors since 2001. He has been a member of OTP Bank's Risk Assumption and Risk Management Committee since 2014. He has been Chairman of the Board of Directors of Merkantil Real Estate Leasing Ltd. since 4 April 2018.
As of 31 December 2019 he held 145,597 ordinary OTP shares.

<u>Dr. József Vörös</u>
Professor, academician
University of Pécs

Dr. József Vörös earned a degree in economics from the Karl Marx University of Economic Science in 1974. In 1984 he earned a PhD in economics from the Hungarian Academy of Sciences, and a Doctor of Science degree in 1993. He has been a member of the Hungarian Academy of Sciences since 2013. Between 1990 and 1993 he was the dean of the Faculty of Business and Economics, Janus Pannonius University (JPTE) in Pécs. In 1993 he attended a course in management for senior executives at Harvard University. From 1994 he was a professor at JPTE, and was the senior Vice Rector of the University from 2004-2007, between 2007 and 2011 he was Chairman of the Economic Council of the University of Pécs.
He has been a non-executive member of OTP Bank's Board of Directors since 1992. He has been Chairman of OTP Bank's Remuneration Committee since 2009, and of its Risk Assumption and Risk Management Committee since 2014.
As of 31 December 2019 he held 154,914 ordinary OTP shares.

Operation of the Board of Directors of OTP Bank Plc.

Meetings of the **Board of Directors** are convened by the Chairman & CEO by means of a written invitation, in accordance with the prevailing work schedule.

The Chairman & CEO must convene a meeting of the Board of Directors if
- the Board of Directors has passed a resolution calling for an expedited meeting of the Board of Directors;
- at least three members of the Board of Directors initiate a meeting in writing by designating the reason and the purpose, and the agenda items, and by submitting a written proposal in respect of the decision to be made;
- the Supervisory Board or the auditor initiates such a meeting in writing;
- the National Bank of Hungary (hereinafter: MNB or Supervisory Authority) requires it;
- under the law, a decision must be made about whether to convene an extraordinary General Meeting.

The meetings of the Board of Directors shall be held as necessary, but at least six times a year.

The Board of Directors passes resolutions in accordance with the rules of procedure, by simple majority; minutes must be taken of its meetings, and its resolutions must be documented.

If decisions are made without convening a meeting, instead of the minutes, a summary must be prepared of the resolutions and these must be attached to the minutes of the next meeting of the Board of Directors that follows the successful written vote.

The table below provides a brief overview of the number of Board of Directors meetings held in 2019, and of the attendance at these meetings:

Board of Directors meetings
2019

Date	*Present*	*Absent*
19 February	*10*	*-*
08 March	*9*	*1*
12 April	*10*	*-*
12 June	*8*	*2*
05 September	*10*	*-*
09 September	*10*	*-*
10 December	*10*	*-*

Note:
In 2019 the Board of Directors met on a total of 7 occasions. In addition, resolutions were passed on 145 occasions by written vote.

The items on the agenda of the Board of Directors included, among other things, the tasks stipulated by law, such as making a decision on convening, and specifying the agenda of, the General Meeting, the acceptance of the documents submitted to the annual ordinary General Meeting, preparing a proposal concerning the annual report prepared in accordance with the Accounting Act and the use of the after-tax profit, preparation of the report on the management, on the Company's asset/liability position and on its business policy, measures taken to ensure the appropriate management of the Bank's trading books.
Additional, strategic tasks are, for example, the approval and annual review of the Bank's strategy, determination of its business plan, a review of the Bank's asset/liability position based on the quick reports, review of the Bank's liquidity situation, evaluation of changes in the qualified receivables portfolio, approval and review of the regulations that fall within the Board of Director's scope of authority (collateral evaluation, risk assumption, customer rating, etc.), regular review of compliance with the Credit Institutions Act and Act CXX of 2001 on the Capital Market (hereinafter: Capital Market Act), compliance, and customer complaints management. Furthermore, the Board of Directors is informed of any undertaking of obligations in excess of HUF 3 billion.
In addition, as part of its operative duties, the Board of Directors may make case-by-case decisions in respect of transactions that exceed the threshold value limit.

Supervisory Board

At the Bank, in line with the two-tier governance structure, the Supervisory Board – as a body elected by the General Meeting – performs the oversight of the Company's management, business activity and legal operation and fulfils the responsibilities assigned to it by the Credit Institutions Act.

In accordance with the legal provisions – the principle of a majority of independent (non-executive) members is fully enforced in respect of the composition of the Supervisory Board. The ratio of independent (non-executive) Supervisory Board members (4 persons) to the total number of Supervisory Board members (6 persons) is 67%.

The rules applicable to the appointment and recall of the employee delegate of the Supervisory Board are defined by the Works Council operating at the Company, and the Company does not consider such a member to be independent.

In order to avoid conflicts of interest, the General Meeting may not appoint the members of the Board of Directors and their close relatives to the Supervisory Board.

The Supervisory Board determines and approves its own rules of procedure.

The liability of the Supervisory Board extends to the supervision of the lawfulness of the Company's operation, its business practices and management, including the control of the Company's internal audit organisation. The Supervisory Board exercises a preliminary right of consent in respect of decisions relating to the establishment and termination by the employer of the employment of, and well as the determination of the remuneration of, the head of the internal audit organisation.

It is the task of the Supervisory Board to accept and regularly review – within the limits defined by the General Meeting – the principles of the Remuneration Policy.

Members of the Supervisory Board of OTP Bank Plc.:

Supervisory Board members are elected by the General Meeting for a term of three years.

Members of the Supervisory Board		Beginning of Supervisory Board membership	Beginning of mandate	End of mandate	Independent/ Employee member
Chairman	Tibor Tolnay	15 May 1992	2017	2020	Independent member
Deputy Chairman	Dr. Gábor Horváth	29 April 2005	2017	2020	Independent member
Members	Klára Bella	12 April 2019	2019	2020	Employee delegate
	András Michnai	25 April 2008	2017	2020	Employee delegate
	Dr. Márton Vági	29 April 2011	2017	2020	Independent member
	Olivier Péqueux	13 April 2018	2018	2020	Independent member

Independent members:

Tibor Tolnay
Chairman of the Supervisory Board

Tibor Tolnay graduated from the Budapest University of Technology with a degree in civil engineering in 1978 and then in economic engineering in 1983, and subsequently received a degree in economics from the Budapest University of Economics in 1993.
From 1989 to 1992, he was Director of State Construction Company No. 21.
From 1992 to 1994 he was CEO, then from 1994 to 2015 he was Chairman & CEO of Magyar Építő Rt. He has been the managing director of ÉRTÉK Kft. since 1994,
From 2001 to 2015, he was President of the National Association of Building Contractors.
From 2018, President of the National Association of Entrepreneurs and Employers.
and a member of OTP Bank's Supervisory Board since 1992, and Chairman of the same Board since 1999. He was a member and Deputy Chairman of OTP Bank’s Audit Committee between 2007 and 2011, and has been again since 2014.
As of 31 December 2019 he held 54 ordinary OTP shares.

Dr. József Gábor Horváth
Deputy Chairman of the Supervisory Board
Lawyer

Dr. József Gábor Horváth earned a degree in law from Eötvös Loránd University in Budapest in 1980. From 1983 he worked for the Hungarian State Development Bank. He has been a lawyer since 1986, and since 1990 has run his own law firm, which specialises in corporate finance and corporate governance. His main fields of expertise are corporate finance and corporate governance. He has been a member of the Supervisory Board of OTP Bank since 1995, and was a member of MOL Plc’s Board of Directors between 1999 and 2014.
He has been Deputy Chairman of OTP Bank's Supervisory Board since 2007. He was a member of OTP Bank's Audit Committee between 2007 and 2011, and has been again since 2014. He was a member of the Board of Directors of INA Industrija Nafte d.d. from 2014 to 2018.
As of 31 December 2019 he held no ordinary OTP shares.

Olivier Péqueux
Groupama

He graduated from the Institute of Actuaries of France and Université Paris-Dauphine.
He started work in 1998 as an insurance commissioner for the French Insurance Supervisory Authority.
In 2003, he joined the French Ministry of Finance to take part in the reform of the pension laws and the establishment of a pension fund for French civil servants. He then became technical adviser to the French Minister of Health and Pensions.
In 2005, he joined Groupama Group, first in charge of the actuary and accounting department of Gan Patrimoine, a life insurance company, and then in 2007 as Chief Financial Officer of Groupama Paris Val de Loire.
He moved to China in March 2011 as deputy CEO of Groupama China, where he was in charge of finance, actuary matters and investments in the joint venture between Groupama and AVIC.
From 2015 to 2017, he was the CEO of Groupama AVIC. He has been the Chairman of Groupama-Avic Property Insurance Company Ltd. since 2017.
He has been a member of the Supervisory Board and Audit Committee of OTP Bank since 2018.
As of 31 December 2019 he held no ordinary OTP shares.

<u>Dr. Márton Gellért Vági</u>
General Secretary
Hungarian Football Association

Dr. Márton Gellért Vági graduated in 1987 from the department of foreign economics at the Karl Marx University of Economic Science (today the Corvinus University of Budapest), where he also earned his doctorate in 1994. From 1987 to 2000 he was a member of the university faculty, in the capacity of associate professor and head of department from 1994 onwards. Between 2000 and 2006 he worked at the State Holding and Privatisation Co. (ÁPV Zrt.), as managing director, deputy CEO and then CEO. Between 2006 and 2010 he was Chairman of the National Development Agency. From July 2002 until 1 January 2011 he was a member of the Board of Directors of FHB Nyrt., during which period he also spent four years as Chairman of the Board. Since 2010 he has been general secretary of the Hungarian Football Association.
He has been a member of the UEFA HatTrick Committee since 2011 and of FIFA's Financial Committee since 2017.
He has authored or co-authored more than 80 research papers, essays and books.
He has been a member of OTP Bank's Supervisory Board since 2011. He has been a member of OTP Bank's Audit Committee since 2014.
As of 31 December 2019 he held no ordinary OTP shares.

<u>Employee delegates:</u>

<u>Klára Bella</u>
Director
Corporate Directorate

He graduated from the College of Finance and Accountancy and later received a degree from the Budapest University of Economic Sciences.
From 1992 to 1994 he worked as a clerk at the Fertőszentmiklós branch of OTP Bank.
From 1994 to 1995 he was a lending consultant at Polgári Bank.
From 1995 to 1996 he worked as a risk manager at the Central Branch of OTP Bank.
From 1996 to 1997 he was a credit authorizer in the Credit Approval and Risk Management Division.
From 1997 to 2010 he was Deputy Executive Director at the Central Branch.
From 2010 to 2016 he was Director at the Central Branch.
Since 2017 he has been Director of the Corporate Directorate.
He has been a member of OTP Bank's Supervisory Board, and representative of the Bank's employees, since 12 April 2019.
As of 31 December 2019 he held no ordinary OTP shares.

<u>András Michnai</u>
Managing Director

András Michnai graduated in 1981 from the College of Finance and Accounting with a degree in business administration.
He has been an employee of the Bank since 1974, and until 1981 held a variety of posts in the branch network. Following this he held a management position in the central network coordination department before returning to work in the branch network. From 1994, as deputy management director, he participated in the central coordination of the branch network. Between 2005 and 2014 he headed the Bank's Compliance Department as a managing director. He further expanded his professional skills, earning a Master's degree at the Budapest Business School, and is a registered tax advisor.

He has been a member of OTP Bank's Supervisory Board, and representative of the Bank's employees, since 2008. He has been Secretary of OTP Bank's Employees' Trade Union since December 2011.
As of 31 December 2019 he held 100 ordinary OTP shares.

Operation of the Supervisory Board of OTP Bank Plc.

As stipulated in the Articles of Association, the **Supervisory Board** meets at least six times a year.

The meetings of the Supervisory Board are convened by the chairman. The meetings must also be convened if a member of the Supervisory Board or at least two members of the Board of Directors, or the auditor, requests it in writing, indicating the objectives and reasons for the meeting.

The Supervisory Board passes its resolutions by simple majority; minutes are taken of its meetings, and its resolutions are documented.

If decisions are made without convening a meeting, instead of the minutes, a summary must be prepared of the resolutions and these must be attached to the minutes of the next Supervisory Board meeting that follows the successful written vote.

The table below provides a brief overview of the number of Supervisory Board meetings held in 2019, and of the attendance at these meetings:

Supervisory Board Meetings 2019

Date	*Present*	*Absent*
15 February	*5*	*1*
08 March	*5*	*1*
17 May	*6*	*-*
13 June	*5*	*1*
19 September	*5*	*1*
21 October	*5*	*1*
10 December	*5*	*1*

Note:
In 2019 the Supervisory Board met on a total of 7 occasions. In addition, resolutions were passed on 68 occasions by written vote.
Ágnes Rudas resigned from his post on the Supervisory Board with effect from 12 April 2019.
On 12 April 2019, the Bank's General Meeting elected Klára Bella as a new member of the Supervisory Board.

The main function of the Supervisory Board is to see to it that the Bank has a comprehensive and effectively operating system of oversight and control, and to manage the internal audit organization. It is also responsible for verifying the financial institution's annual and interim financial statements, making a suggestion to the annual General Meeting for the acceptance of the documents, reports and annual reports verified by it and submitted to the annual General Meeting, as well as for the acceptance of the proposal for the use of after-tax profits, and the person and remuneration of the auditor to be elected.
The tasks concerning the management of the internal audit unit includes the acceptance of the audit plan at the bank-group level, and the discussion of the report at the bank-group

level of the audits performed by the internal audit units and of the performance of the audit tasks at the bank-group level.
The principles and frameworks of the long-term remuneration and incentives system for employees in senior positions are determined by the General Meeting. With effect from 2014, the principles of the Bank Group's Remuneration Policy are approved and reviewed by the Supervisory Board, while the Board of Directors is responsible for the annual internal audit of the Policy.
Additional agenda items of the meetings of the Supervisory Board included compliance with the provisions of the Credit Institutions Act, the situation in terms of implementation at group level of the Unified Internal Audit System and the further development of the system, a review of the volume and composition of the qualified receivables portfolio, report on compliance activity, etc.

1.3 Audit Committee

The Audit Committee, consisting of independent members of the Bank's Supervisory Board elected by the General Meeting, is a body that assists the work of the Supervisory Board in relation to the monitoring of the financial reporting system, selection of the auditor, and cooperation with the auditor. Under its powers it monitors the internal audit, risk management and reporting systems, as well as the auditor's activity. The Audit Committee reviews and monitors – in respect of the entire OTP Bank Group – the auditor's independence, with special regard to the performance of any non-prohibited non-audit services to be provided by the auditor in addition to its audit activity. Furthermore, it fulfils the audit committee tasks of several domestic subsidiary banks.

Members of OTP Bank Plc's Audit Committee:

The Audit Committee consists of four members who are elected for a term of three years. The Audit Committee elects a chairperson from among its own members.

Members of the Audit Committee		Beginning of Audit Committee membership	Beginning of mandate	End of mandate
Chairman	Dr. Gábor Horváth	21 September 2007 – 29 April 2011 25 April 2014	2017	2020
Deputy Chairman	Tibor Tolnay	21 September 2007 – 29 April 2011 25 April 2014	2017	2020
Members	Dr. Márton Vági	25 April 2014	2017	2020
	Olivier Péqueux	13 April 2018	2018	2020

Dr. József Gábor Horváth
Chairman of the Audit Committee
(For his CV, see the section entitled ‘Management bodies’)

Tibor Tolnay
(For his CV, see the section entitled ‘Management bodies’)

Olivier Péqueux
(For his CV, see the section entitled ‘Management bodies’)

Dr. Márton Gellért Vági
(For his CV, see the section entitled ‘Management bodies’)

Operation of OTP Bank Plc.’s Audit Committee

The Audit Committee meets at least two times a year.

The table below provides a brief overview of the number of Audit Committee meetings held in 2019, and of the attendance at these meetings:

Audit Committee meetings
2019

Date	***Present***	***Absent***
08 March	*3*	*1*
10 December	*3*	*1*

Note:
In 2019 the Audit Committee met on a total of 2 occasion. In addition, resolutions were passed on 20 occasions by written vote.

The items on the agenda of the Audit Committee meetings included, among others, a briefing on the profit approved by the Company's auditor, the Company's non-consolidated financial statements prepared in accordance with International Financial Reporting Standards, the report on the financial statements and on the proposal regarding the distribution of the profit, and a recommendation on the selection of the Company's auditor, approval of the person nominated to be responsible for the audit, and the determining of his/her remuneration.
The proposals submitted by domestic subsidiary banks as well as the quarterly reports on contracts for non-prohibited auditor’s services, have also been included in the agenda of the Audit Committee.

Remuneration of the members of the Board of Directors, the Supervisory Board and the Audit Committee

Determining the remuneration of the Board of Directors, the Supervisory Board and the Audit Committee is in the competence of the Company’s supreme body, the General Meeting.

1.4. The operation of the committees

A key consideration in the establishment of the composition of special and standing committees is the election of members who are capable of taking a position in all fields and professional matters within the competence of the committee.

a) Committees that operate with the participation of non-executive members of the Company’s Board of Directors:

Remuneration Committee
The Remuneration Committee, established by the Board of Directors and meeting on a continuous basis, prepares proposals to the management bodies for elaborating and monitoring the guidelines and system of remuneration, as well as for specific remuneration decisions.
The Remuneration Committee exercises its authority as a body.
Its chairperson and members are appointed by the Board of Directors, and its rules of procedure are also approved by the Board of Directors.

Members of the Remuneration Committee	
Chairman	Dr. József Vörös
Members	Dr. Tibor Bíró
	Mihály Baumstark

Nomination Committee
This committee, which was established by the Board of Directors in 2014 and operates on a continuous basis, elaborates the principles for selection of the members of the Bank's executive bodies, and nominates candidates accordingly, and also makes recommendations regarding the basic principles and framework for the testing of compliance with the requirements prescribed in respect of members of the executive bodies of the Bank and the Bank Group, and in respect of employees in management and key positions.
Its chairperson and members are appointed by the Board of Directors, and its procedural rules are approved by the committee itself.

Members of the Nomination Committee	
Chairman	Dr. Tibor Bíró
Members	Mihály Baumstark
	Tamás Erdei

Risk Assumption and Risk Management Committee
This committee, which was established by the Board of Directors and operates on a continuous basis, fulfils a decision support function, commenting on the Bank's risk assumption strategy and propensity for risk, and providing support for the supervision of implementation of the risk assumption strategy.
Its chairperson and members are appointed by the Board of Directors, and its procedural rules are approved by the committee itself.

Members of the Risk Assumption and Risk Management Committee	
Chairman	Tamás Erdei
Members	Dr. László Utassy
	Dr. József Vörös

b) **Special committee:**

Ethics Committee
A special committee of the Bank established by the Board of Directors – and consisting of delegated members thereof – presided over by one of the non-executive members of the Board of Directors.
The committee gives guidance on compliance with standards of ethical conduct through its position statements issued in general and specific cases, and its decisions serving to assist with interpretation. The committee also makes decisions in the event of reports, relating to the Bank, made via the ethical complaints hotline, or investigates the reports and makes a decision in a second-tier procedure.
Its procedural rules are approved by the committee itself.

Ethics Committee	
Chairman	Mihály Baumstark

c) **Permanent committee** established by the Bank's Management in support of management functions:

Management Committee
The Management Committee is a permanent committee established by the Board of Directors. It is a forum that directly supports the work of the Chairman & CEO and is the supreme management body of the Bank. It has decision making power in the issues that are relegated into its scope of authority by the Organisational and Operational Regulations, it takes a preliminary position and prepares decisions in the majority of issues that are discussed by the General Meeting, the Board of Directors and the Supervisory Board, and plays a coordinating role in the senior management of the Bank.
The Management Committee also ensures that the Bank can respond flexibly and effectively to market and regulatory factors and that the Bank as a whole can act in a coordinated fashion.
The Management Committee performs its work on the basis of a six-month work schedule approved by the committee itself, and meets once a month (and on an ad-hoc basis as and when necessary). Their order of business is determined by its procedural rules.

Members of the Management Committee	
Chairman	Dr. Sándor Csányi
Members	Dr. Zsolt Barna
	László Bencsik
	Tibor András Johancsik
	György Kiss-Haypál
	Antal György Kovács
	László Wolf
	Dr. Bálint Csere

The following additional permanent committees operate within the Company for the performance of specific tasks:
- Asset-Liability Committee (ALCO)
- Product Development, Sales and Pricing Committee (TÉÁB)
- International Product Development, Sales and Pricing Committee (NTÉÁB)
- Work-Out Committee (WOB)
- Credit and Limits Committee (HLB)
- IT and Operations Board (ITOB)
- Group Operational Risk Management Committee (OpRisk)
- Group Impairment Committee
- Committee on the Prevention of Money Laundering

Asset-Liability Committee

The Asset-Liability Committee (ALCO) is a standing committee established by the Board of Directors, which acts as the Bank's governing body in asset-liability management matters of the highest level.

Members of the Asset-Liability Committee	
Chairman	László Bencsik
Deputy Chairman	László Wolf

Product Development, Sales and Pricing Committee

The Product Development, Sales and Pricing Committee (TÉÁB) is a standing committee established by the Board of Directors. As a committee it deals with the products and services of the Bank and its domestic subsidiaries sold through the Bank's sales channels, including their normative pricing and their distribution through the various sales channels available, as well as with major campaigns.

Members of the Product Development, Sales and Pricing Committee	
Chairman	Antal Kovács
Deputy Chairman	László Wolf

International Product Development, Sales and Pricing Committee

The International Product Development, Sales and Pricing Committee (NTÉÁB) is a standing committee established by the Board of Directors which deals with matters related to products and services sold by the Bank's foreign subsidiaries, including their pricing and sales.

Members of the International Product Development, Sales and Pricing Committee	
Chairman	Antal Kovács
Deputy Chairman	László Wolf

Work-Out Committee

The Work-Out Committee is a standing committee established by the Board of Directors. Its responsibility is to approve the collection strategy and submit it to the Board of Directors. The Work-Out Committee exercises decision-making power in the enforcement of claims the recovery of which is at risk in the portfolio of the Bank, and right of consent concerning such in the portfolios of the Bank's foreign subsidiaries, Merkantil Bank Zrt. and its subsidiaries, as well as OTP Factoring Ltd. and its foreign subsidiaries. The Work-Out Committee also acts as an NPL committee in charge of the general management of non-performing exposures, in the framework of which it pre-approves, reviews and supports the Bank's NPL strategy and supports its implementation in practice.

Members of the Work-Out Committee	
Chairman	Tamás Erdei
Deputy Chairman	János Szász

Credit and Limits Committee

The Credit and Limits Committee (HLB) is a standing committee established by the Board of Directors. The HLB's core competence covers the Bank's and the Bank Group's regulatory and methodological responsibilities related to lending and credit risk management, as well as decisions concerning the assumption of credit risk vis-à-vis of customers, and in case of Bank Group members that assume credit risk, it entails the exercise of the power of decision or consent concerning this area of responsibilities.

Members of the Credit and Limits Committee	
Chairman	György Kiss-Haypál
Deputy Chairman	László Wolf

IT and Operations Board

The IT and Operations Board (ITOB) is a standing committee set up by the Board of Directors that provides guidance concerning the investment strategy within the sphere of competence of the Bank Group's IT Division in order to ensure the prudent and secure operation of the Bank Group.

Members of the IT and Operations Board	
Chairman	Tibor Johancsik
Deputy Chairman	László Bencsik

Group Operational Risk Management Committee

The Group Operational Risk Management Committee is a standing committee set up by the Board of Directors that monitors changes in operational risks, operational risk management activities and business continuity planning activities and ensures that regulatory risk management solutions required by law and expected by the management are in place and that reporting pathways are working properly.

Members of the Group Operational Risk Management Committee	
Chairman	György Kiss-Haypál
Deputy Chairman	Gábor Horváth

Group Impairment Committee

The Group Impairment Committee is a standing committee established by the Board of Directors. The sphere of competence of the Committee includes Bank Group-level decisions about the methodological issues involved in the group valuation used in impairment recognition under IFRS 9.

Members of the Group Impairment Committee	
Chairman	László Bencsik
Deputy Chairman	György Kiss-Haypál

Committee on the Prevention of Money Laundering

The Committee on the Prevention of Money Laundering is a standing committee established by the Board of Directors that makes decisions about the sustainability of a business relationship or the approval of the establishment of a business relationship that involve customers concerned with the arising of specific money laundering risks.

Members of the Committee on the Prevention of Money Laundering	
Chairman	dr. Bálint Csere
Deputy Chairman	Gábor Bucsek

Permanent committees are the Bank's bodies in charge of preparing and making decisions as well as conducting consultations. The task of permanent committees is to prepare and make decisions needed for the performance of the Bank's business activities, for minimising the Bank's risks and for ensuring its operation. Decisions to establish permanent committees are made by the Bank's Board of Directors. The members of the committees are persons in charge of the professional areas concerned, who have exceptional expertise and all-round competence in the given matter. The chairpersons of the committees are nominated by the Chairman & CEO, and their rules of procedure – with the exception of the Management Committee – are approved by the head of the Legal Directorate. The Management Committee approves its own rules of procedure. In respect of resolutions, the Asset-Liability Committee, the Credit and Limits Committee, the Group Operational Risk Management Committee, the International Product Development, Sales and Pricing Committee, the Work-Out Committee and the Group Impairment Committee operate on the principle of simple majority, while in the case of the Management Committee, the Product Development, Sales and Pricing Committee and the IT and Operations Committee, decisions are made by a simple majority of votes but the chairperson has a right of veto.

1.5. Members of OTP Bank Plc.'s senior management (with CV)**:**

Dr. Sándor Csányi
Chairman & CEO
(For his CV, see the section entitled 'Management bodies')

Dr. Zsolt Barna
General Deputy CEO
Group Governance and Operations Division

Dr. Zsolt Barna started his professional career at the State Financial and Capital Market Supervisory Commission, and rising through the ranks he became managing director of the Financial and Capital Market Supervisory Directorate in 2006. In this position, he was responsible for the supervision of banks and banking groups. Between 2006 and 2010, he was a member and permanent invitee to the CESR's, CEBS's management bodies and professional committees. From 2008 to 2009 he was one of the decisive figures in crisis management activities conducted in the banking sector.
He has been working for OTP Group since 2010, during which time he was appointed to Chairman of the Board of Directors of CKB Bank in Montenegro, where he was in charge or the bank's reorganisation. Following several executive positions within OTP Group, between 8 June 2016 and 31 August 2018 he held the position of the Chairman and CEO of OTP Real Estate Investment Fund Management Ltd. and, in addition, from September 2016 to 31 August 2018 he acted as Chairman of the Board of Directors of OTP Fund Management Ltd. He has been Chairman of the Board of Directors of OTP Real Estate Investment Fund Management Ltd. since 8 June 2016. In 2017-2018, he supervised the integration of OTP Bank's Croatian subsidiaries. Starting from 10 September 2018, he has been Chairman of the Supervisory Board of OTP Real Estate Ltd. In 2017-2018, he supervised the integration of OTP Bank's Croatian subsidiaries.
Since 1 September 2018, he has been the General Deputy CEO in charge of OTP Bank's Group Governance and Operations Division.
Between 10 September 2018 and 29 March 2019, he was Chairman of the Supervisory Board of OTP Real Estate Ltd. He has been Chairman of the Board of Directors of OTP Real Estate Ltd. since 29 March 2019. Since 13 December 2019 he has been a member of the Board of Directors, and since 16 December 2019 Chairman of the Board of SKB Bank in Slovenia.
As of 31 December 2019 he held 1,010 ordinary OTP shares.

László Bencsik
Deputy CEO
Strategy and Finance Division

In 1996, László Bencsik graduated from the Faculty of Business Administration at the Budapest University of Economic Sciences, and in 1999 he obtained a Masters in Business Administration (MBA) from INSEAD Business School in France.
Between 1996 and 2000 he worked as a consultant at Andersen Consulting (now Accenture). From 2000 to 2003 he was a project manager at consulting firm McKinsey & Company.
He joined OTP Bank in 2003, when he became managing director of the Bank Operations Management Directorate, and the manager with overall responsibility for controlling and planning.
He has been deputy CEO of OTP Bank, and head of the Strategy and Finance Division, since August 2009. Since 13 March 2012 he has been Chairman of the Supervisory Board of DSK Bank.
As of 31 December 2019 he held 41,756 ordinary OTP shares.

Tibor András Johancsik
Deputy CEO
IT Division

Mr. Tibor András Johancsik graduated from the Budapest Technical University with a degree in electrical engineering in 1988, and then in 1993 earned a further degree in foreign trade business administration from the College of Foreign Trade. He began his professional career at as a researcher in the field of industrial automation at the Hungarian Academy of Sciences Institute for Computer Science and Control (MTA SZTAKI). From 1994 onwards he held management positions at the Hungarian subsidiaries of international IT development companies (ICL, Unisys, Cap Gemini).
From 2001 he worked as an advisor in the fields of IT and organisational development, then from 2003, as managing director of JET-SOL Kft., he participated in the development of numerous systems in Hungary and abroad.
Since 24 February 2016 he has been Deputy CEO in charge of OTP Bank's IT and Operations Division.
He has been Chairman of the Supervisory Board of Monicomp Zrt. since 1 April 2016.
As of 31 December 2019 he held 13,153 ordinary OTP shares.

György Kiss-Haypál
Deputy CEO
Credit Approval and Risk Management Division

György Kiss-Haypál is a qualified economist. He graduated from the Budapest University of Economic Sciences in 1996. He started his career as a project finance analyst for Budapest Bank Plc., and by 2007 he had been appointed head of the bank's risk management department. Between 2002 and 2006 he also worked in Ireland as corporate credit risk portfolio manager for GE Consumer Finance, and in Austria as GE Money Bank's consumer loans portfolio manager.
From 2015 he was deputy head of the Credit Approval and Risk Management Division of OTP Bank Plc., and was then appointed acting head of the Division.
Since 3 May 2017, he has been deputy CEO of the Credit Approval and Risk Management Division.
As of 31 December 2019 he held 1,776 ordinary OTP shares.

Antal György Kovács
Member of the Board of Directors, Deputy CEO
Retail Division
(For his CV, see the section entitled 'Management bodies')

László Wolf
Member of the Board of Directors, Deputy CEO
Commercial Banking Division
(For his CV, see the section entitled 'Management bodies')

1.6. Internal control system

The appropriate functioning of the internal control system is provided for, at bank-group level, in accordance with the relevant statutory regulations and in keeping with the relevant Recommendations.
The internal control system, alongside responsible corporate governance, is a cornerstone of the internal lines of defence that promote prudent, reliable and effective operation in accordance with the statutory regulations and internal regulations, protects the economic interests and social objectives of the customers and the owners and ensures continued trust in the Company.
The internal control functions are independent of each other and of the areas they supervise and audit. It is a basic expectation concerning the operation of internal control functions that they should operate in a way to provide support to the senior management in making sound decisions.

Internal audit

The main function of the internal audit system is to protect customers, the company's assets and shareholder's interests, as well as to facilitate and monitor operation in compliance with the statutory provisions.

The internal audit system covers all processes, organisational units, business lines and activities, including outsourced activities.
The Company's internal audit system consists of several modular control levels. The elements of the internal audit system are comprised of in-process controls and management controls, and an independent internal audit unit and management information system.

The independent internal audit unit assists in the legally compliant and effective management of assets and liabilities and the protection of property; it supports secure business operation, the effectiveness, cost-efficiency and success of internal control systems, the minimisation of risks, and moreover – alongside the compliance unit – it detects and reports departures from the provisions of the statutory regulations and internal policies, makes recommendations for the elimination of deficiencies, and monitors the implementation of the measures. It performs its activities independently, objectively and professionally. Its independence is ensured by the fact that it is professionally overseen by the Supervisory Board, within the framework set out by the Credit Institutions Act. The internal auditing organisation is structured in a way that ensures the performance of owner's audits at the Company, in the branch network and at the foreign and Hungarian subsidiaries, as well as the professional supervision of the subsidiaries' own internal audit organisations in Hungary and abroad.

OTP Bank Plc. has developed and applies such a unified internal audit system consistently throughout the Bank Group that is proportionate to the size of the OTP Group and the market share of the Company, includes shareholder audits conducted at the foreign and domestic group members as well as the professional oversight of the internal audit organisations of the financial institutions that are subject to consolidated supervision as specified in the Credit Institutions Act. To this end, standardised internal audit procedures and methodologies pertaining to the operation and activities of group members' internal audit departments are developed, enhanced and applied on a continuous basis. Internal audit also liaises regularly and cooperates with external auditing bodies.

The independent internal audit organisation has an annual audit plan which is approved by the Supervisory Board. The annual plan is prepared using a risk-based methodology and, in addition to focusing on the areas that entail regulatory, business and operational risk, and the other main risk exposures, it treats the making of reports and the controlling of data as a priority, and takes into account the Company's prevailing strategic priorities.

The independent internal audit organisation has unrestricted access to the information, documents and data needed to carry out the audits, and receives continuous information on any and all changes in the structure, risks and priorities of the group.

The internal audit organisation makes independent group-level reports on its auditing activities for the management bodies at quarterly and annual intervals. In its quarterly reports it gives a summary account of the audits conducted by the Group's internal audit organisations, the risks identified in the course of its own audits and audits conducted by the authorities, and the success of any action taken to eliminate them. In exceptional cases that require immediate intervention, it provides the management with extraordinary briefings. The audit organisation reports annually on the performance of the tasks set out in the group-level annual plan, the audits conducted and other activities, and on the circumstances of the organisation's operation, as well as on any changes to the internal audit system.

Once a year, the internal audit organisation draws up, for the Supervisory Board, objective and independent reports in respect of the operation of risk management, internal control mechanisms and corporate governance functions and, in line with the provisions of the Credit Institutions Act, reports, once a year, to the Supervisory Board and the Board of Directors on the regularity of internal audit tasks, professional requirements and the conduct of audits, and on the review of compliance with IT and other technical conditions needed for the audits.

Risk management

The basis for effective group-level risk management is the operating of a standardised, 'OTP-compliant' organisational structure as well as regulations and procedures at the subsidiaries concerned. The Company has detailed risk management rules for each of the various types of risk (liquidity, market, country, counterparty, credit, operational, compliance), and these rules are in harmony with the statutory regulations pertaining to prudential banking operations. The annual report describes the risk management practices, the limits, and compliance with these limits.

Within the Company, the Credit Approval and Risk Management Division and the Strategy and Finance Division exercise functional control over the guidelines, methodology and infrastructure of the bank-group risk management strategy, the purpose of which is to create a clearly defined, transparent, standardised credit, country, counterparty, market and operational risk management system at group level which complies with the expectations of the Supervisory Authority and local conditions. The Bank Group's Risk Strategy, as well and the rules on risk prescribed by the Credit Institutions Act, are approved by the Bank's Board of Directors.

The Risk Strategy determines, with respect to the entire Bank Group, the framework for risk management and the principles, guidelines and development programmes of risk assumption.

With respect to the cornerstones of the risk management methodologies, and the main risk topics for Bank Group members, the final decision-making competence is held by the Group members' risk committees (Credit and Limit Committee, Workout Committee, Group Operational Risk Committee).

The Bank's risk management system encompasses the identification of the risks, assessment of their impact, elaboration of the necessary action plans, and the monitoring of their effectiveness and results. The management make their business decisions in a knowledge of all the key risks. All significant risks related to internal and external operations, or to compliance with financial and legal requirements, as well as numerous other risks, are evaluated and managed using a clearly-defined and transparent internal mechanism.

The business continuity framework is intended to provide for the continuity of services. Developed on the basis of international methodologies, the lifecycle model includes process evaluation, action plan development for critical processes, the regular review and testing of these, as well as related DRP activities. The activity is overseen by the Group Operational Risk Management Committee.

Compliance

In accordance with EU regulations, Hungarian statutory provisions and supervisory recommendations, an independent organisational unit (the Compliance Directorate) operates at the Company, with the task of exploring and managing compliance risks. This function is supported by the appropriate regulatory documents: a compliance strategy, policy, regulations pertaining to the management of each compliance risk, as well as a work plan. The purpose of the compliance policy is to set out a summary of the Bank's key principles related to compliance, and to mark out the main strategy relating to independent compliance activities, which together facilitate and support the Bank's compliant, lawful, secure and prudent operation. The compliance policy is approved by the Board of Directors and the Supervisory Board of the Bank. The Bank's senior management is responsible for the implementation in practice of the compliance policy.
The Compliance Directorate prepares a report quarterly to the Board of Directors, and annually to the Supervisory Board, about the Bank's and the Bank Group's compliance activities and position.

Auditor

The General Meeting has the authority to elect the company performing the audit, and to approve the nomination of the member responsible for the audit.

Our Company is audited by Deloitte Auditing and Advisory Kft. (company reg. no. 01-09-071057). Last year the auditor did not perform any activity that might have compromised its independence.
The Audit Committee makes a decision on any non-audit service provided to the auditor, and the related contract may only be concluded with the Committee's approval. The Audit Committee receives quarterly reports on the composition and the value of any non-auditor contracts, ensuring the independence of the auditor.
The Board of Directors must inform the Company's General Meeting and Supervisory Board if the auditor is given any other material mandates. In addition, if warranted, the Company's Board of Directors, Supervisory Board and other boards may use the services of an external consultant as well.
With regard to the provisions of Article 17 of Regulation (EU) No 537/2014 of the European Parliament and of the Council ("Regulation"), Deloitte Könyvvizsgáló és Tanácsadó Kft. may perform the duties of auditor in the 2020 business year for the last time. The Audit Committee, on the basis of the proposal from the Tender Committee conducting and coordinating the tender, accepted the evaluation of the proposals received in relation to the tender *auditor to be elected from the business year 2021* and its compliance with the applicable legislation.

In the course of developing its accounting policy and accounting procedures, the Company establishes internal controls that reliability assure fulfilment of the Company's objectives in the interest of ensuring the reliability of financial reporting, the effectiveness and efficiency of the various corporate operations, consistency with the latest statutory provisions, and full compliance with the reporting requirements towards the individual regulatory bodies. The detailed tasks relating to the production or reports and to accounting audits are regulated in internal regulatory documents, the scope of which extends to all of the Bank's organisational units involved in the compilation of the financial statements.

An internal regulatory document provides instructions on the account-closing and reporting tasks related to the Company's interim (monthly, quarterly, half-yearly) and annual financial statements, and sets out in a consolidated format the account-closing operations, tasks and reporting actions to be performed monthly, quarterly, half-yearly and at the end of the year, specifying the deadline for completion of the tasks and the persons responsible.
Another regulatory document instructions on the inventory-taking and reconciliation of general ledger accounts serving the temporary recording of items that, at the time they arise, cannot for various reasons be stated immediately in actual asset or liability accounts, or in accounts that serve to record off-balance sheet items.
Pursuant to the provisions of the Accounting Act (IFRS), the financial statements must be supported with an inventory report. An internal regulatory document sets out in detail the tasks related to inventory-taking, in the interest of assuring the authenticity of the balance sheet through the accurate valuation of assets and liabilities, and ensuring the auditing of records, and through this a strengthening of documentary discipline, the protection of property, and the identification of any depreciated inventory stock and assets that are no longer in use.
In addition to the foregoing, the Company has elaborated and applies detailed accounting procedures, and continuously adapts the related accounting rules in relation to individual new products and activities. The individual internal accounting documents relating to accounting are regularly (annually) reviewed, and updated where necessary. The legal, internal auditing and compliance units also participate in the elaboration and amendment of the Bank's internal regulatory documents.

1.7. Disclosure of information

Providing regular, authentic information is essential if the shareholders and the other participants in the capital market are to make sound decisions, and the way in which the Company discloses information also has an impact on its reputation.

The Company performs its disclosures in strict compliance with the provisions of Act V of 2013 on the Civil Code (hereinafter: Civil Code), the Capital Market Act, the Credit Institutions Act, Act CXXXVIII of 2007 on Investment Firms and Commodity Dealers, and the Regulations governing their Activities, Act C of 2000 on Accounting, Ministry of Finance Decree 24/2008 (VIII. 15), Act LXVII of 2019 on the encouragement of long-term shareholder engagement and modification of certain acts with the purpose of legal harmonization, as well as the relevant Regulations of the BSE. In addition, the Company has effective internal regulations that ensure compliance with the obligation to disclose information.

The aforementioned regulations ensure that all material information pertaining to the Company and having a bearing on the price of the Company's shares is published accurately, in full, and in good time.

The Board of Directors describes its business and strategic goals of the given year at every ordinary General Meeting. The proposal to the General Meeting is published by the Company on the website of the Budapest Stock Exchange in accordance with its rules of disclosure and the provisions of the relevant regulations of the BSE.

The Company, in accordance with the statutory regulations, publishes on the Company's website and in its Annual Report the professional careers of the members of the Board of Directors, the Supervisory Board and the management.

The proposal pertaining to the remuneration of the chairman and members of the Board of Directors and the chairman and members of the Supervisory Board constitute a part of the proposals of the General Meeting.

The Company has detailed risk management regulations that include every type of risk (liquidity, market, country, counterparty, credit, operational, compliance) which are consistent with the statutory regulations pertaining to prudential banking operation. The Annual Report provides information about the Company's risk management practices, the relevant limits and compliance with the limits.

The Company has detailed internal regulations pertaining to insiders and potential insiders that fully comply with the restrictions and prohibitions regulated in detail by the Capital Market Act. In addition, the guidelines pertaining to securities trading by insiders are also available on the website. All transactions involving the Company's shares performed by the members of the Board of Directors and the Supervisory Board are published by the Company in accordance with the rules on disclosure, and the shareholdings in the Company of the officers of the Company (number of shares) are published in the Company's Annual Report.

The Board of Directors has assessed the effectiveness of information disclosure processes in 2019, and found them to be satisfactory.

1.8. Overview of the exercising of shareholders' rights

Participation in the General Meeting and voting rights

Shareholders may exercise their right of participation and their voting rights at the General Meeting, in person or by proxy.

The letters of proxy must be set forth in a notarised deed or a private document of full probative force. In the event that a shareholder is represented at the General Meeting by its legal representative (e.g. director, managing director, mayor etc.), the authenticated deed issued by the court or court of registration concerning the right of representation, or a certificate testifying to the election of the mayor, must be presented at the venue of the General Meeting.

The letters of proxy must be handed over at the location specified in the invitation to the General Meeting, within the allotted time. The authorisation shall be valid only for a General Meeting or for a specified period not exceeding twelve months. Unless otherwise regulated, the authorisation shall be valid for the continuation of a suspended General Meeting and for re-convened General Meetings by reason of the lack of quorum. If the letter of proxy was issued outside Hungary, it must satisfy, in terms of its form, the statutory provisions pertaining to the authentication or counter-authentication of documents issued outside Hungary. Information on the subject can be obtained from the Hungarian representation offices abroad.

A condition of participation and voting in the General Meeting is that

- the shareholding as at the time of the shareholder matching procedure is corroborated by the result of the shareholder matching procedure;
- the owner of the shares be validly recorded in the Company's Share Register by the time of its closure as per point 8.4. of the Company's Articles of Association (hereinafter: Articles of Association); and
- the shareholder's shareholding or voting right does not violate the statutory provisions or the provisions of the Articles of Association, which the Company ascertains through a check following receipt of the result of a ownership verification process from KELER Central Depository Ltd. (hereinafter: KELER Zrt).

Voting at the General Meeting is performed using a computer, with a voting device. The shareholder or the shareholder's proxy, provided that he or she is attending lawfully in accordance with the provisions of the Articles of Association, may collect the voting device after certifying his or her identity and signing the attendance register at the venue of the General Meeting. If due to technical reasons voting is not possible with the voting device, the voting will take place with the help of voting books. Any given shareholder (including a shareholder represented by a shareholder's proxy) is only entitled to use a single voting device (book of voting slips).

The rules on participation in the General Meeting and the exercising of voting rights on the part of GDR holders are contained in the Custody Agreement concluded between The Bank of New York and the Company.
Further details are contained in the Articles of Association published on our website.

1.9. Brief description of the rules related to the conducting of the General Meeting

The Company requests a shareholder-matching procedure for the date of the General Meeting (including any repeated General Meeting), as a corporate event, from the KELER Zrt. The ownership verification process may take place only in the period between the 7th and 5th trading day at the stock exchange prior to the General Meeting (including any repeated General Meeting). The rules pertaining to the ownership verification process are set out in the latest effective regulations of KELER Zrt.

The Company, at 18:00 Budapest time on the second working day before the General Meeting (or repeated General Meeting), deletes all the data in the Share Register and at the same time registers the results of the ownership verification process in the Share Register, and closes it with the results of the shareholder identification. After this any entry related to the shareholder's holding may only be made, at the earliest, on the working day following the closure of the General Meeting or following the day of the non-quorate General Meeting..

The General Meeting must be announced in the manner specified in respect of announcements made by the Company, at least 30 days before the projected date of the General Meeting, unless otherwise stipulated in the Civil Code and the Credit Institutions Act. The (extraordinary) General Meeting, that is to decide on a capital increase necessary in order to avoid the proceeding referenced in Section 135 (2) of the Credit Institutions Act, can be announced at least 10 days before the projected date of the meeting.

The invitation must include the following:

a) the Company's official name and registered office;
b) the date and place of the General Meeting;
c) the manner in which the General Meeting is to be held;
d) the agenda of the General Meeting;
e) the provisions contained in section 8.5 of the Articles of Association, with the reminder that shareholders may participate in and vote at the General Meeting only in compliance therewith;
f) information about the place and date of the handing over of the letters of proxy;
g) in the event that there is no quorum, the place and date of the reconvened General Meeting
h) the time of ownership verification process and closure of the Share Register,
i) the fact that in order to exercise shareholder's rights the shareholder must be listed in the Share Register at the time of its closure, but subsequent to this the shares may be freely traded without this affecting the ability to exercise shareholder's rights,

j) the conditions, stipulated in the Articles of Association, for exercising the shareholder's right to request information,
k) the conditions, stipulated in the Articles of Association, for exercising the shareholder's right to supplement the agenda of the General Meeting, and
l) information regarding the time, place and means (including the address of the Company's website) of accessing the motions and proposed resolutions on the agenda of the General Meeting.

Questions not listed on the agenda may be discussed by the General Meeting only if all shareholders are present and they give their unequivocal consent thereto.

The General Meeting is regarded as having a quorum if the votes of the attending shareholders represent more than one-third of the total votes embodied by shares entitling the holder to vote.

If a duly convened General Meeting does not have a quorum, then the repeated General Meeting – convened for the time and date and venue specified in the announcement that is published in accordance with section 8.13 of the Articles of Association – shall have a quorum in respect of the agenda items set forth in the invitation irrespectively of the extent of the voting rights represented by those in attendance. If the agenda of the General Meeting includes a proposal relating to the withdrawal of the shares from any regulated market (hereinafter: delisting), then the repeated General Meeting shall have a quorum in respect of such agenda item if shareholders representing more than half of the votes embodied by the shares conferring voting rights are in attendance.

If a General Meeting that has a quorum cannot pass a resolution in respect of all the items on the agenda, it may decide to suspend the meeting and to convene a follow-up General Meeting, while indicating the new time and place. The General Meeting may only be suspended once, and the follow-up General Meeting must be held within 30 days of the suspension.

In respect of the quorum of a suspended and then reconvened General Meeting (follow-up General Meeting), the general rules apply. The follow-up General Meeting may pass decisions only in respect of the announced agenda items of the original General Meeting in respect of which the original General Meeting did not make a decision.

The General Meeting is chaired by the Chairman of the Board of Directors or another person designated by the Board of Directors who

- opens the General Meeting;
- appoints the person responsible for taking minutes;
- determines whether the General Meeting has a quorum;
- gives and revokes the right to speak;
- formulates resolution proposals and puts them to the vote;
- announces the result of the vote on the basis of the results indicated by the vote counters;
- announces the intermission; and
- closes the General Meeting.

Prior to the opening of the General Meeting, shareholders who have voting devices may notify the Chairman of the General Meeting in writing if they would like to speak in relation to any of the agenda items. The comments made by the shareholders may not be on a topic that is different from the designated agenda item. The Chairman of the General Meeting must grant the right to speak to persons who have indicated their desire to speak in accordance with the above.

The Chairman of the General Meeting may determine the order in which the comments on the given agenda item will be heard, may grant any person the right to speak or may retract such right, with the proviso that the right to speak may be retracted from a shareholder who has indicated his/her wish to speak in writing only if the shareholder's comments depart from the given agenda item despite a warning in this regard. The Chairman of the General Meeting may prohibit the recording in the minutes of comments that are made after the right to speak is retracted, and may terminate the availability of the technical conditions (microphone) for making such comments.

The Chairman of the General Meeting may decide to hold the General Meeting in private, and, with the exception of the members of the Board of Directors, the managing directors specified in the Credit Institutions Act, the members of the Supervisory Board, the auditor, shareholders with voting terminals, and the representatives of such shareholders as well as the representatives of the MNB and the BSE, he may exclude anyone from attending the General Meeting.

The General Meeting passes its resolutions, unless the Articles of Association stipulate otherwise, through a simple majority of the votes of the attending shareholders.

Decisions at the General Meeting are made by open vote.

In its first resolution, the General Meeting selects, from the list proposed by the Chairman of the General Meeting, the attending shareholders who will act as the authenticator of the minutes and the vote counters. In the case of an unsuccessful vote the Chairman of the Meeting must submit a new proposal.

Minutes must be taken of the General Meeting, which must include the following:

- the Company’s official name and registered seat;
- the date and place of the General Meeting and the manner in which it is held;
- data necessary for determining whether the General Meeting has a quorum and changes in the number of persons attending;
- the name of the Chairman of the General Meeting, the person taking the minutes, the authenticator of the minutes and the name of the vote counters;
- the most important events at the General Meeting and the proposals made;
- the draft resolutions, in the case of each resolution the number of shares with respect to which valid votes have been cast, the share represented by these votes in the share capital, the number of votes for and against the proposals and the number of those who abstained;
- objections to a resolution by any shareholder and any member of the Board of Directors or the Supervisory Board if the person objecting requests it himself.

The minutes are signed by the Chairman of the General Meeting and the person taking the minutes and are authenticated by an attending shareholder who has been selected for this purpose.

The Board of Directors must send the Company Court an authenticated copy of the minutes of the General Meeting within 30 days after the General Meeting is adjourned, together with the attendance register and the documents that certify that the General Meeting was properly convened.

Further details are contained in the Articles of Association published on our website.

1.10. Declaration on Remuneration

In compliance with the relevant European Union directive (CRD IV), Act LXVII of 2019 on the encouragement of long-term shareholder engagement and modification of certain acts with the purpose of legal harmonization, and the provisions of the Credit Institutions Act, the Bank’s General Meeting concluding the year 2018, its Board of Directors and Supervisory Board have provided for a review of the Remuneration Policy for the Bank and the Bank Group. In line with the national and EU legislative environment, the process of implementing the Bank Group's Remuneration Policy contains the methodological framework relating to the identification of activities and employees with a material impact on risk, which constitutes the basis for determining the group of persons subject to the Bank Group's Remuneration Policy, and the procedural rules relating to the annual evaluation process.

The purpose of the Bank Group’s Remuneration Policy is, remaining within the limits of the Bank Group's risk-bearing capacity, to recognise and provide motivational support for the achievement of Bank and Group-level results by the management and holders of key positions at the Bank, and the managers of subsidiaries in the Bank Group.

The Bank Group's Remuneration Policy applies to the members of the Board of Directors and Supervisory Board of the Bank and of the institutions (credit institutions and investment enterprises) operating within the Bank Group, and – among the staff in an employment relationship with the Bank and with the institutions operating within the Bank Group – the members of the management (Chairman & CEO and the deputies thereof), and managers who materially influence the risk profile and profit, managers who perform special management functions, as well as those managers whose salaries are in the same category as the salaries of the management of the given institution. The personal scope also covers the chief executives and deputy chief executives of those Bank Group Subsidiaries that are under consolidated supervision and that qualify as material business units relative to the Bank or the subsidiary institution concerned, as well as those employees employed by the Bank Group Subsidiaries under consolidated supervision, whose salaries are in the highest-earning 0.3% segment at the level of the Bank Group, the sub-consolidated group managed by the institution or of the institution concerned. Those managers whose impact on the risk profile is deemed to be material at Bank Group level fall under the consolidated-level personal scope, whereas managers whose impact on the risk profile is deemed to be material only at the level of the sub-consolidated group managed by the institution or at institution level fall under the sub-consolidated or local level personal scope. The resolution on the persons to whom the Bank Group’s Remuneration Policy applies is made by the Bank’s Supervisory Board.

The members of the Board of Directors and the Supervisory Board receive an honorarium of a fixed amount for their work in this capacity, and do not receive performance-based remuneration.

For the other personnel included in the scope of the Remuneration Policy, the remuneration is composed of fixed and performance-based components. The proportions of fixed and performance-based components of remuneration are determined by the Bank’s Supervisory Board based on the function, size and complexity of the unit being managed. The proportion of performance-based remuneration may not exceed 100% of fixed remuneration for any person concerned.

The most important basic principle of the Bank Group's Remuneration Policy is that the extent of performance-based remuneration – subject to a preliminary and retrospective assessment of the risks – depends on the extent to which Bank Group/Bank/Subsidiary-level and individual targets are met.

In the case of managers in an employment relationship with the Bank, the evaluation of performance, besides an assessment of the return on risk-weighted assets (RORAC) indicator for the given activity, takes place on the basis of the criteria used to measure strategic and individual performance (financial indicators and indicators of the quality of work performance). In the case of managers at subsidiaries in the Bank Group the evaluation of performance takes place in a differentiated manner, in keeping with the characteristics of the companies' activities. The target values of the indicators are determined by the Bank's Supervisory Board on the basis of the effective financial plan for the given year.

The performance evaluation-based, variable remuneration takes the form of a cash bonus and – where permitted by national legislation – remuneration in the form of shares or a preferentially-priced share award, in equal proportions. As a general rule, in the case of consolidated-level personal scope and personal scope identified at sub-consolidated level and at local Hungarian subsidiaries, the share-based portion of the variable remuneration is provided to the employees concerned by the Bank, whereas within the personal scope identified at sub-consolidated and local level at foreign subsidiaries and within the Bank Group subsidiaries operating outside the European Union, remuneration is provided in the form of virtual shares (payment of cash bonus in amounts adjusted to the share price at the given time).

Employees employed at the Bank or at OTP Mortgage Bank Ltd, OTP Building Society Ltd, Merkantil Bank Ltd, OTP Fund Management Ltd, OTP Factoring Ltd, OTP Real Estate Investment Fund Management Ltd, OTP Real Estate Ltd and OTP Pénzügyi Pont Ltd, Merkantil Rent Ltd., and OTP Real Estate Leasing Ltd., who are subject to the consolidated, sub-consolidated or local-level personal scope of the Bank Group Remuneration Policy and who receive performance-based remuneration, are entitled, on a voluntary basis and up to the amount of the share-based portion of their performance-based remuneration, to acquire a membership share in OTP Bank's Employee Share Ownership Plan (ESOP) entity. The membership share in the ESOP entity is not fungible, may not be encumbered or pledged as collateral, and shall only guarantee actual settlement of the share award subject to the fulfilment of the conditions prescribed in the remuneration policy (result of performance assessment, retrospective assessment of risks). Any share of a member who does not meet the conditions for the award shall revert to the Bank.

In keeping with the Credit Institutions Act, within the personal scope identified at consolidated level, payment of 60% of the variable remuneration, whereas within the personal scope identified at sub-consolidated and local level, as a general rule, payment of 40 % of the variable remuneration, is staggered over a period of 3 years – in the case of the Bank's management for 4 years – during which period the deferred amount is determined annually in equal proportions. Eligibility to receive such deferred instalments is determined through a retrospective assessment of risks. The assessment of the risks is based both on quantitative criteria used to measure prudent operation, and on qualitative evaluation criteria. Based on the assessment of the risks related to the activities of the employees concerned, the deferred part of the performance-based remuneration may be reduced or withheld completely. A further prerequisite for entitlement to the deferred part is a continuing employment relationship.

The remuneration of the members of the Supervisory Board and the Board of Directors, which is determined in a resolution of the General Meeting, is public, while with respect to the Remuneration Policy, the Bank complies with its public disclosure obligation in accordance with the prevailing statutory provisions.

Within the context of the Bank Group Remuneration Policy, the summarised information pertaining to the remuneration of employees in positions that have a material impact on the risk profile – including the remuneration of management – is contained in the following tables, in a breakdown as set out in the sector-specific legal regulations applicable to the Bank.

Aggregated quantitative data on remuneration, by type of activity[1)]:

Remuneration for the year					
Investment bank	Retail bank	Asset management	Corporate functions	Independent control functions	Other activity
(million HUF)					
380	*1,613*		*3,009*	*577*	*369*

Notes:

1) The types of activity were determined in accordance with Annex 13 of MNB Decree No. 38/2019. (XI.20.):
   a. Investment banking: includes corporate finance advisory services, equity and capital market services, trading and sales;
   b. Retail banking: includes deposit collection and all loan provision activity (for individuals and businesses);
   c. Asset management: includes portfolio management, Undertakings for Collective Investment in Transferable Securities (UCITS) and other forms of asset management;
   d. Corporate support functions: all internal support functions (e.g. HR, IT), whether at consolidated level, i.e. with responsibility for the entire institution, or at the stand-alone level, i.e. at the individual subsidiaries;
   e. Independent control functions: staff working in independent risk management, compliance and internal audit functions as described in the EBA guidelines on internal governance;
   f. Other activity: employees who cannot be classified as working in any of the specified business activities.

Aggregated quantitative data on remuneration, by type of remuneration:

Number of recipients of remuneration 1)	Remuneration for the year			Amount of unpaid deferred remuneration 3)		Amount of deferred remuneration awarded and paid during the business year, less any adjustment for performance 4)
	Fixed remuneration	Performance-based remuneration 2)		Vested	Non-vested	
		Cash-based	Share-based			
(persons)	(million HUF)					
62	3,108	1,420	1,420	267	3,312	1,481

Notes:

1) Employees under the Bank Group Remuneration Policy as of 2019, whose professional activities have a material impact on the risk profile.
2) The calculated amount of performance-based remuneration for 2019, the settlement of which may take place based on performance evaluations after the General Meeting for 2020.
3) The first, second, third and fourth deferred part and the short-term withheld portion (vested) of the share-based part of performance-based remuneration for 2018, the second, third and fourth deferred part of performance-based remuneration for 2017, and the third deferred part of performance-based remuneration for 2016.
4) The third deferred part of performance-based remuneration for 2015, the second deferred part of performance-based remuneration for 2016, the first deferred part of performance-based remuneration for 2017 and the short-term withheld portion of the share-based part of performance-based remuneration for 2017, settled in 2019.

The amount of unpaid, deferred remuneration for employees in positions in years prior to 2019 which have a material impact on the risk profile but which positions are no longer identified 2019 és for employees that have already retired, and the amount of deferred remuneration awarded during the business year, was as follows:

Number of recipients of remuneration	Amount of unpaid deferred remuneration		Amount of deferred remuneration awarded and paid during the business year, less any adjustment for performance 4)
	Vested	Non-vested	
(persons)	(million HUF)		
13	7	181	301

During the business year, within the scope of the Remuneration Policy, no employees at OTP Bank Plc. received severance payment exceeding the statutory level; sign-on bonuses were given to 2 persons in a total amount of HUF 21.4 million.

For 2019, one person receives remuneration between EUR 3.0-3.5 million, and two persons between EUR 1.0-1.5 million (calculated at the MNB exchange rate of 31 December 2019).

Remuneration settled in 2019 for the members of the OTP Bank Plc. Board of Directors and the Supervisory Board amounted to HUF 1,422 million, which includes the amount of the share allowance constituting the fixed remuneration of the members of the Board of Directors and which is settled after the General Meeting closing the 2018 year.

Name	Position	Amount of honorarium		Amount of cash benefits for 2019
		Monetary honorarium	OTP common stock	
		HUF/month	pcs/month[1]	(HUF)
Board of Directors				
Dr. Sándor Csányi	Chairman of the Board of Directors	810,000	1,000	9,720,000
Tamás Erdei	Deputy Chairman of the Board of Directors (external)	695,000	800	8,340,000
Antal György Kovács	Member of the Board of Directors	695,000	800	8,340,000
László Wolf	Member of the Board of Directors	695,000	800	8,340,000
Dr. Antal Pongrácz	Member of the Board of Directors (external)	695,000	800	8,340,000
Dr. István Gresa	Member of the Board of Directors (external)	695,000	800	8,340,000
Mihály Baumstark	Member of the Board of Directors (external)	695,000	800	8,340,000
Dr. Tibor Bíró	Member of the Board of Directors (external)	695,000	800	8,340,000
Dr. László Utassy	Member of the Board of Directors (external)	695,000	800	8,340,000
Dr. József Vörös	Member of the Board of Directors (external)	695,000	800	8,340,000
Supervisory Board				
Tibor Tolnay	Chairman of the Supervisory Board	2,400,000	---	28,800,000
Dr. Gábor Horváth	Deputy Chairman of the Supervisory Board	1,900,000	---	22,800,000
Olivier Péqueux	Member of the Supervisory Board	1,700,000	---	---[3]
Dr. Márton Gellért Vági	Member of the Supervisory Board	1,700,000	---	20,400,000
Ágnes Rudas[4]	Member of the Supervisory Board (employee)	1,700,000	---	5,723,333
Klára Bella[5]	Member of the Supervisory Board (employee)	1,700,000	---	14,676,667
András Michnai	Member of the Supervisory Board (employee)	1,700,000	---	20,400,000

Notes:

1) The share allowance is settled once a year, within 30 days after the General Meeting that closes the given business year, and in respect of 50% of the shares the beneficiaries are subject to an extended holding obligation (prohibition on sale) up to the end of their mandates.

2) Since 12 April 2019 in the position of Deputy Chairman (was already a member of the Board of Directors before that; in this position his honorarium was 800 OTP ordinary shares / month)

3) The honorarium was transferred to Groupama S.A.

4) Until 12 April 2019

5) Since 12 April 2019

1.11. Evaluation of the work of the Board of Directors, the Supervisory Board and the management

In accordance with the expectations of the supervisory authority, the execution capabilities of the Board of Directors, the Supervisory Board and the management were evaluated with respect to the affected managers, in the framework of the 2019 annual performance evaluation. The evaluation was performed along the following dimensions: business thinking, business and operational development, governance, relationship and resource management, integrity and personal drive. Based on the results of the evaluation, no issue has arisen that would necessitate action.
Within the group of managers concerned, during the evaluated period – based on the conflicts of interest policy, code of ethics, or human risk criteria – no conflict of interest or issue relating to the independence of the managers has arisen.

1.12. Description of the diversity policy applied with respect to the undertaking's administrative, management and supervisory bodies

The Bank defines and regulates the requirements relating to executive officers in compliance with the requirements and guidelines under European Union and domestic law that fundamentally determine the operation of credit institutions.
When nominating the members of its management bodies (Board of Directors, Supervisory Board) the Bank, and when appointing the members of the Management, the Board of Directors, gives priority to the possession of professional expertise, advanced interpersonal and management skills, varied academic qualifications, wide-ranging business experience and good standing, but they are also strongly committed to taking effective steps to ensure diversity in connection with the Company's operation, including efforts to steadily improve the rate of participation by women. Without prejudice to the above principles, the Bank also strives to ensure that both genders are represented among the candidates during the selection process for members of management bodies.
The Bank's Nomination Committee constantly monitors the applicable European Union and domestic regulations, with the purpose of taking the necessary steps without delay should clearly expressed expectations be announced.
It should be borne in mind, however, that as a public limited company the election of members of the management bodies is the exclusive prerogative of the General Meeting, over which the Bank has no substantive influence beyond fully complying with the above criteria.
Pursuant to the Bank's Articles of Association, a Board of Directors with 5-11 members and a Supervisory Board with 5-9 members operate at the Bank. The present Board of Directors has 10 members, none of whom are female, while the Supervisory Board has 6 members, including one female member since 15 April 2016 (the mandate of the current female member began on 12 April 2019). The Bank's senior management currently consists of 7 persons, none of whom are women.

1.13. Legal background

The Bank Group complies with the prevailing corporate law and prudential legal provisions during its operation. OTP Bank Plc., which acts as the controlling credit institution, controls the members of the Bank Group with consideration to Hungarian law and the local law pertaining to each foreign subsidiary.
Pursuant to Section 3:112 (3) of the Civil Code, the Bank may give instructions to the executive officers of single-person companies owned 100% by the OTP, which the executive officer is obliged to comply with.

1.14. Group structure

The Bank Group includes OTP Bank, its Subsidiaries and the totality of all Companies operating in Hungary or abroad in which OTP Bank or its Subsidiaries have, directly or indirectly, Controlling Interest or Minority Interest, and the uniform management of which follows the three-tier governance model detailed below.

1.15. Governance structure

Features of the governance model

The operation of the OTP Bank Group is based on a country manager and professional field matrix governance system, which is the most appropriate solution considering the specifics of the group.
The applied model is used to ensure that the multinational organization consisting of banking group members of different sizes, operating in different market environments and being at different levels of development are managed according to uniform principles but taking into account local characteristics, optimizing business efficiency at the group level.

Types of governance

Ownership governance means the direct enforcement of interests, the exercise of the rights of ownership of the parent company as enshrined in law. The parent bank enforces its interests as owner at the general meeting and through the bodies and chairpersons of the subsidiary.

Group-level governance is the set of activities through which the parent bank establishes, and control compliance with, guidelines that provide for uniform governance at the group level, ensure the maximum enforcement of group-level interests, and implements unified group-level support.

Functional governance is the set of activities through which the parent bank's professional support/operation/service functions transfer knowledge and experience or provide services to the respective functions of the subsidiaries or directly control their operation.

Business governance is a key element of the system, it consisting of the adoption of best practices at the group level, the promotion of operation at the expected professional level, and the provision of professional support to group members.

1.16. Operating structure

Managers of the Bank's operation based on organizational hierarchy

The Chairman & CEO controls and supervises the Bank's daily operation in order to ensure that it takes place within the framework of the law and the Bank's Articles of Association and in accordance with the decisions of the General Meeting and the Board of Directors.

Under the direction of the Chairman & CEO, each of the central professional areas and functions, with due regard to their logical and professional connections, are led by Deputy CEOs (Heads of Divisions). The General Deputy CEO in charge of the Bank's Group Governance and Operations Division is responsible for providing the framework for group governance, with the proviso that each head of division, head of business area and functional area manager is also responsible for group-level business and functional governance.

1.17. Reporting lines

The reporting pathways of the Bank are well regulated and documented both within the Bank Group and concerning outsourced activities.
The Group Operational Risk Management Committee is responsible for the appropriate operation of the reporting pathways required by law and expected by the management.

2.) CG Report on compliance with the Corporate Governance Recommendations

As part of the Corporate Governance (CG) Report, the Company states, by completing the following tables, the extent to which it has implemented the recommendations and guidances specified in the specific sections of the Corporate Governance Recommendations (hereinafter: CGR) of the Budapest Stock Exchange in its own corporate governance practice.
By looking at the tables, market participants are able to gain a quick insight into the extent to which the corporate governance practices of particular companies comply with certain requirements specified in the CGR, and to quickly compare the practices of various companies.

Level of compliance with the Recommendations

The company specifies whether it has applied the relevant recommendation or not, and if not, it describes briefly the reasons why a particular recommendation has not been implemented.

1.1.1. The Company has an organisational unit that deals with investor relations or a designated person that performs these tasks.
Yes

1.1.2. The Company's Articles of Association are accessible on the Company's website.
Yes

1.1.4. If the Company's Articles of Association allow shareholders to exercise their rights in their absence, the Company has published the methods and conditions for doing so, including all necessary documents.
Yes

1.2.1. The Company has published on its website a summary document with the rules applicable to the conduct of its General Meetings and to the exercise of voting rights by shareholders.
Yes

1.2.2. The Company has published the precise date when the circle of those eligible to participate in a given company event is determined (effective date), and has also published the last date when the shares granting eligibility for participating in the given company event are traded.
Yes

1.2.3. The Company held its General Meetings by ensuring that as many shareholders can attend as possible.
Yes

1.2.6. The Company has not restricted the rights of shareholders to designate a different representative for each of their securities accounts at any General Meeting.
Yes

1.2.7. For proposals for the agenda items, in addition to the Board of Directors' draft resolution, the Supervisory Board's opinion was also disclosed to shareholders.
Yes

1.3.3. The Company has not restricted the rights of shareholders attending a General Meeting to request information, add comments and submit proposals, and has not set any preconditions for these, unless measures were taken in the interest of conducting the General Meeting in accordance with the rules and with its intended purpose.
Yes

1.3.4. By answering the questions raised at the General Meeting, the Company has ensured compliance with the information provision and disclosure principles set out in the legal and stock-exchange requirements.
Yes

1.3.5. The Company published on its website, within three working days after the General Meeting, its answers to questions that the representatives of the Company's boards or any auditor present were unable to satisfactorily answer at the time, or information as to why it refrained from offering answers.
Yes

1.3.7. The Chairman of the General Meeting ordered a recess or suggested that the General Meeting be postponed when a motion or proposal relating to a particular issue on the agenda was submitted which the shareholders did not have a chance to become familiar with before the General Meeting.
Yes

1.3.8.1. The chairperson of the General Meeting did not use a combined voting procedure for a decision related to electing and recalling senior officers and Supervisory Board members.
Yes

1.3.8.2. For senior officers or Supervisory Board members, whose nominations were supported by shareholders, the Company disclosed the identity of the supporting shareholder(s).
Yes

1.3.9. Prior to discussing agenda items concerning the amendment of the Articles of Association, the General Meeting passed a separate resolution to determine whether to decide on each amendment of the Articles of Association by individual votes, joint votes, or votes combined in a specific manner.
Yes

1.3.10. The Company published the minutes of the General Meeting containing the resolutions, the description of the draft resolutions and any important questions and answers related to the draft resolutions within 30 days following the General Meeting.
Yes

1.5.1.1. The Board of Directors/Governing Board or a committee consisting of Board of Directors/Governing Board members established guidelines and rules concerning the performance review and remuneration of the Board of Directors/Governing Board, the Supervisory Board and the management.
Yes

1.5.1.2. The tasks and the level of responsibility of each member, the rate of achievement of the Company's objectives and its business/financial position were taken into consideration when establishing performance-based remuneration for the members of the management.
Yes

1.5.1.3. The remuneration guidelines established by the Board of Directors/Governing Board or a committee consisting of Board of Directors/Governing Board members were assessed by the Supervisory Board.
Yes

1.5.1.4. The guidelines (and any major changes thereof) for the remuneration of Board of Directors/Governing Board and Supervisory Board members were approved by the General Meeting in a separate agenda item.
Yes

1.5.2.1. The supervision of the performance of the management and the remuneration of the management falls within the competence of the Board of Directors.
Yes

1.5.2.2. The framework of and changes in benefits that are due to the members of the management and are different from what is customary are approved by the General Meeting in a separate agenda item.
Yes

1.5.3.1. The General Meeting approved the principles of share-based remuneration schemes.
Yes

1.5.3.2. Prior to the decision by the General Meeting concerning share-based remuneration schemes the shareholders received detailed information (at least as described in point 1.5.3)
Yes

1.5.4. The Company has a remuneration scheme in place which does not incentivise the staff to focus only on short-term maximisation of the share price.
Yes

1.5.5. Supervisory Board members receive a fixed-amount remuneration which does not include any elements linked to share price.
Yes

1.5.6. The Company has prepared a report ('Remuneration Statement') for the owners about the remuneration principles relating to and containing the actual remuneration of Board of Directors/Governing Board, Supervisory Board and management members (with the content and the level of detail set out in industry regulations that are binding for the Company), which was presented to the General Meeting. The Remuneration Statement presented the remuneration of Board of Directors/Governing Board and Supervisory Board members, as well as the guidelines used to assess their activities and establish their remuneration. This information included the disclosure of the remuneration for the Board of Directors/Governing Board and the Supervisory Board, the details of all fixed and variable elements, any other remunerations, as well as a presentation of the guidelines for the remuneration scheme and any major changes to those compared to the previous financial year.
Yes

1.6.1.1. The Company's disclosure guidelines include electronic and internet disclosure procedures.
Yes

1.6.1.2. The Company's website has been created with due regard to the disclosure guidelines, and with a view to providing appropriate information to investors.
Yes

1.6.2.1. The Company has internal regulations in place with respect to disclosure (publication), which covers the treatment of the information listed in Section 1.6.2 of the Recommendations.
Yes

1.6.2.2. The internal regulations of the Company cover the classification of events that are material in terms of disclosure.
Yes

1.6.2.3. The Board of Directors has assessed the effectiveness of disclosure processes.
Yes

1.6.2.4. The Company has published the findings of its assessment of the disclosure processes.
Yes

1.6.3. The Company has published its annual corporate event calendar.
Yes

1.6.4. The Company has published its strategy, its business ethics policy and its guidelines related to other stakeholders.
Yes

1.6.5. The Company has published information on the careers of Board of Directors /Governing Board, Supervisory Board and management members in its annual report or on the company website.
Yes

1.6.6. The Company has published all relevant information about the work of the Board of Directors/Governing Board, the Supervisory Board and the management, the assessment of such work and any changes thereto in the current year.
Yes

1.6.7.1. The Company has published its remuneration guidelines in line with the recommendations set out in Section 1.5.
Yes

1.6.7.2. The Company has published its Remuneration Statement in line with the recommendations set out in Section 1.5.
Yes

1.6.8. The Company has published its risk management guidelines and information about its system of internal controls, the main risks and the principles applied in their management.
Yes

1.6.9.1. The Company has published its guidelines relating to the trading of its shares by insiders (insider dealing).
Yes

1.6.9.2. The Company has disclosed the share of the Board of Directors/Governing Board, Supervisory Board and management members in the securities issued by the Company, as well as the extent of their interest under the share-based incentive system in the annual report or in some other manner.
Yes

1.6.10. The Company has disclosed the relationship of Board of Directors/Governing Board, Supervisory Board and management members with third parties which could affect the operation of the Company.
Yes

2.1.1. The Company's Articles of Association contain clear provisions regarding the responsibilities and competences of the General Meeting and the Board of Directors/Governing Board.
Yes

2.2.1. The Board of Directors/Governing Board has rules of procedure in place defining the tasks related to the preparation and conduct of meetings, and to the adopted resolutions, as well as other issues related to the operation of the Board of Directors/Governing Board.
Yes

2.2.2. The Company has published the procedure for nominating Board of Directors/Governing Board members and the principles for determining their remuneration.
Yes

2.3.1. In its rules of procedure and its work plan, the Supervisory Board provides a detailed description of its operation and duties, as well as the administrative procedures and processes followed by it.
Yes

2.4.1.1. The Board of Directors/Governing Board and the Supervisory Board held meetings periodically at predefined intervals.
Yes

2.4.1.2. The rules of procedure of the Board of Directors/Governing Board and the Supervisory Board provides rules for the conduct of meetings that cannot be planned in advance, and for decision-making using electronic means of communication.
Yes

2.4.2.1. The board members had access to the proposals of the given meeting at least five working days before the given meeting.
Yes

2.4.2.2. The Company ensured the appropriate conduct of the meetings, the drawing up of minutes on the meetings, and the management of the documentation and the resolutions of the Board of Directors/Governing Board and the Supervisory Board.
Yes

2.4.3. The rules of procedure stipulate the regular and occasional participation in the board meetings of non-board members.
Yes

2.5.1. The members of the Board of Directors/Governing Board and the Supervisory Board were nominated and elected through a transparent process, and the information on the candidates was made public in due time before the General Meeting.
Yes

2.5.2. The composition and size of the boards comply with the principles set out in Section 2.5.2 of the Recommendations.
Yes

2.5.3. The Company ensured that the newly elected board members became familiar with the structure and operation of the Company and their tasks to be performed as members of the respective boards.
Yes

2.6.1. The Governing Board/Supervisory Board requested (in the context of preparing the annual corporate governance report) those of its members that are considered independent to confirm their independence at regular intervals.
Yes

2.6.2. The Company provided information about the tools which ensure that the Board of Directors/Governing Board assesses the management's activities objectively.
Yes

2.6.3. The Company has published on its website its guidelines concerning the independence of the Board of Directors / Supervisory Board and the applied criteria of independence.
Yes

2.6.4. The Supervisory Board of the Company has no members who have held any position in the Board of Directors or in the management of the Company in the preceding five years, not including cases when they were involved to ensure employee participation.
Yes

2.7.1. The members of the Board of Directors/Governing Board informed the Board of Directors/Governing Board (the Supervisory Board/Audit Committee) if they (or individuals they have business relations with, or their relatives) have an interest in any business transactions of the Company (or any subsidiaries thereof) that prejudices their independence.
Yes

2.7.2. Transactions and assignments between members of boards/members of the management (or individuals closely associated with them) and the Company (or its subsidiaries) were carried out and approved in accordance with the Company's general business practices, but applying more stringent transparency rules as compared with such general business practices.
Yes

2.7.3. Board members informed the Supervisory Board/Audit Committee (Nominating Committee) if they received a request to sit on a board or take up a management position at a company not belonging to the Company Group.
Yes

2.7.4. The Board of Directors created guidelines pertaining to the flow of information within the Company as well as the management of insider information and supervises compliance therewith.
Yes

2.8.1. The Company has established an independent internal audit function that reports directly to the Audit Committee/Supervisory Board.
Yes

2.8.2. Internal Audit has unrestricted access to all information necessary for carrying out audits.
Yes

2.8.3. Shareholders have received information about the operation of the system of internal controls.
Yes

2.8.4. The Company has a function ensuring compliance (compliance department).
Yes

2.8.5.1. The Board of Directors or the committee operated by it is responsible for the supervision and direction of the Company's entire risk management operations.
Yes

2.8.5.2. The relevant organisation of the Company and the General Meeting received information about the effectiveness of the risk management procedures.
Yes

2.8.6. With the involvement of the relevant areas, the Board of Directors/Governing Board developed the basic principles of risk management, taking into account the unique features of the industry and the Company.
Yes

2.8.7. The Board of Directors/Governing Board defined the principles for the system of internal controls to ensure the management and control of the risks affecting the Company's activities as well as the achievement of its performance and profit objectives.
Yes

2.8.8. The functions of the internal control system reported on the operation of the internal control mechanisms and the corporate governance functions to the competent board at least once a year.
Yes

2.9.2. The Board of Directors/Governing Board invited the Company's auditor in an advisory capacity to meetings involving discussion of the financial reports.
Yes

Level of compliance with the guidances

The Company must specify whether it applies the relevant proposal of the CGR or not. (Yes/No) The Company also has the opportunity to justify any deviation from such proposals.

1.1.3. The Company's Articles of Association provide an opportunity for shareholders to exercise their voting rights in their absence.
Yes

1.2.4. The Company determined the place and time of General Meetings initiated by shareholders by taking the initiating shareholders' proposal into account.
Yes

1.2.5. The voting procedure used by the Company ensures a clear, unambiguous and rapid determination of voting results, and in the case of electronic voting, the validity and reliability of such results.
Yes

1.3.1.1. The Board of Directors and the Supervisory Board were represented at the General Meeting.
Yes

1.3.1.2. In the event of the absence of the Board of Directors/Governing Board and the Supervisory Board, information thereon was disclosed by the Chairman of the General Meeting before discussion of the agenda items.
Yes

1.3.2.1. The Articles of Association of the Company do not preclude any individuals from receiving an invitation to the General Meetings of the Company at the initiative of the Chairman of the Board of Directors/Governing Board and being granted the right to express their opinion and to add comments, if that person's presence and expert opinion is thought to be necessary, and they also help in the provision of information to shareholders and for the General Meeting to make decisions.
Yes

1.3.2.2. The Articles of Association of the Company does not preclude any individual from receiving an invitation to the General Meetings of the Company at the initiative of shareholders requesting to supplement the agenda items of the General Meeting and from being granted the right to express their opinion and to add comments.
Yes

1.3.6. The annual report of the Company, prepared pursuant to the Accounting Act, contains a brief, easy-to-understand and illustrative summary for shareholders, including all material information related to the Company's operations for the year.
Yes

1.4.1. In line with Section 1.4.1, the Company paid dividends within 10 working days to its shareholders who had submitted all the necessary information and documents.
Yes

1.6.11. The Company has published its information notices in English as well, in line with the provisions of Section 1.6.11.
Yes

1.6.12. The Company informed its investors about its operations, financial situation and assets on a regular basis, but at least on a quarterly basis.
Yes

2.9.1. The Company has internal procedures in place regarding the use of external advisors and of their outsourced services.
Yes

RESOLUTION PROPOSAL No. 2/2020

The Annual General Meeting approves OTP Bank Plc.'s 2019 Report on Corporate Governance.

EVALUATION OF THE ACTIVITY OF THE EXECUTIVE OFFICERS PERFORMED IN THE PAST BUSINESS YEAR; DECISION ON THE GRANTING OF DISCHARGE OF LIABILITY

Based on Act V of 2013 on the Civil Code, and in accordance with the provisions of the Articles of Association of OTP Bank Plc., the supreme governance body of the company each year puts on the agenda the evaluation of the activity performed by the members of the Board of Directors in the previous financial year, and passes a resolution on whether to grant them discharge from liability.

The **Board of Directors** of OTP Bank Plc. is the body consisting of senior officers that conducts the management of the Bank.

The Supervisory Board of OTP Bank Plc., as part of this proposal, has prepared for adoption by the General Meeting the evaluation of the activity performed by the members of the Board of Directors in the previous financial year, and then makes a recommendation on granting them discharge from liability.

In the course of 2019 OTP Bank Plc.'s Supervisory Board, in fulfilment of its duties stipulated in the relevant statutory provisions and the Articles of Association, monitored the activity of the executive management, and continuously received a briefing on the Bank Group's latest financial position and business activity.

The Supervisory Board, on the basis of the documents placed at its disposal and the proposals presented to it, and following the personal participation of the Chairman/Deputy Chairman of the Supervisory Board at the meetings of the Board of Directors, hereby finds as follows:

- In the past year, the Board of Directors of OTP Bank Plc. met regularly, brought decisions, passed resolutions and followed up on their implementation on the basis of its work schedule based on its mandatory duties prescribed by law, the provisions of the Articles of Association, the Bank's business policy plan and its own rules of procedure.
- The Board of Directors of OTP Bank Plc. has prepared and drawn up for adoption by the General Meeting the parent-bank and consolidated financial statements for 2018, prepared in accordance with International Financial Reporting Standards.

During the 2019 General Meeting, the Supervisory Board personally ascertained that

- The Board of Directors reported on the Bank's business activity and results achieved in 2018.
- In compliance with its statutory obligation set out in Section 3:289 of the Civil Code, the Board of Directors presented to the General Meeting its Corporate Governance Report for 2018, which had been reviewed and approved by the Supervisory Board.

  In 2018, the BSE's Responsible Corporate Governance Committee reviewed and updated the Recommendations for Responsible Corporate Governance. In its Corporate Governance Report, presented to the 2019 annual General Meeting, the Board of Directors summarised its corporate governance practices during the previous business year in accordance with the new Recommendations, issuing a statement that its written declaration on corporate governance had been updated and that it was now able to give an affirmative answer to all questions regarding compliance with the updated Recommendations and proposals.
- After a preliminary review by the Supervisory Board, the Board of Directors presented to the General Meeting its proposal regarding the amendment of the Bank's Articles of Association.

The Supervisory Board has also ascertained that

- In accordance with the expectations set out in Section 3:272 of the Civil Code, the Board of Directors has arranged for publication of the Bank's financial statements for the year 2018, and of the material data from the reports of the Board of Directors and Supervisory Board.
- Based on the Act on Credit Institutions and Financial Enterprises and on the Regulation of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms the Board of Directors has fulfilled its disclosure obligation regarding the publication of information intended for public disclosure, as part of which it provided information in relation to its corporate governance system and remuneration policy as well.

The Supervisory Board further established that,

- In order to ensure compliance with Section 1.6.2 of the BSE's Recommendations on Responsible Corporate Governance, the Board of Directors of OTP Bank Plc. will evaluate the effectiveness of its public disclosure processes on an annual basis.

  The Supervisory Board of OTP Bank Plc. agrees that, within the various Corporate Governance requirements, particular importance is ascribed to the transparency of the Company's operations, as well as to its *public disclosure practices*, which have a profound impact on how the Company is perceived. The provision of information accurately reflecting the effectiveness of the Company's operation is of strategic importance, as it reinforces the confidence of shareholders and other stakeholders in the Company and guarantees the availability to market operators of regular, reliable and comparative information to facilitate an accurate appraisal of the Company's operations.

  In addition to observing the statutory provisions relevant to the Company and the provisions of the Budapest Stock Exchange, the Board of Directors ensured that the procedures related to the disclosure of corporate information are – as far as possible – in compliance with the Corporate Governance Recommendations.

  Based on the documents presented to it, the Supervisory Board established that, in 2019, the Board of Directors of OTP Bank Plc. carried out a review of the efficiency of public disclosure processes, and was satisfied with the efficiency of processes, stating that such processes complied with the applicable law and internal by-laws as well as lived up to investors' expectations.

In addition to the above, in the past business year the Board of Directors of OTP Bank Plc., among other things

Monitored

- the statements contained in the reports of the management,
- the development of the Bank's results,
- compliance with the provisions of the Credit Institutions Act,
- the quarter-to-quarter development of the quality of the Bank Group's portfolio,
- new commitments where the transaction value exceeded three billion forints,
- Stage3 risk exposures above HUF 1 billion,
- the latest issues related to the Bank's operation and activity.

Made a decision

- on the capital positions of the individual subsidiaries and companies within its scope of interest, and
- on the purchase and sale of shareholdings, as well as
- in relation to the reviewing of limits, and
- on the setting and modification of customer limits and counterparty limits,
- on the use of internal loans,
- on the granting of authorisations to sign on behalf of the Company.

Also made a decision

- on the approval of regulations that fundamentally define the Bank's operation, and those referred to its authority under the Credit Institutions Act. These included, among others, amendments to the Organisational and Operational Regulations, the Risk Assumption Rules, the Country Risk Management and Partner Rating Policy, the Collateral Valuation Policy and the Investment Policy.
  In addition to the above, on the proposal regarding the amendment of OTP Bank Plc.'s Internal Audit Policy, the approval of amendments to the Conflicts of Interests Policy, the Insider Trading Policy and the Personal Transactions Policy and of a number of other policies not specifically mentioned in the statutory provisions.
- on the update of OTP Group's Risk Assumption Strategy (2017-2019),
- on the contents of the proposal prepared on the review of the "New Product Policy" drawn up in the interest of compliance with consumer protection recommendations,
- on the review of its tasks set out in the regulations on the Internal Audit Directorate of OTP Bank Plc. in the interest of complying with the new provisions of the Credit Institutions Act, and on compliance with the requirements relating to the internal auditor and with the requirements in respect of the IT and other technical resources to be placed at the auditor's disposal
- on creating the position of deputy chair and submitting it to the General Meeting.

Accepted

- the report on the Group-level operational risk management activities,
- the report presenting the OTP Group's internal capital adequacy assessment process,
- the Risk Strategy of the OTP Group for the period 2020-2022,
- the report on the achievement of the 2017-2019 Collection Strategy and the results presented,
- the proposal entitled 'Setting up the Group-level collection centre of OTP Bank, drawing up the Group's NPL Strategy for 2019-2021 and opportunities for the reclassification of the factoring portfolio',
- the medium-term Real Property Lending Strategy,
- the reports on the audit of the performance of the tasks contained in the action plan drawn up following the MNB audits, and
- the proposal on the 2019 review of the plan to restore the OTP Banking Group,
- the amended Code of Conduct,
- the Compliance Strategy of OTP Bank Plc.
- the Compliance Policy of OTP Bank Plc.
- the Security Policy of OTP Bank Plc.
- the Lending Policy of the Hungarian operation (OTP Bank, OTP Mortgage Bank, Merkantil Bank, OTP Real Estate Leasing, OTP Building Society) for 2020, and
- on the 2020 business and financial plan of OTP and the Bank Group.

It deliberated on the following submissions:

- the financial statements and proposals presented to the annual ordinary General Meeting,
- the Bank's financial statements and auditor's reports for 2018,
- the Corporate Governance Report for 2018,
- the report on the acquisition of treasury shares,
- proposals on the activity of the Remuneration Committee in 2018, the implementation and annual review of the Remuneration Policy of OTP Bank Plc. and the Banking Group in 2018 and the amendment of the Remuneration Policy,
- every quarter, the bank group-level reports on the completed audits of the auditing units, and
- on the report on the status of the compliance and security situation of OTP Bank Plc. and the foreign subsidiary banks,

Received a briefing

- on the group members' reports for 2018,
- on the performance of the OTP Group,
- on the current position of CKB in the Montenegro economy and the opportunities for a strategy for further improvement through the integration process,
- on transforming and renewing the corporate lending process,
- on the steps taken with a view to simplifying the process of authorising internal loans,
- on risk management, internal control mechanisms and the operation of corporate governance functions, and
- OTP Bank Plc.'s guiding principles of remuneration,
- on the findings of the assessment of compliance with the requirements prescribed for the members of OTP Bank Plc.'s management bodies and for the activities of these bodies, as well as for the executive officers and key function holders of the Bank, in the 2018 business year,
- on the findings related to the management of customer complaints, on the consumer protection audits of the MNB, as well as on customer complaints received by the foreign subsidiaries.

The Supervisory Board of OTP Bank Plc. judges that in 2019 the Bank's Board of Directors fulfilled its duties prescribed in the relevant statutory provisions and in the Articles of Association of OTP Bank Plc., as per the details presented in the foregoing. In the course of its operation, it conducted its activities with a view to preserving shareholder value and in accordance with the Company's best interests.

The Supervisory Board recommends that, following an assessment of their activity conducted in the past business year, the General Meeting grant the members of the Board of Directors discharge from liability.

RESOLUTION PROPOSAL No. 3/2020

The Annual General Meeting, based on the request of the Board of Directors of the Company, has evaluated the activities of the executive officers in the 2019 business year and certifies that the executive officers gave priority to the interests of the Company when performing their activities during the business year, therefore, grants the discharge of liability determining the appropriateness of the management activities of the executive officers in the business year 2019.

ELECTION OF THE COMPANY'S AUDIT FIRM, THE DETERMINATION OF THE AUDIT REMUNERATION, AND DETERMINATION OF THE SUBSTANTIVE CONTENT OF THE CONTRACT TO BE CONCLUDED WITH THE AUDITOR

In accordance with the decision of the Annual General Meeting, Deloitte Auditing and Consulting Ltd. audited OTP Bank Plc. for the year 2019. They audited not only the separate financial statements and the consolidated financial statements in accordance with International Financial Reporting Standards for the year ended 2019, but also successfully helped the preparations of separate and consolidated quarterly non-audited financial statements and performed the audit of the interim financial statement and the annual financial statements. Accordingly, we propose to charge Deloitte Auditing and Consulting Ltd. in 2020 with the audit procedures. We suggest to approve the remuneration with an increase of 4.8% compared to the previous period.

In connection with the audit of OTP Bank Plc.'s separate and consolidated annual financial statements prepared in accordance with International Financial Reporting Standards for the year 2020, and according to section 152. paragraph (3) (b) of 2013. CCXXXVII Act on Credit Institutions and Financial Enterprises, in the name of the Supervisory Board I suggest the following:

1. Audit Firm:	Deloitte Auditing and Consulting Ltd. (000083)
	Budapest, Dózsa György. u. 84/c.
	1068
Independent Auditor:	Tamás Horváth
	(Registration number: 003449)
In case of insuperable hindrance:	Gábor Molnár
	(Registration number: 007239)

2. The total fee of auditing for the audit of the separate and consolidated annual financial statements for the year 2020, prepared in accordance with International Financial Reporting Standards.

HUF 70,350,000 + VAT

From this:

Audit fee of the separate annual accounts:	HUF 55,914,000 + VAT
Audit fee of the consolidated annual accounts:	HUF 14,436,000 + VAT

RESOLUTION PROPOSAL No. 4/2020

Concerning the audit of OTP Bank Plc.'s separate and consolidated annual financial statements in accordance with International Financial Reporting Standards for the year 2020, the Annual General Meeting is electing Deloitte Auditing and Consulting Ltd. (000083, H-1068 Budapest, Dózsa György út 84/c) as the Bank's auditor from 1 May 2020 until 30 April 2021.

The Annual General Meeting approves the nomination of Tamás Horváth (No. 003449 chartered auditor) as the person responsible for auditing. In case any circumstance should arise which ultimately precludes the activities of Tamás Horváth as appointed auditor in this capacity, the Annual General Meeting proposes the appointment of Gábor Molnár (No. 007239 chartered auditor) to be the individual in charge of auditing.

The Annual General Meeting establishes the total amount of HUF 70,350,000 + VAT as the Auditor's remuneration for the audit of the separate and consolidated annual financial statements for the year 2020, prepared in accordance with International Financial Reporting Standards. Out of total remuneration, HUF 55,914,000 + VAT shall be paid in consideration of the audit of the separate annual accounts and HUF 14,436,000 + VAT shall be the fee payable for the audit of the consolidated annual accounts.

PROPOSAL ON THE AMENDMENT OF ARTICLE 8 SECTION 33 SUBSECTION 20 OF THE OTP BANK PLC.'S ARTICLES OF ASSOCIATION

Proposal on the amendment of Article 8 Section 33 Subsection 20 of the Articles of Association

Reason for the proposal is change in the legislation: the amendment of the Civil Code Act V of 2013 entering into force during 2019 that shall be applied on the General Meeting of 2020. According to which the advisory decision on the remuneration is the competence of the General Meeting.

Presentation of the amendment proposal

The text of the AoA is written in Times New Roman font; the new parts of the text are indicated by double underlining, and the ~~deleted parts~~ by cross-through.

[Article 8 The Company's General meeting]

[8.33. The General Meeting has exclusive authority with respect to the following matters:]

20. advisory voting on the remuneration policy defined in the long-term shareholders engagement Act (Act LXVII of 2019) and advisory decision on the guidelines and framework for a long-term salary and incentives scheme for senior office-holders, Supervisory Board members and ~~senior~~ employees defined in the Credit Institutions Act ~~(Remuneration Guidelines)~~;

Reasoning:

The amendment of the Articles of Association shall be justified by the amendment of the Civil Code and enter into force of Act LXVII of 2019 which implemented the regulation of SRDII directive of the EU (DIRECTIVE (EU) 2017/828 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL). The proposed amendment indicates the GM competence highlighted in Section 2 of Article 3:268 of the Civil Code according to which „In public limited companies the general meeting shall have exclusive jurisdiction to put the remuneration policy to an advisory vote." According to the Civil Code the remuneration policy shall be put on the agenda of the General Meeting in case of significant changes therein, or at least every four years. The proposed amendment maintains the previous practice for the General Meeting to vote on the remuneration policy described in Act CCXXXVII of 2013 on Credit institutions and Financial Enterprises.

RESOLUTION PROPOSAL No. 5/2020

The Annual General Meeting approves the amendment of Article 8 Section 33 Subsection 20 of the Articles of Association in accordance with the proposal of the Board of Directors, as per the annex to the minutes of the Annual General Meeting.

ELECTION OF THE MEMBER OF THE SUPERVISORY BOARD

ELECTION OF THE MEMBER OF THE SUPERVISORY BOARD

In view of the fact that the term of office of the members of the Supervisorry Board is valid until the date of the Annual General Meeting of the Company closing the 2019 financial year, but not later than until 30 April 2020, it is necessary to appoint the members.

MR. TIBOR TOLNAY
DR. JÓZSEF GÁBOR HORVÁTH
MR. OLIVIER PÉQUEUX
DR. MÁRTON GELLÉRT VÁGI

Employee delegates:

MRS. KLÁRA BELLA
MR. ANDRÁS MICHNAI

RESOLUTION PROPOSAL No. 6/1/2020

The Annual General Meeting elects Mr. Tibor Tolnay as member of the Supervisory Board of the Company until the Annual General Meeting of the Company closing the 2022 business year but not later than 30 April 2023.

RESOLUTION PROPOSAL No. 6/2/2020

The Annual General Meeting elects dr. József Gábor Horváth as member of the Supervisory Board of the Company until the Annual General Meeting of the Company closing the 2022 business year but not later than 30 April 2023.

RESOLUTION PROPOSAL No. 6/3/2020

The Annual General Meeting elects Mr. Olivier Péqueux as member of the Supervisory Board of the Company until the Annual General Meeting of the Company closing the 2022 business year but not later than 30 April 2023.

RESOLUTION PROPOSAL No. 6/4/2020

The Annual General Meeting elects dr. Márton Gellért Vági as member of the Supervisory Board of the Company until the Annual General Meeting of the Company closing the 2022 business year but not later than 30 April 2023.

RESOLUTION PROPOSAL No. 6/5/2020

The Annual General Meeting elects Mrs. Klára Bella as member of the Supervisory Board of the Company until the Annual General Meeting of the Company closing the 2022 business year but not later than 30 April 2023.

RESOLUTION PROPOSAL No. 6/6/2020

The Annual General Meeting elects Mr. András Michnai as member of the Supervisory Board of the Company until the Annual General Meeting of the Company closing the 2022 business year but not later than 30 April 2023.

ELECTION OF THE MEMBER OF THE AUDIT COMMITTEE

ELECTION OF THE MEMBER OF THE AUDIT COMMITTEE

In view of the fact that the term of office of the members of the Audit Committee is valid until the date of the Annual General Meeting of the Company closing the 2019 financial year, but not later than until 30 April 2020, it is necessary to appoint the members.

MR. TIBOR TOLNAY
DR. JÓZSEF GÁBOR HORVÁTH
MR. OLIVIER PÉQUEUX
DR. MÁRTON GELLÉRT VÁGI

RESOLUTION PROPOSAL No. 7/1/2020

The Annual General Meeting elects Mr. Tibor Tolnay as member of the Audit Committee of the Company until the Annual General Meeting of the Company closing the 2022 business year but not later than 30 April 2023.

RESOLUTION PROPOSAL No. 7/2/2020

The Annual General Meeting elects dr. József Gábor Horváth as member of the Audit Committee of the Company until the Annual General Meeting of the Company closing the 2022 business year but not later than 30 April 2023.

RESOLUTION PROPOSAL No. 7/3/2020

The Annual General Meeting elects Mr. Olivier Péqueux as member of the Audit Committee of the Company until the Annual General Meeting of the Company closing the 2022 business year but not later than 30 April 2023.

RESOLUTION PROPOSAL No. 7/4/2020

The Annual General Meeting elects dr. Márton Gellért Vági as member of the Audit Committee of the Company until the Annual General Meeting of the Company closing the 2022 business year but not later than 30 April 2023.

PROPOSAL ON THE REMUNERATION POLICY AND GROUP LEVEL REMUNERATION GUIDELINES OF OTP BANK PLC.

GROUP REMUNERATION GUIDELINES OF OTP BANK PLC.

The Banking Group’s Remuneration Policy is an integral part of the corporate governance system, and must be enforced throughout the entire Banking Group. The Banking Group’s Remuneration Policy, in line with the relevant European Union directive, is consistent with the effective and successful risk management, and in accordance with its purpose, it does not encourage the assumption of risks that exceed the risk-assumption limits of the Bank and the Banking Group subsidiaries, and furthermore it is consistent with the business strategy, objectives, values and long-term interests of the Bank and the Banking Group subsidiaries, and promotes the achievement thereof.

1. The objective of the Remuneration Policy

The objective of the Banking Group’s Remuneration Policy is, within the Banking Group’s risk-tolerance capacity, to acknowledge the contribution towards the achievement of bank and group-level results of those managers and employees of OTP Bank Plc and the Banking Group Subsidiaries who, through their professional activity, have a material impact on the risk profile of the individual institutions operating within the Banking Group, and to provide an incentive for their performance.

2. Institutional and personal scope of the Remuneration Policy

The institutional scope of the Banking Group’s Remuneration Policy covers OTP Bank Plc., as well as all its subsidiaries that are rendered subject to consolidated supervision by the National Bank of Hungary.

Within this institutional circle, the personal scope of the Banking Group’s Remuneration Policy is determined, in accordance with the applicable EU regulations, on the basis of qualitative criteria drawn from the risk profile of the institutions operating within the Banking Group, as well as quantitative criteria determined by income level. To ensure fulfilment of the qualitative criteria, the Bank applies a comprehensive risk-analysis procedure, in keeping with the group’s business and risk strategy, based on which it performs an assessment three times a year for the purpose of identifying employees that exercise a material impact on the risk profile. The Bank takes the qualitative and quantitative criteria into account in accordance with the prevailing statutory requirements.

Belonging under the scope of the Banking Group’s Remuneration Policy are those senior executives and regular employees who, based on qualitative and quantitative criteria defined in Commission Delegated Regulation (EU) No 604/2014 and in accordance with the provisions of the Banking Group’s Remuneration Policy, exercise a material impact on the Banking Group’s operation and risk profile at consolidated level, or on the operation and risk profile of the individual institutions of the Banking Group at sub-consolidated or local level.

The Bank’s Supervisory Board decides on the persons that fall under the scope of the Banking Group’s Remuneration Policy based on the following criteria:

- In the case of those employees who are identified purely by quantitative criteria or, without excluding the possibility of this, qualitative criteria, the Bank’s Supervisory Board is entitled to consider whether they exercise a material impact on the risk profile through their professional activity, and in the absence of such impact, it may decide to exclude the persons concerned from the scope of the remuneration policy – depending on the relevant statutory provisions – provided it reports this in advance to the National Bank of Hungary, or if it has permission to do so.

- Those subsidiaries that are not classed as credit institutions or investment firms and that represent less than 2% of the internal capital composition of the Banking Group or of a sub-consolidated group of an institution shall not qualify as material business units. Senior executives and regular employees of subsidiaries not classed as material business units are not, as a general rule – and in the absence of fulfilment of other identification criteria – regarded by the Bank as exercising a material impact on the risk profile of an institution.
- Persons who have not been identified by the criteria defined in Commission Delegated Regulation (EU) No 604/2014, but who through their activity may exercise a material impact on the Bank's operation and/or risk profile, may be brought by the Bank's Supervisory Board under the personal scope of the remuneration policy.

3. The framework for applying the Banking Group's Remuneration Policy to the subsidiaries

All basic decisions relating to the remuneration policy shall be made by OTP Bank Plc., while the subsidiaries shall be responsible for complying with the local statutory provisions and obligations.

- As a general rule, **the Banking Group's Remuneration Policy** covers staff identified at the parent bank, as well as identified staff at subsidiaries that do not fall under the scope of the local remuneration policy.
- **The local remuneration policies prepared by the foreign institutions operating within the Banking Group** – that transpose the provisions of the Banking Group's Remuneration Policy to the local statutory environment of the individual countries – cover, as a general rule, the staff employed in the sub-consolidated group of the foreign institution who exercise a material impact on the risk profile of a banking-group institution.
- **Subsidiaries classed as fund management companies and operating in the European Union may also accept independent remuneration policies** in order to comply with the provisions of the AIFMD directive (Directive 2011/61/EU).

4. The ratio of basic remuneration and performance-based remuneration

The **members of the Board of Directors** and the **Supervisory Board** receive an honorarium of a fixed amount for their work in this capacity, and do not receive performance-based remuneration.

For other persons falling under the scope of the remuneration policy, the remuneration consists of basic remuneration and performance-based remuneration. As a general rule, the elements of the basic remuneration are the basic salary and the benefits payable to all employees in the same position on equal terms. The basic remuneration may not be subject to the performance of those entitled to it, or to the discretionary decision of the employer.

The ratio of basic remuneration and performance-based remuneration is determined by the OTP Bank Plc.'s Supervisory Board, on the basis of the function, size and complexity of the organisation managed. In respect of the staff identified at sub-consolidated and local level, the Supervisory Board may assign this power – within the framework defined in these Guidelines – to the Bank's General Deputy CEO. The ratio of performance-based remuneration cannot exceed 100% of the basic remuneration for each person concerned. The maximum ratio of performance-based remuneration achievable in the case of a general bonus limit or in the case of joint application of a general and an extraordinary bonus limit is determined for each individual separately, taking into account the above limit.

In determining the general bonus limit, the ratio of performance-based remuneration to total remuneration, depending on the function performed and the organisational position occupied by the senior executive or employee concerned, in the case of subsidiaries classed as institutions operating within the Banking Group may vary within the bands set according to the following, with the proviso that the Supervisory Board of OTP Bank Plc. may – with consideration to the risk associated with retaining key staff as well as to local labour market practices – authorise departures from the specified bands:

		Levels							
		Level 1		Level 2		Level 3		fromLevel 4	
		min.	max.	min.	max.	min.	max.	min.	max.
Type of position	Business	30%	40%	20%	40%	11%	40%	0%	25%
	Support	-	-	20%	40%	0%	34%	0%	25%
	Control	-	-	20%	40%	0%	34%	0%	25%

The ratios of performance-based remuneration determined in respect of the general bonus limit in the case of subsidiaries not classed as institutions operating within the Banking Group, depending on the function performed and the organisational position occupied by the senior executive or employee concerned, may vary within the bands set according to the following, with the proviso that the Supervisory Board of OTP Bank Plc may – with consideration to the risk associated with retaining key staff as well as to local labour market practices – authorise departures from the specified bands:

Levels					
Level 1		Level 2		from Level 3	
min.	max.	min.	max.	min.	max.
14%	40%	7%	40%	0%	30%

Where an exceptional bonus limit is determined, the performance-based remuneration that may be granted to the senior executive or employee concerned from the extraordinary bonus limit may, as a general rule, not exceed 50% of the individual's performance-based remuneration determined based on the general bonus limit.

In the event of exceptional individual performance, a senior executive or employee may be granted payment from the general bonus limit as well, in an extent exceeding the performance-based remuneration ratio determined with respect to the general bonus limit but not exceeding the performance-based remuneration ratio determined for the joint application of the general and the extraordinary bonus limit, provided that such payment is covered by the general bonus limit.

5. The method of performance assessment linked to performance-based remuneration

In the case of **managers employed by OTP Bank Plc.**, performance is assessed on the basis of criteria that measure performance at the banking-group and at the individual level (financial indicators and indicators measuring the quality of work).

In the case of the **managers of the Banking Group's subsidiaries**, performance is assessed on a differential basis, in view of the nature of the companies' respective activities.

Banking Group level performance is, based on the decision of the Supervisory Board, assessed by applying the group-level RORAC+ indicator (risk-adjusted ROE/COE) or the group-level RORAC indicator or the group-level Economic Value Added (EVA) indicator.[1]

The group-level RORAC+ indicator measures the return on equity, the group-level RORAC indicator measures the return on risk-adjusted capital, whereas the EVA indicator measures the nominal value generation capacity of the banking group, as the difference between the profit produced by the group and the expected yield on the regulatory capital required for this purpose.

The target value of the banking group-level indicator chosen for evaluating performance is determined by the Bank's Supervisory Board based on the approved financial plan for the given year. The Supervisory Board may modify the target value in response to statutory changes implemented after the determination thereof and/or changes in market circumstances that have a significant objective effect on the Banking Group's profit and/or the achievement of the target values set.

With regard to the financial indicators used for performance assessment, the Supervisory Board may set a performance threshold below which the employee is not entitled to performance-based remuneration, furthermore, it may also specify a tolerance threshold above which not only the measured performance, but subjective considerations may also be taken into account in assessing the actual performance. If the value of the banking group or institution-level financial indicators reach the tolerance threshold, only the Supervisory Board is entitled to recognise any performance deviating from the measured performance, provided that the performance is adversely affected by objective circumstances.

6. Determining entitlement to performance-based remuneration

The decision regarding the maximum amount (general bonus limit) that may be spent on performance-based remuneration for the assessed year, taking the Banking Group's performance into account, is made by the Supervisory Board within 45 days following the annual General Meeting closing the year in question. If the previous business year's business performance was exceptional, the Supervisory Board may also decide to set an extraordinary bonus limit. Extraordinary bonus limits may be set individually for each company operating within the Banking Group, provided that the exceptional business performance of the company concerned is demonstrated. Payments from the extraordinary bonus limit – even if all other conditions are met – is only possible if ratio between the payment that can be executed at group level jointly from the general and the extraordinary bonus limit and the Bank's consolidated common equity does not exceed 2%.

[1]This index is calculated on the basis of the figures of Hungarian and foreign group members that were subject to consolidation throughout the entire economic year assessed.

In respect of the general bonus limit, eligibility for performance-based remuneration, and the extent of the annual award are determined, proportionately with fulfilment of the institutional and individual targets,

- by the Board of Directors on the basis of a proposal by the Remuneration Committee in the case of the Chairman & CEO of OTP Bank Plc.,
- by the manager exercising employer's rights in the case of managers employed by the Bank, with the proviso that in respect of the heads of Risk Management, Internal Audit and Compliance the Remuneration Committee shall have the right of joint decision-making,
- in the case of the chief executives and the employees of the Banking Group subsidiaries identified at consolidated level, the body exercising owner's rights
- in the case of the managers of Banking Group subsidiaries identified at sub-consolidated and local level – not including the chief executive – and in knowledge of the position on the matter of the manager exercising employer's rights, the chief executive

with due consideration to any restrictive decision by the Supervisory Board.

If the Supervisory Board has made a decision on the determination of an extraordinary bonus limit, then the Board of Directors shall decide on the eligibility and the amount of the effective disbursement of this bonus, based on a proposal by the Remuneration Committee in the case of the Chairman & CEO of OTP Bank Plc.

In the case of the senior officers employed by the Bank and the chief executives of the Banking Group's subsidiaries, proposals for eligibility and the amount of the effective disbursement from the exceptional bonus limit, while in the case of other employees of the Banking Group's subsidiaries, proposals for the allocable budget shall be made by the Chairman & CEO of OTP Bank Plc with the involvement of the Deputy CEOs and, if necessary, the chairman of the Banking Group Subsidiary's governing body.

The decision regarding disbursement from the exceptional bonus limit, based on the proposal, shall be made by the party exercising employer's rights in the case of managers employed by the Bank, with the proviso that in respect of the heads of Risk Management, Internal Audit and Compliance the Remuneration Committee shall have the right of joint decision-making. In the case of the chief executives of the Banking Group's subsidiaries, the decision is made by the body controlling owner's rights, while in the case of other executives employed by the Banking Group's subsidiaries, the decision is made jointly by the chief executive of the subsidiary concerned and the chairman of the shareholders' governing body.

7. Principles and rules concerning the payment of performance-based remuneration

7.1. Basic Principles

- When assessing the performance of the year evaluated ("T year"), the amount of performance-based remuneration is determined and broken down to the level of individuals. The amount of performance-based remuneration payable from the general bonus limit is determined in consideration of individual performance, as well as the ratio of basic and performance-based remuneration achievable from the general bonus limit. The amount of the performance-based remuneration payable from the extraordinary bonus limit may not be higher than 50% of the performance-based remuneration payable from the general bonus limit.

- For persons exercising a material impact on the risk profile at consolidated level, the performance-based remuneration is, as a general rule, provided in the form of a cash bonus and, in accordance with the decision of the beneficiary, remuneration converted into shares or preferentially priced share allowance, with the proviso that the proportion of shares within the performance-based remuneration is at least 50%. In the case of subsidiaries that have their registered office outside the area of the European Union, the performance-based remuneration is, as a general rule, provided in the form of a cash bonus and, in accordance with the decision of the beneficiary, in the form of such a cash-based payment, as if the settlement of the remuneration converted into shares or the preferentially priced share allowance would take place, with the proviso, that the calculation method of the allowance's nominal value shall be approved by an independent expert. This latter form of award must account for at least 50% of the performance-based remuneration.
- For persons at Hungarian subsidiaries exercising a material impact on the risk profile at sub-consolidated or local level, the performance-based remuneration is, as a general rule, provided in the form of a cash bonus and a remuneration converted into shares, with the proviso that the proportion of shares within the performance-based remuneration is at least 50%.
- For persons employed at the foreign subsidiaries who exercise a material impact on the risk profile at sub-consolidated level or local level, the performance-based remuneration is, as a general rule, provided in the form of a cash bonus plus such a cash-based payment, as if the settlement of the remuneration converted into shares or the preferentially priced share allowance would take place, with the proviso, that the calculation method of the allowance's nominal value shall be approved by an independent expert. This latter form of award must account for at least 50% of the performance-based remuneration.
- If, in the case of a foreign subsidiary operating within the area of the European Union, the award of OTP Bank's ordinary shares or an equivalent-value cash payment is not possible due to a statutory provision or the practice of the foreign financial supervision, and furthermore, if the local tax legislation imposes substantially higher taxes on the award of OTP Bank's ordinary shares than on a cash payment, then the subsidiary is entitled to substitute this with the provision of some other asset consistent with the stipulations of Commission Delegated Regulation (EU) No 527/2014, or to apply to employees identified at consolidated level the rules applicable to subsidiaries that have their registered office outside the area of the European Union, as set out above.
- For persons participating in the share award – not including any persons who join the OTP Bank ESOP Organisation as participants – the share-based portion of the variable remuneration shall be provided by OTP Bank Plc.
- As a general rule, for persons exercising a material impact on the risk profile at consolidated level, 60% of the performance-based remuneration is deferred, while for persons exercising a material impact on the risk profile at sub-consolidated and local level, 40% of such remuneration is deferred.
- The period of the deferral is at least 3 years – and in the case of the Chairman & CEO and the Deputy CEOs of OTP Bank Plc., 4 years – during which period the amount of the deferred payment is set annually, in equal proportions.
- Eligibility to receive such deferred instalments is determined through an ex post assessment of risks. The assessment of risks takes place partly on the basis of criteria for assessing prudent operation, i.e. it is necessary to ensure that the capital remains

above the minimum level of regulatory capital defined in the law, and that operations are conducted without a need to resort to the deposit insurance fund, and, secondly, it is linked to the activity of the persons concerned. On the basis of the assessment of risks related to the activity of the persons concerned, deferred amounts may be reduced or clawed back in the case of a significant breach of the internal regulations, with special respect to those concerning risk management.

- Entitlement to the deferred instalments is linked to the subsequent assessment of risks, and is subject to the person's still being employed at the company at the time that the deferred instalment is due for payment. Exceptions to the above may only be validly authorised in respect of the executive directors (Chairman & CEO, Deputy CEOs) by OTP Bank's Supervisory Board, in the case of exceptional performance, whereas in respect of managers employed at the Bank and chief executives of subsidiaries identified at consolidated level, exceptions are permitted based on a decision of the Chairman & CEO of OTP Bank Plc. In the case of other staff identified at consolidated level and for chief executives identified at sub-consolidated and local level, OTP Bank Plc.'s General Deputy CEO is entitled to authorise exceptions. For other staff identified at sub-consolidated and local level, exceptions are permitted based on the decision of the subsidiary's chief executive, subject to the consent of the chairperson of the owner's governing body.
- OTP Bank Plc.'s Supervisory Board is entitled to make decisions on the proportionate application of the rules set out in the remuneration guidelines in respect of the settlement of the performance-based remuneration of staff identified at sub-consolidated and local level, whose annual performance-based remuneration does not exceed EUR 50,000 and whose performance-based remuneration within total remuneration for the year represents a ratio of maximum 25%. As part of proportionate application, the application of certain provisions (deferred payment, share-based payment) may be avoided either in part or in full, provided that such departure is not in conflict with local statutory or supervisory provisions. Proportionate application of the rules is not possible for staff who exercise a material impact on the Banking Group's risk profile at consolidated level.

7.2 Settlement rules

- Settlement of the due instalments of performance-based remuneration takes place by 30 June in the year following the assessed period, at the latest.
- The number of shares that may be used for the settlement of performance-based remuneration taking the form of shares, broken down to individuals, must be determined as the quotient of the amount of performance-based remuneration taking the form of shares, and the share price determined by the Supervisory Board.
- The share price to be taken into account when determining the number of shares is set by the Supervisory Board on the basis of the arithmetic average of the daily quoted price of the ordinary shares issued by OTP Bank, as registered by the Budapest Stock Exchange, on the three trading days preceding the date of the Supervisory Board's decision made within the 10 days preceding settlement of the performance-based remuneration.
- Concurrently with this, the specific terms and conditions of the preferentially priced share award are also determined, with the proviso that the preferentially priced share award may contain a maximum discount of HUF 6,000, and the profit content per share may amount to a maximum of HUF 12,000 at the time of claiming the share award.

- The Bank's Board of Directors, in the interest of managing shares acquirable in the framework of the remuneration policy, has decided to establish an ESOP Organisation. In the course of implementing the remuneration policy, shares or bonds issued by OTP Bank Plc. as founder and that constitute coverage for payment of an award to which the beneficiary is entitled as part of his or her performance-based remuneration, may be handed over to the ESOP Organisation, or may be purchased, or subscribed to, by the ESOP Organisation using funds provided to it by the Bank or one of its subsidiaries. Through the handing over of these securities to the ESOP Organisation, or through the purchase thereof or subscription thereto by the ESOP Organisation – in the manner set out in the ESOP remuneration policy – the beneficiary concerned shall acquire a member's shareholding in the ESOP Organisation. The member's shareholding in the ESOP Organisation is a non-marketable instrument; it may not be encumbered or pledged as collateral, and it only assures payment of the award to the individual if the conditions prescribed in the remuneration policy (result of performance assessment, ex post assessment of risks) are fulfilled. Any member's shareholding that does not fulfil the conditions shall revert to the Bank or to the Bank's subsidiary that employs the individual concerned.
- Among the staff identified by the Banking Group's Remuneration Policy, the detailed terms of share-based performance remuneration awards granted through an ESOP Organisation may – within the constraints of the Group Remuneration Guidelines – be set by the Supervisory Board, with the proviso that participation of the beneficiaries in the ESOP Organisation, and thus the settlement of the performance-based remuneration through the ESOP Organisation, may only take place on the basis of the beneficiaries' voluntary decision.

The Supervisory Board of OTP Bank Plc., with the exception of matters placed under the authority of the General Meeting by law – is authorised to amend the Banking Group's Remuneration Policy.

OTP BANK PLC'S REMUNERATION POLICY BASED ON THE ACT ON THE ENCOURAGEMENT OF LONG-TERM SHAREHOLDER ENGAGEMENT

The remuneration policy of OTP Bank Plc (hereinafter: ***Bank***) based on Act LXVII of 2019 on the encouragement of long-term shareholder engagement and modification of certain acts with the purpose of legal harmonisation (hereinafter: ***Remuneration Policy***) has been developed in an effort to provide appropriate incentives to pursue both strategic and operational objectives, while ensuring compliance with domestic and international regulations.

The Bank's Remuneration Policy supports the values, long-term objectives, interests and sustainability of the Company, in the course of which it also promotes efficient and effective risk management, and ensures that no risks are taken beyond the limits of the Bank's risk exposure. To facilitate all of the above, the Bank's Remuneration Policy and practice includes the following:

- The managers' remuneration is based on value creation. It encourages high performance and appropriate risk-taking in line with the Bank's strategy, as well as a responsible behaviour serving the long-term interests of the Bank (e.g. developing incentives that align the managers' individual interests with the Bank's long-term interests, through the creation of a performance assessment scheme and the use of financial and non-financial indicators).
- The share-based honorarium and performance-based remuneration ensure consistency between the individual interests of the executives and the long-term interests of shareholders and the company, by guaranteeing the long-term commitment of the beneficiaries of share-based honorarium and performance-based remuneration and by making them interested in the Bank's sustainable and long-lasting success.
- The objective is to ensure that the Bank's senior management consists of executives with the appropriate skills and competences and with a good business reputation, who contribute to the Company's long-term success and the implementation of its strategy (including, in particular, the application of selection criteria aligned with these values and of a competitive wage system adjusted to market conditions, qualifications and the complexity of the tasks, in an effort to attract and retain the appropriate executive staff).
- Provisions intended to ensure several years' deferral of performance-based remuneration and the ex post risk assessment thereof also promote long-term value creation and sustainability, as well as ethical behaviour. These provisions examine eligibility for performance-based remuneration not only at the time that it is awarded, but also before each deferred instalment is paid (in every year of the deferral cycle), thereby ensuring that the performance assessment process is indeed based on long-term results and, where appropriate, any disbursed performance-based remuneration can be reclaimed.

I. SCOPE OF THE REMUNERATION POLICY

The scope of the Bank's Remuneration Policy includes, in accordance with the relevant statutory provisions, the Chairman, Deputy Chairman and members of the Bank's Board of Directors, the Chairman, Deputy Chairman and members of the Supervisory Board, the Bank's Chief Executive Officer (Chairman & CEO) and the deputy chief executives (hereinafter collectively: ***Directors***). Should the Board of Directors, based on the authorisation granted by the Bank's Articles of Association, decide to have different persons as the Chairman of the Board of Directors and the CEO of the Bank, the provisions of this Remuneration Policy shall also apply to the CEO.

For the purpose of applying the remuneration rules relevant to Directors, the following personnel categories must be distinguished:

- ***Directors qualifying as members of the management bodies:*** Chairman, Deputy Chairman and members of the Board of Directors (collectively: ***members of the Board of Directors***) and Chairman, Deputy Chairman and members of the Supervisory Board (collectively: ***members of the Supervisory Board***).
- ***Directors employed by the Bank:*** Chairman & CEO (CEO), the Deputy CEOs (including internal members of the board of directors) and members of the Supervisory Board qualifying as employee delegates.
- ***Directors not employed by the Bank:*** external members of the board of directors and independent supervisory board members.

If a particular Director is a member of more than one personnel group, then the remuneration rules of this Remuneration Policy that are applicable to the personnel groups relevant to the Director concerned shall apply jointly to the Director concerned.

The Bank's Remuneration Policy shall enter into force on the day on which it is submitted to the General Meeting for expressing an opinion, although its provisions shall be applicable only from the 2021 business year.

The Bank's Remuneration Policy must be submitted to the General Meeting at least every four years, so this Remuneration Policy shall be reviewed by the General Meeting closing the 2023 business year, at the latest.

II. ELEMENTS OF REMUNERATION, RATIO OF FIXED AND VARIABLE REMUNERATION

The Directors' remuneration may consist of fixed, variable and extraordinary elements.

Fixed elements of Directors' remuneration include:

- For Directors who are members of the Management Bodies, the *honorarium* shall be:
  - For members of the Board of Directors, the remuneration consists of a cash and a share-based award. With regard to 50% of the share-based award, the members of the Board of Directors are subject to an extended holding obligation until the end of their term of office.
  - In the case of members of the Supervisory Board, the honorarium shall consist solely of a cash award.
- The *basic salary* for Directors employed by the Bank.
- If an agency contract is concluded with an external member of the Board of Directors for the performance of a specific task beyond the scope of his/her duties as a member of the board, the *commission fee.*
- In the case of members of the Board of Directors and Directors employed by the Bank, *role-based allowances* shall be payable in respect of managers being on equal terms with all managers in the same position.
- Directors employed by the Bank shall be granted *benefits payable on equal terms to all employees*.

Variable elements of Directors' remuneration include:

- In the case of Directors not employed by the Bank, the remuneration has no variable components.
- In the case of Directors employed by the Bank, performance-based remuneration is provided in accordance with the Group Remuneration Guidelines.

The **extraordinary elements** of the Directors' remuneration are not considered as regular benefits, but may be linked to the establishment or termination of an employment relationship, and therefore only Directors who are employed by the Bank may acquire such benefits.

Benefits related to the establishment of an employment relationship granted to Directors employed by the Bank may include the guaranteed bonus and the buyout of a previous contract. Such benefits related to the establishment of an employment relationship may be payable only when the employment is first started and may not exceed the annual basic remuneration.

Benefits related to the termination of an employment relationship granted to Directors employed by the Bank may include:

- Compulsory benefits payable under the Labor Code: severance pay, absence fee for the discharge period, redemption of unused holidays.
- Severance pay paid in accordance with the provisions of the Remuneration Policy.
- Proportionate consideration for a non-compete commitment.

The ratio between fixed and variable remuneration is determined as follows:

- *In the case of Directors who are not employed by the Bank*, 100% of the remuneration shall be fixed, and no variable remuneration may be determined or paid.
- *In the case of the Chairman & CEO (CEO) and the Deputy CEOs (including internal members of the Board of Directors)*, the ratio of basic remuneration and performance-based remuneration is determined for both the general and the extraordinary bonus limits under the Group Remuneration Guidelines, as follows:
    - In the event that only the general bonus limit is determined for a given business year, the ratio of fixed and variable remuneration components is 60%-40%. The rate of variable remuneration may only exceed the above ratio – up to a 50-50% fixed and variable remuneration ratio – in the case of a specific Director, if the performance-based remuneration of another Director is reduced by the same extent as the former Director’s performance-based remuneration was increased.
    - If an extraordinary bonus limit is also determined in addition to the general bonus limit, then the fixed and variable remuneration ratio shall be 50-50%, with the proviso that the ratio of variable remuneration may also be lower than this, depending on the determined extraordinary bonus limit.
- Although *the employee delegates of the Supervisory Board* are not entitled to variable remuneration only as Supervisory Board members, they may become eligible to variable remuneration based on their jobs filled at the Bank. The fixed and variable remuneration ratio of employee delegates is always determined by the Bank's Supervisory Board in association with the duties and responsibilities of the employee concerned. As the duties and responsibilities of an employee delegate delegated to the Supervisory Board cannot be foreseen, the ratio of the fixed and the variable components of the remuneration paid to employee delegates of the Supervisory Board with regard to their employment relationship cannot be specified in advance in this Remuneration Policy. However, it may be established as a guarantee rule that, in

the case of employee delegates of the Supervisory Board as well, the proportion of the annual variable remuneration may not exceed the annual fix remuneration, and that, in justified cases, the Supervisory Board is entitled not to determine any variable remuneration for members of the Supervisory Board qualifying as employee delegates. If variable remuneration is determined for an employee delegate, this shall be determined and paid to them in accordance with the Group Remuneration Guidelines.

III. AWARDS AND OTHER BENEFITS AVAILABLE TO DIRECTORS

In the case of Directors who are not employed by the Bank, no variable remuneration (including premiums or awards) may be determined or paid.

Directors employed by the Bank may become eligible for performance-based remuneration (premium) under the Group Remuneration Guidelines, based on a target agreement and performance assessment.

Directors shall be entitled to the following *role-based allowances* qualifying as fixed remuneration:

a) personally used IT devices,

b) personally used mobile phones and mobile phone usage limits,

c) travel (accident) and health insurance,

d) reimbursement of health care costs,

e) holidays in a facility owned by the Banking Group,

f) providing for training and education,

g) travel, hotel accommodation, subsistence allowances and material expenses in the case of missions,

h) health insurance package for the Director's family.

The members of the Board of Directors, the Chairman of the Supervisory Board, the Chairman & CEO (CEO) and the Deputy CEOs are also entitled to a personalised entertainment budget, as role-based allowance qualifying as fixed remuneration.

The Chairman & CEO (CEO) and the Deputy CEOs shall, in addition to the above benefits, also be entitled to the following *role-based allowances* qualifying as fixed remuneration:

a) provision of vehicles for personal use, and the associated drivers’ thereto,

b) term life insurance.

The Chairman & CEO shall, in addition to the above benefits, also be entitled to the following *role-based allowances* qualifying as fixed remuneration:

a) reimbursement of the cost of a general medical examination every year,

b) the creation of working conditions and reimbursement of costs associated with working outside the workplace (telecommuting),

c) reimbursement of the costs of maintaining language skills and the provision of working time allowances for this purpose,

d) reimbursement of travel and accommodation expenses of one family member travelling with the Chairman & CEO.

If an agency contract is concluded with an external member of the Board of Directors for the performance of a specific task beyond the scope of his/her duties as a member of the board, a personally used vehicle and a driver may also be granted to him/her in the agency contract, which shall qualify as fixed remuneration.

Members of the supervisory board who qualify as employee delegates are, as a general rule, eligible for role-based allowances based on their job classification, under the same conditions as all staff members with whom they work at the same classification level. On this basis, it is possible that members of the Supervisory Board who qualify as employee delegates may also be entitled to a personalised entertainment budget, or a personally used vehicle – aligned with the given classification level.

In addition to the above, Directors who are employed by the Bank shall be entitled to any benefits qualifying as fixed remuneration provided by the Bank on equal terms to all employees of the Bank, which shall include, in particular, the following remuneration components:

a) annual cafeteria limit,

b) health fund contribution,

c) voluntary pension fund contribution,

d) jubilee award.

IV. CHARACTERISTICS OF EMPLOYMENT CONTRACTS CONCLUDED WITH DIRECTORS

1. Rules uniformly applicable to Directors who are not employed by the Bank

Directors who are not employed by the Bank may be recalled at any time without explanation, in accordance with company-law stipulations, and they may resign from their office at any time.

Directors not employed by the Bank shall not be entitled to a notice period.

Directors who are not employed by the Bank are entitled to the allowances and benefits listed in Chapters II and III of this Remuneration Policy, as defined therein.

Directors who are not employed by the Bank shall not receive separate remuneration in the event of termination.

Directors who are not employed by the Bank are not entitled to participate in a supplementary or early retirement scheme.

2. Rules uniformly applicable to Directors who are employed by the Bank

The employment of Directors employed by the Bank may be terminated in accordance with the provisions of the Labor Code.

Directors employed by the Bank for an indefinite term shall be entitled to a uniform notice period calculated as follows:

Number of years of employment at OTP Bank Plc:							
below 3 years	*3-5 years*	*5-8 years*	*8-10 years*	*10-15 years*	*15-18 years*	*18-20 years*	*over 20 years*
Notice period in calendar days							
60	*70*	*80*	*90*	*120*	*140*	*160*	*180*

Directors employed by the Bank for an indefinite term shall be entitled to a uniform discharge period, provided that termination of the legal relationship was initiated by the Bank, calculated as follows:

Number of years of employment at OTP Bank Plc:							
below 3 years	*3-5 years*	*5-8 years*	*8-10 years*	*10-15 years*	*15-18 years*	*18-20 years*	*over 20 years*
Discharge period in calendar days							
45	*53*	*60*	*68*	*96*	*112*	*128*	*162*

In the event that the employment is terminated due to retirement, the party exercising the employer's rights may exempt the Director from work for the entire duration of the notice period.

Directors who are employed by the Bank are entitled to the allowances and benefits listed in Chapters II and III of this Remuneration Policy, as defined therein.

Directors who are employed by the Bank are entitled to payment in the event of termination of their legal relationship, as follows:

- absence fee for the applicable discharge period, as calculated based on the Labor Code,
- severance pay calculated based on the Labor Code, depending on the duration of the employment,
- redemption of holidays not taken by the employee.

Directors who are employed by the Bank are not entitled to participate in a supplementary or early retirement scheme, although they are entitled to a supplement to their independent pension fund membership under the same conditions as all the employees of the Bank.

3. Rules applicable to members of the Board of Directors

Members of the Board of Directors are elected by the General Meeting for a fixed term of 5 years, in accordance with the Bank's Articles of Association.

No separate contract is concluded with the members of the Board of Directors for the performance of their duties as members of the Board of Directors.

Internal members of the Board of Directors, as employees, are considered to be executive employees, so their employment may be terminated in writing at any time without explanation.

Members of the Board of Directors may be unilaterally recalled from the Board, or they may resign from their office at any time. If so required by the Bank's proper operation, the resignation shall take effect upon the election of a new member of the Board of Directors or, failing that, on the sixtieth day following notification.

If the Bank concludes an agency contract with an external member of the Board of Directors for the performance of a specific task beyond its duties as a member of the Board of Directors, such agency contract shall in all cases be for a fixed period, and it may at any time be terminated by the Bank unilaterally and without a notice period. The member of the Board of Directors shall not be entitled to any benefit in connection with the termination or early termination of such contract.

In all other respects, the above rules that are uniformly applicable to Directors employed by the Bank shall also apply to internal members of the Board of Directors, and the rules uniformly applicable to Directors not employed by the Bank shall also apply to external members of the Board of Directors.

Benefits to which the employed internal members of the Board of Directors are entitled in the event of termination of employment (in addition to the benefits laid down in the rules that apply uniformly to the Directors who are employed by the Bank):

- Consideration for non-compete commitment, the amount of which may not exceed the amount of the basic remuneration for the duration of the non-compete obligation.
- Severance pay provided within the standard framework defined in the Remuneration Policy, depending on the length of the employment, in addition to the statutory severance pay, and settled upon termination of employment, without deferral, as follows:

<table>
<tr><td colspan="6">Number of years of employment at OTP Bank Plc:</td></tr>
<tr><td colspan="6" align="center">Above</td></tr>
<tr><td>3 years</td><td>5 years</td><td>10 years</td><td>15 years</td><td>20 years</td><td>25 years</td></tr>
<tr><td colspan="6">The extent of the severance pay expressed in the monthly basic salary, may not be more than</td></tr>
<tr><td>1 month</td><td>3 months</td><td>5 months</td><td>7 months</td><td>9 months</td><td>12 months</td></tr>
<tr><td colspan="6">with the proviso that the amount so determined is to be weighted by the arithmetic mean of the percentage representing the results of the performance assessment of the Director concerned for the 5 years preceding the year in which the employment was terminated.</td></tr>
</table>

4. Rules applicable to members of the Supervisory Board

Members of the Supervisory Board are elected by the General Meeting for a fixed term of 3 years, in accordance with the Bank's Articles of Association.

No separate contract is concluded with the members of the Supervisory Board for their Supervisory Board membership.

In all other respects, the above rules that are uniformly applicable to Directors not employed by the Bank shall also apply to independent members of the Supervisory Board, and the rules uniformly applicable to Directors employed by the Bank shall also apply to employee delegates of the Supervisory Board.

5. Rules applicable to the Chairman & CEO (CEO) and the Deputy CEOs

The employment contract of the Chairman & CEO is adjusted to the membership of the Board of Directors, for a fixed term of 5 years. The employment contract of the Deputy CEOs (CEO) is concluded for an indefinite period.

The Chairman & CEO (CEO) and the Deputy CEOs, as employees, are considered to be executive employees, so their employment may be terminated in writing at any time without explanation.

In the event of early termination of the employment contract of the Chairman & CEO, the provisions of the Labor Code governing early termination of fixed-term employment contracts shall apply.

The basic salary of the Chairman & CEO is reviewed annually by the Board of Directors.

In all other respects, the rules that apply uniformly to the Directors employed by the Bank shall also apply to the Chairman & CEO (CEO) and the Deputy CEOs.

Those Deputy CEOs who are not members of the Board of Directors (and, if the chairman and the CEO positions are separated, the CEO, unless he/she is a member of the Board of Directors) are entitled to the same benefits upon termination of employment, as the internal members of the Board of Directors.

V. RULES APPLICABLE TO SHARE-BASED PERFORMANCE-BASED REMUNERATION

The share-based performance-based remuneration constituting a part of the variable remuneration ensures consistency between the individual interests of the employees and the long-term interests of the shareholders and the company, by guaranteeing the long-term commitment of the beneficiaries of share-based performance-based remuneration and their commitment to the Bank's sustainable and long-lasting success.

Only Directors who are employed by the Bank are entitled to the share-based performance-based remuneration.

The share-based performance-based remuneration may be determined annually in relation to the performance achieved in the business year.

Share-based performance-based remuneration may only be paid in accordance with the time schedule determined by the deferral and retention rules set out in Chapter VII of the Remuneration Policy.

The variable (performance-based) remuneration of directors employed by the Bank shall be settled uniformly in the form of a cash bonus and share-based awards, in 50-50% proportions.

The share-based portion of variable remuneration shall be settled – depending on the decision of the authorised person – either in the form of remuneration converted into shares or as preferentially priced share award:

- **Remuneration converted into shares** means the conversion of the share-based portion of performance-based remuneration into OTP Bank's ordinary shares, at the share price determined by the Supervisory Board of OTP Bank Plc. The number of units of remuneration converted into shares, per individual, is determined by the ratio of the amount of performance-based remuneration given in shares and the price of the share.

- A **preferentially priced share award** is the right to purchase the Bank's ordinary shares at a discounted price, under the parameters determined by the Supervisory Board of the Bank. The preferentially-priced share award may entail a maximum discount of HUF 6,000 per share, and the income equivalent attainable per share, at the time of exercising the share award, may be a maximum of HUF 12,000. In the case of a preferentially-priced share award, the number of shares per individual is determined by the ratio of the amount of the share-based variable remuneration and the value of the share award. The Supervisory Board of the Bank is authorised to set the period for exercising the preferentially-priced share award at a maximum of two years, and to extend the specified period on one occasion, with the proviso that the total length of the draw-down period may not exceed two years.

The Bank's Board of Directors, in the interest of managing shares acquirable in the framework of the remuneration policy, has decided to establish an ESOP Organisation. In implementing the remuneration policy, shares or bonds issued by OTP Bank Plc that constitute coverage for payment of an award to which the Director is entitled as part of his or her variable (performance-based) remuneration, may be provided to, purchased, or subscribed to, by the ESOP Organisation. Through the handing over of these securities to the ESOP Organisation, or through the purchase of, or subscription to them by the ESOP Organisation, the Director concerned shall acquire a member's shareholding in the ESOP Organisation. The member's shareholding in the ESOP Organisation is a non-marketable instrument; it may not be encumbered or pledged as collateral, and it only assures payment of the award to the individual if the conditions prescribed in the remuneration policy (result of performance assessment, ex post assessment of risks) are fulfilled. The Supervisory Board is entitled to set the detailed conditions of performance-based remuneration awards granted through an ESOP entity, with the proviso that participation of the Director concerned in the ESOP entity may only take place based on the voluntary decision of the Director concerned.

VI. CONDITIONS FOR ENTITLEMENT TO VARIABLE REMUNERATION

Directors not employed by the Bank are not entitled to variable remuneration.

In the case of Directors in an employment relationship with the Bank, the evaluation of performance at group and institution level takes place on the basis of the criteria used to measure individual performance (financial indicators and indicators of the quality of work performance).

The **performance** of the Directors employed by the Bank **is measured** by weighting bank group / institutional and individual indicators, as follows:

- For the Chairman & CEO (CEO), institutional and individual indicators are taken into account with a 50% weight each.
- For the Deputy CEOs controlling the business and support areas, institutional indicators are taken into account with a 40% weight, while individual indicators with 60% weight.

- For Deputy CEOs fulfilling risk control functions, institutional indicators are taken into account with a 25% weight, while individual indicators with 75% weight.

The above weighting shall not apply to the case when the individual performance is below the institutional / banking group performance, as in this case the performance is determined based on the individual performance below the institutional / banking group performance, thereby ensuring that individual performances that are below the institutional / banking group performance are not recognised.

The **banking group and institutional indicators** applied to Directors may be as follows:

- RORAC+ (risk-adjusted ROE/COE)
- Cost-to-income ratio
- Market Share

The **individual numerical and logical indicators used for the Chairman & CEO (CEO)** may be as follows:

- OTP Group's strategic targets for the given business year.
- The Bank's strategic targets for the given business year.
- Priority projects of OTP Group and the Bank for the given business year.
- Additional numerical or logical (quality) indicators, that ensure the proper, profitable, sustainable and prudent operation of OTP Group in the given business year, at least one of which must be a target associated with social responsibility.

Individual numerical and logical indicators applied to **Deputy CEOs** may be as follows:

- If the Deputy CEO concerned qualifies as an ownership or professional manager of a subsidiary of the OTP Group, the composite indicator that defines the institutional targets of the subsidiary under his/her control as ownership / professional manager. The composite indicator that applies to such subsidiaries includes the observance of the cost manager’s budget, at least one financial indicator for the given business year, at least one numerical indicator for the given functional area (if measurable), and at least two logical (quality) targets.
- If the Deputy CEO concerned qualifies as a cost manager at the Bank, the observance of the cost manager’s budget.
- If the Deputy CEO concerned is in charge of a business area, he/she must have at least one financial/numerical indicator measuring the performance of the business area under his/her control.
- If the Deputy CEO is in charge of a support area, he/she must have at least one numerical indicator that measures the performance of the support area under his/her control, provided that the performance of the support area concerned is measurable and the performance expectation can be quantified in advance.
- If the Deputy CEO is in charge of a risk control area (risk management, internal audit, compliance), he/she must have at least one numerical indicator that measures the performance of the support area under his/her control, provided that the performance of the given area is measurable and the performance expectation can be quantified in advance.
- One or more of the logical (quality) indicators defined below, with the proviso that at least one target must be associated with social responsibility.

The **logical indicators** that measure quality performance may be as follows:

- Targets related to projects and business development.
- Targets related to acquisition and integration.
- Development, elaboration and implementation of corporate/business strategies.
- Strengthening, supporting and enforcing prudent behaviour.
- Targets related to human resources management.
- Targets related to group governance.
- Targets related to the establishment, provision and improvement of operating conditions.
- Corporate Social Responsibility (CSR) targets.

In terms of the **structure of the individual targets**, it is necessary to emphasise that, compared to all individual targets,

- numerical targets have a weighting of up to 60%,
- logical (quality) indicators represent at least 40% weight,
- competency-based (subjective) targets represent up to 20% weight.

The above performance assessment criteria effectively implement the Bank's strategy by aligning the business targets assigned to the Directors with the Bank's business plan, by ensuring that, in this context, the company's key strategic targets have a weight depending on the given Director's organisational level and his/her control over the implementation of the business targets, and by ensuring that the quantitative and qualitative targets that reflect the quality of the Directors' work, consistent with their responsibilities within the Bank, are also defined.

Members of the Supervisory Board who qualify as employee delegates may not, in this capacity, become eligible for variable remuneration, and therefore have no targets in this regard. The targets related to the employment of the employee delegate members of the Supervisory Board are aligned with the employees' organisational classification and responsibility, and cannot be determined in advance.

The group/institutional criteria for the business year in question, the related target values and the relevant performance and tolerance thresholds are determined by the Supervisory Board in the light of the annual financial plan. The Supervisory Board also determines the individual performance criteria of Directors for a given business year, the related target values and the relevant performance and tolerance thresholds.

Subject to this decision, the concrete performance assessment criteria for the Chairman & CEO (CEO) are established by the Board of Directors, while in the case of other Directors employed by the Bank, by the party exercising employer's rights. Another condition for eligibility for variable remuneration is the conclusion of a target agreement setting out the above objectives and the terms of payment.

Further detailed rules governing the determination of the eligibility for variable remuneration and the amount of the benefit are set out in the Group Remuneration Guidelines submitted to the General Meeting, and the Banking Group's Remuneration Policy elaborated on the basis thereof and accepted by the Supervisory Board, with particular regard to the following:

- the rules for determining the general and extraordinary bonus limits and for limiting these bonus limits;

- rules for determining and applying the performance threshold and the tolerance threshold;
- bodies and persons involved in performance assessment and entitled to determine the performance-based remuneration.

VII. DEFERRAL AND RETENTION RULES RELATING TO THE PAYMENT OF THE VARIABLE REMUNERATION

Variable remuneration may only be paid out in accordance with the time schedule determined by the deferral and retention rules set out in the Group Remuneration Guidelines.

Variable remuneration payable under a deferred payment schedule is divided up into short-term (non-deferred) and deferred instalments.

50% of the share-based part of the short-term (non-deferred) instalment of the variable remuneration is retained for one year. Accordingly, half of the short-term (non-deferred) instalment of the share-based performance-based remuneration is the non-retained part, while the other half is the retained part.

In the case of Directors, 60% of the variable remuneration is deferred.

The deferred portion of the performance-based remuneration shall be paid to the Directors within the deferral period prescribed by law and by the Group Remuneration Guidelines. This deferral period shall be 3 years for members of the Supervisory Board who qualify as employee delegates at the time of adoption of this Remuneration Policy, and 4 years for all other Directors. If the statutory regulations or the Group Remuneration Guidelines subsequently stipulate stricter deferral periods, then these stricter deferral periods shall apply to the payment of Directors' performance-based remuneration, from the effective date thereof.

The deferred part of the performance-based remuneration shall be paid out in equal instalments (e.g. 15-15-15-15%).

With respect to shares constituting the share-based part of the performance-based remuneration that will be paid in the future (deferred and retained part), employees do not have any right of disposal (for example, they may not conclude a pre-contract or contract with respect to this part, or offer it as collateral), and they will not be entitled to any dividend related to these shares until the time of acquisition.

With respect to deferred instalments, ex post risk adjustment must be applied. The assessment of risks takes place partly on the basis of criteria for assessing prudent operation, i.e. it is necessary to ensure that the capital remains above the minimum level of regulatory capital defined in the law, and that operations are conducted without a need to resort to the deposit insurance fund, and, secondly, it is linked to the activity of the persons concerned. Throughout the full outstanding period of deferral, the impacts related to the activity of the Director, occurring in the meantime, must be assessed, and the amount of performance-based remuneration paid out in a deferred manner must, if necessary, be reduced accordingly, including the possibility of complete withdrawal.

The Bank's Supervisory Board is also authorised to decide on the clawback of performance-based remuneration settled/paid out to the person concerned in respect of a period affected by a circumstance giving grounds for clawback, if the identified staff member was a participant in, or responsible for, a practice that resulted in a significant loss, or if he/she does not fulfil the expectations relating to suitability and competence or if a criminal offence or serious failures, abuses or deficiencies have been detected that have significantly damaged the good standing and/or profitability of the Bank or a Banking Group Subsidiary.

VIII. RELATIONSHIP BETWEEN THE SALARIES AND THE EMPLOYMENT CONDITIONS OF THE DIRECTORS AND COMPANY'S EMPLOYEES

Directors who are not employed by the Bank receive a honorarium but no performance-based remuneration. Due to its fixed nature, this honorarium is unrelated to the salaries and employment conditions of the Company's employees, and its amount is to be determined by the General Meeting. For Directors employed by the Bank, the relationships may be summarised as follows.

In addition to the Directors who are employed by the Bank, the Bank's employees are also entitled to performance-based remuneration aligned with their organisational level and classification, subject to the Bank's internal regulations.

An important principle in determining the variable remuneration for both Directors employed by the Bank and the Bank's other employees is that performance shall be measured against criteria on which the employee has an actual influence. In order to achieve this, in the course of performance assessment, descending through the Bank's organisational hierarchy, the weight of the banking group and institutional indicators decreases, while the weight of individual indicators gradually increases. The Bank's personnel engaged in sales activities are granted sales-based remuneration that takes account of the priority of consumer needs.

In the event that the Supervisory Board decides to establish an extraordinary bonus limit, on the basis of which additional variable remuneration will be paid to the Directors employed by the Bank, it is also necessary to determine, for the managers and employees subordinated to the Directors affected by the payment, a bonus limit ensuring payments exceeding the performance-based remuneration that is usual whenever a general bonus limit is opened, and to divide such limit for the persons concerned.

The approach applied in developing the remuneration is uniform for Directors employed by the Bank and all other employees of the Bank, and it ensures fair and competitive pay and employment conditions for all employees. For both the Directors and the Bank's other employees:

- the Bank uses market data obtained from external sources to make decisions regarding the level of income,
- the incentive system is closely linked to the company's strategic targets and long-term business performance,
- individual performance – including the achievement of individual targets – is measured every six months, and the results of the annual assessment constitutes the basis for performance-based remuneration.

It must also be noted, that the Bank has a number of benefit elements to which all employees of the Bank are entitled on equal terms (e.g. cafeteria limit, health fund and voluntary pension fund contribution, jubilee award).

IX. PRESENTATION OF THE DECISION-MAKING PROCESS FOR DEFINING, REVIEWING AND IMPLEMENTING THE REMUNERATION POLICY

The Bank's Remuneration Policy is required to set out rules, based on the statutory provisions applicable to credit institutions that are consistent with the Group Remuneration Guidelines elaborated in compliance with the same statutory regulations.

All Bank areas that are significant in terms of corporate governance are involved in the development of the Bank's Remuneration Policy. The proposal for the Bank's Remuneration Policy is to be approved by the Bank's Supervisory Board, after being discussed by the Bank's

Risk Assumption and Risk Management Committee and the Bank's Remuneration Committee. After approval by the Supervisory Board, the Remuneration Policy is submitted by the Chairman of the Remuneration Committee to the General Meeting for a consultative vote. Should the General Meeting reject the Remuneration Policy, it must be re-submitted to the next General Meeting.

The Bank's Board of Directors is responsible for the day-to-day implementation of the Remuneration Policy. The Board of Directors of the Bank is required to ensure that the internal regulatory documents used in accordance with the provisions of the Remuneration Policy in respect of the same matters, as well as the individual declarations/agreements, are harmonised with the provisions of the Remuneration Policy.

The enforcement of the provisions of the Remuneration Policy is reviewed at least once a year by OTP Bank Plc’s internal auditing unit, which makes a report on this to the Remuneration Committee, Supervisory Board and Board of Directors of the Bank.

Based on the internal auditor’s report, the Remuneration Committee of OTP Bank Plc, if necessary, makes a proposal on amendment of the Remuneration Policy, and elaborates the appropriate procedures.

The Remuneration Committee of the Bank prepares remuneration decisions by taking into account the long-term interests of shareholders, investors and other stakeholders of the credit institution. The Remuneration Committee of the Bank draws up recommendations for the Bank’s Supervisory Board with regard to the remuneration of the Directors, and provides support and advice to the Bank’s Supervisory Board for the monitoring of the design and operation of the remuneration system. Proposals relating to the Remuneration Policy are submitted by the chairman of the Bank’s Remuneration Committee to the Bank’s Supervisory Board, which takes it into consideration and, if necessary, decides whether the proposal should be submitted to the next General Meeting of the Bank**.**

In exceptional cases, the Supervisory Board may, on the basis of a proposal by the Remuneration Committee, **derogate** from the provisions of this Remuneration Policy with respect to certain benefits and the objectives for which variable compensation is granted, if such derogation is necessary to ensure the long-term interests and sustainability of the company or to provide for its viability. Such exceptional circumstances may include, in particular, the situation where the Bank is able to attract or retain an adequately skilled and qualified, professionally suitable candidate in a position classified as Director under this Remuneration Policy only at the cost of derogating from this Remuneration Policy, and if failure to attract or retain such a Director would have a material adverse effect on the Bank's financial results. Derogations from the Remuneration Policy require a unanimous decision of the Remuneration Committee and a two-thirds majority decision of the Supervisory Board, and the derogation and its underlying reasons must be reported to the next General Meeting.

The Remuneration Policy must be amended if the amendment is made compulsory by a law.

In order to avoid a **conflict of interest** between the persons involved in the development of the Remuneration Policy, the following guarantee rules will be enforced:

- Members of the Bank’s Board of Directors who perform the management of an organisational unit in the Bank or in a Bank Group Subsidiary cannot be members of the Bank’s Remuneration Committee.
- Members of the Bank’s Supervisory Board may not be members of the Bank’s Remuneration Committee.
- Members of the Remuneration Committee of the Bank are obliged to notify the chairperson of the Remuneration Committee and the Supervisory Board of the Bank,

simultaneously, should any cause of a conflict of interest on their part arise. Members of the Remuneration Committee of the Bank from the time at which the cause of a conflict of interest arises, may not act in matters with Remuneration Committee's scope of authority, and any declaration made by them on behalf of the Remuneration Committee shall be null and void.

- The Remuneration Committee submitting the Remuneration Policy and the Risk Assumption and Risk Management Committee discussing it consists exclusively of independent (external) members of the Board of Directors, and the Supervisory Board approving the Remuneration Policy has a majority of independent members. These independent members of the Board of Directors and the Supervisory Board are not entitled to variable remuneration under the Remuneration Policy, and therefore have no personal interest in developing the incentive scheme.

RESOLUTION PROPOSAL No. 8/1/2020

The Annual General Meeting in line with the annex of the minutes of the meeting approves the group remuneration guidelines of OTP Bank Plc. and simultaneously empowers the Supervisory Board of the Company to define the rules of the Banking Group's remuneration policy in detail, in line with the group remuneration guidelines.

RESOLUTION PROPOSAL No. 8/2/2020

The Annual General Meeting in line with the annex of the minutes of the meeting, on a consultative basis, approves the remuneration policy of OTP Bank Plc under the act on encouraging long-term shareholder engagement.

Determination of the remuneration of the members of the Board of Directors, the Supervisory Board and the Audit Committee

The remuneration of the members of OTP Bank's **Board of Directors**, **Supervisory Board** and **Audit Committee** is determined by **the Annual General Meeting**.

The remuneration of the members of the mentioned bodies is currently governed by Act no. 9/2016 and 10/2017 and no. 10/2017 resolutions of the Annual General Meeting. The remuneration of the members of the Board of Directors consists of a fixed monthly fee and a fixed monthly amount of ordinary shares, while the remuneration of the members of the Supervisory Board is a fixed monthly fee. The members of the Audit Committee are not remunerated.

Given the adequate increase in the value of the remuneration paid in the form of ordinary shares, the raise of the fee of the Supervisory Board in 2017, **the fees of the members of the Board of Directors and the Supervisory Board** specified in resolutions no. 9/2016 and no. 10/2017 of the Annual General Meeting **shall not be modified**.

In the case of the **Audit Committee**, due to the fact that its members are elected from the members of the Supervisory Board, it is not recommended to set a separate remuneration.

RESOLUTION PROPOSAL No.9/2020

The Annual General Meeting does not modify the honorarium of the members of the Board of Directors and the members of the Supervisory Board as determined in resolutions No. 9/2016 and No. 10/2017 of the Annual General Meeting. The members of the Audit Committee are not to receive any remuneration.

AUTHORIZATION OF THE BOARD OF DIRECTORS TO ACQUIRE THE COMPANY'S OWN SHARES

AUTHORIZATION OF THE BOARD OF DIRECTORS TO ACQUIRE THE COMPANY'S OWN SHARES

*Pursuant to both Act V of 2013 on the Civil Code (hereinafter referred to as "**Civil Code**") and Article 8 Section 33 Subsection 13 of OTP Bank Plc's (hereinafter referred to as "**Company**") Articles of Association, the General Meeting has the power to authorize the Board of Directors to acquire treasury shares.*

The Company's Annual General Meeting of 2019, in its resolution no. 9/2019, authorized the Board of Directors to acquire treasury shares. This authorization expires on 12 October 2020; however, the authorization may be reissued.

This aforementioned renewed authorization is provided by the resolution constituting the subject matter of this proposal. The authorization, in accordance with the statutory requirements, is subject to limitations of time and extent, which are specified in the resolution to be submitted to the Annual General Meeting of 2020. Pursuant to the provisions of the Civil Code, the authorization of the Board of Directors is valid for 18 months, and the number of treasury shares acquirable by the Company may not exceed an extent equivalent to 25 per cent of the share capital. In the previous years, the purpose of the authorization to acquire treasury shares has been always given by the Company. It was defined as the purpose of the authorization for the Board of Directors to acquire treasury shares in the interests of, for instance,

(i) supplying the shares necessary for the management incentives system that is in place at the Company,
(ii) developing and maintaining the Company's services provided to its customers,
(iii) creating an opportunity for rapid intervention in the event of share price fluctuation, and
(iv) implementing transactions related to the optimisation of the Company's capital.

*The authorization of the General Meeting is necessary, but not in itself sufficient, prerequisite for the execution of treasury-share purchases. This is because under EU rules[1] relating to the purchase of treasury shares every treasury-share purchase transaction needs to be authorized by the National Bank of Hungary (hereinafter referred to as "**MNB**"), either for each purchase individually or – if this is legally possible – based on a limit-type authorization (hereinafter referred to as "**Permission of MNB**"). The Company has the necessary Permissions of MNB: (i) in order to ensure the payments as part of the remuneration policy and (ii) for BUX ETF investment units moreover for handling the risks arising from transactions on the BUX Futures.*

Based on the authorization granted by the General Meeting and on the permission of the MNB, the share transactions may be concluded on the regulated market (the stock exchange), or outside of such market (OTC-transaction). To prevent the simultaneous existence of two authorizations, the authorization set forth in General Meeting resolution no. 9/2019 shall lose its effect upon the passing of the proposed resolution. The Company publishes data relating to treasury shares and to the transactions that involve such shares in accordance with the effective statutory provisions and in all cases provides information to the shareholders at the forthcoming General Meeting.

[1] Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (CRR), and Commission Delegated Regulation (EU) No 241/2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for Own Funds requirements for institutions

RESOLUTION PROPOSAL No. 10/2020

The Annual General Meeting, based on the Subsection 1 of Section 3:223 of Act V of 2013 on the Civil Code, hereby authorizes the Board of Directors of OTP Bank Plc. (hereinafter referred to as "Bank") to acquire own shares of the Bank especially for the purpose of supplying the shares necessary for the management incentives system that is in operation at the Bank, creating the opportunity for rapid intervention in the event of share price fluctuations, developing and maintaining the services provided to customers, and executing transactions related to optimization of the Company's capital.

The Board of Directors is authorized to acquire a maximum of as many ordinary shares issued by the Bank with a nominal value of HUF 100 that is one hundred forints, as ensures that the portfolio of own shares, in respect of the measure stipulated in the frame-permissions of the Magyar Nemzeti Bank, does not exceed 70,000,000 shares at any moment in time.

Should the acquisition of own shares take place in a reciprocal transaction, then the consideration applied in such transaction may be a minimum of the share's nominal value, and a maximum of 150 % of the highest price recorded on the Budapest Stock Exchange on the day preceding conclusion of the transaction, or, in the case of a stock-exchange transaction, 120 % of the closing price recorded on the Budapest Stock Exchange on the day preceding conclusion of the transaction. The Board of Directors may exercise its rights set forth in this mandate until 15 October 2021. The mandate set forth in Annual General Meeting resolution no. 9/2019 shall lose its effect upon the passing of this resolution.