OTP MORTGAGE BANK LTD.

SEPARATE FINANCIAL STATEMENTS
IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING
STANDARDS AS ADOPTED BY
THE EUROPEAN UNION AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED
31 DECEMBER 2019

Deloitte.

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

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

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

VAT ID: 10443785-2-42
EU VAT ID: HU10443785

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of OTP Mortgage Bank Ltd.

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of OTP Mortgage Bank Ltd. (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 1,341,289 million, the related separate statement of profit or loss and the separate statement of comprehensive income, which shows a net profit for the period of HUF 27,172 million, the separate statement of changes in equity, and the 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 judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the matter
Calculation of expected credit losses on corporate and retail loans	
(See notes 7. and 27. 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 1,185,166 million and provisions for impairment on loan losses of HUF 5,651 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 modeling 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.

Other Information

Other information comprises the business report of the Bank for 2019, which we obtained prior to the date of this auditor's report, and the annual report for 2019, 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 financial statements is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the 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 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.

In our opinion, the business report of the Company for 2019 corresponds to the financial statements of the Company 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.

As the Company 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 Company 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.

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 judgment 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 Shareholder's resolution on March 25, 2019 and our uninterrupted engagement has lasted for 19 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 19, 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 19, 2020

Andrew Weekes Deloitte Auditing and Consulting Ltd. 1068 Budapest, Dózsa György út 84/C. Registration number: 000083	Mádi-Szabó Zoltán Statutory registered auditor Registration number: 003247

CONTENTS

OTP MORTGAGE BANK LTD.
SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019 (in HUF million)

	Note	2019	2018
Cash, amounts due from banks and balances with the National Bank of Hungary	4.	2,111	2,892
Placements with other banks, net of allowance for placement losses	5.	135,963	127,635
Securities at fair value through other comprehensive income	6.	18,922	10,647
Loans	7.	1,179,515	1,063,229
Investments in subsidiaries, associates and other investments	8.	1,997	1,337
Intangible assets	9.	184	173
Property and equipment	9.	22	26
Right of use assets		276	-
Derivative financial assets designated as hedge accounting relationships	10.	229	1,837
Other assets	11.	2,070	1,463
TOTAL ASSETS		**1,341,289**	**1,209,239**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	12.	676,962	508,910
Liabilities from issued securities	13.	569,344	611,923
Derivative financial liabilities designated as hedge accounting relationship	14.	822	74
Deferred tax liabilities		108	274
Leasing liabilities	25.	280	-
Other liabilities	15.	9,412	12,274
TOTAL LIABILITIES		**1,256,928**	**1,133,455**
Share capital	16.	37,000	27,000
Retained earnings and reserves	17.	47,361	48,784
TOTAL SHAREHOLDER'S EQUITY		**84,361**	**75,784**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**1,341,289**	**1,209,239**

Budapest, 19 March 2020

OTP JELZÁLOGBANK Zrt.
otp Jelzálogbank
vezérigazgató

András Becsei
Chief Executive Officer

The accompanying notes to consolidated financial statements on pages 8 to 63 form an integral part of these separate financial statements.

OTP MORTGAGE BANK LTD.
SEPARATE STATEMENT OF RECOGNIZED INCOME FOR THE YEAR ENDED 31 DECEMBER 2019 (in HUF million)

	Note	2019	2018
Interest income:			
Interest income calculated using the effective interest method	*19.*	63,045	62,564
Income similar to interest income	*19.*	(232)	2,730
Total Interest Income		**62,813**	**65,294**
Total Interest Expense	*19.*	**(33,624)**	**(34,352)**
NET INTEREST INCOME		**29,189**	**30,942**
Risk cost total	20.	3,523	5,668
NET INTEREST INCOME AFTER RISK COST		**32,712**	**36,610**
Income from fees and commissions	21.	1,426	1,562
Expenses from fees and commissions	21.	(3,199)	(2,842)
Net loss from fees and commissions		**(1,773)**	**(1,280)**
Foreign exchange gains/(losses)	*22.*	(2)	2
Losses on derivative instruments, net		-	(1)
Other operating income/ (expense)	22	20	(16)
Net other operating expenses	22.	391	(2,120)
Net operating income/ (expense)		**409**	**(2,135)**
Personnel expenses	22.	(646)	(590)
Depreciation and amortization	22.	(148)	(92)
Other administrative expenses	22.	(2,958)	(3,868)
Other administrative expenses		**(3,752)**	**(4,550)**
PROFIT BEFORE INCOME TAX		**27,596**	**28,645**
Income tax expense	24.	(424)	(1,178)
NET PROFIT FOR THE PERIOD		**27,172**	**27,467**
Earnings per share (in HUF)			
Basic and diluted	26.	73,438	101,730

The accompanying notes to consolidated financial statements on pages 8 to 63 form an integral part of these separate financial statements.

OTP MORTGAGE BANK LTD.
SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019 (in HUF million)

	Note	2019	2018
OTHER COMPREHENSIVE INCOME		**27,172**	**27,467**
Items that may be reclassified subsequently from other comprehensive income to profit or loss:			
Fair value adjustment of securities fair value through other comprehensive income		1,094	(214)
Deferred tax related to securities fair value through other comprehensive income		(98)	19
Fair value adjustment of derivative financial instruments		(2,124)	(967)
Other comprehensive income, net of income tax		**(1,128)**	(1,162)
NET COMPREHENSIVE INCOME		**26,044**	**26,305**

The accompanying notes to consolidated financial statements on pages 8 to 63 form an integral part of these separate financial statements.

OTP MORTGAGE BANK LTD.

SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019 (in HUF million)

	Share Capital	Share-based payment reserve	Retained earnings	Other comprehensive income	General reserve	Total
Balance as at 1 January 2018	**27,000**	**-**	**35,738**	**276**	**12,645**	**75,659**
Effect of transition to application of IFRS 9	-	-	(7,944)	14	-	(7,930)
Balance as at 1 January 2018 in accordance with IFRS 9	**27,000**	**-**	**27,794**	**290**	**12,645**	**67,729**
Net profit for the period	-	-	27,467	-	-	27,467
Other comprehensive income	-	-	-	(1,162)	-	(1,162)
Total comprehensive income	**27,000**	**-**	**55,261**	**(872)**	**12,645**	**94,034**
Dividend for the year 2017	-	-	(18,250)	-	-	(18,250)
Transfer to general reserve	-	-	(2,747)	-	2,747	-
Balance as at 31 December 2018	**27,000**	**-**	**34,264**	**(872)**	**15,392**	**75,784**
Balance as at 1 January 2019	**27,000**	**-**	**34,264**	**(872)**	**15,392**	**75,784**
Net profit for the period	-	-	27,172	-	-	27,172
Other comprehensive income	-	-	-	(1,128)	-	(1,128)
Total comprehensive income	27,000	-	61,436	(2,000)	15,392	101,828
Share-based payment	-	33	-	-	-	33
Transfer to general reserve	-	-	(2,717)	-	2,717	-
Dividend for the year 2018	-	-	(27,500)	-	-	(27,500)
Share capital raise	10,000	-	-	-	-	10,000
Balance as at 31 December 2019	**37,000**	**33**	**31,219**	**(2,000)**	**18,109**	**84,361**

The accompanying notes to consolidated financial statements on pages 8 to 63 form an integral part of these separate financial statements.

OTP MORTGAGE BANK LTD.
SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019
(in HUF million)

	Note	2019	2018
OPERATING ACTIVITIES			
Profit before income tax		**27,596**	**28,645**
Net accrued interest		54	111
Depreciation and amortization	*9.*	148	92
Risk cost	*20.*	(3,523)	(5,668)
Unrealised gains on fair value adjustment of derivative financial instruments	*10.*	232	(2,730)
Increase in loans, net of allowances for loan losses	*7.*	(112,817)	(80,764)
Decrease in other assets before provisions for losses	*11.*	(607)	2,058
(Decrease)/Increase in other liabilities	*15.*	(2,862)	(1,263)
Share-based payments		33	-
Income tax paid	*24.*	(688)	(1,442)
Net cash (used in)/provided by operating activities		**(92,434)**	**(60,961)**
INVESTING ACTIVITIES			
Net accrued interest		(94)	8
Decrease in placements with other banks	*5.*	(8,234)	(52,395)
Proceeds from sale of securities at fair value through other comprehensive income	*6.*	(7,181)	430
Increase in investments in subsidiaries	*8.*	(660)	(131)
Additions to property, equipment and intangible assets	*9.*	(112)	(114)
Disposal of property, equipment and intangible assets	*9.*	(43)	10
Net cash used in investing activities		**(16,324)**	**(52,192)**
FINANCING ACTIVITIES			
Net accrued interest		(3,104)	951
Net increase/(decrease) in amounts due to OTP Bank and other banks	*12.*	168,099	(74,839)
Cash received from issuance of securities	*13.*	-	276,000
Cash used for repurchase and redemption of issued securities	*13.*	(39,522)	(71,577)
Share capital raise		10,000	-
Leasing payments		4	-
Dividend paid	*16.*	(27,500)	(18,250)
Net cash provided by financing activities		**107,977**	**112,285**
Net decrease in cash and cash equivalents		**(781)**	**(868)**
Cash and cash equivalents at the beginning of the year		**2,892**	**3,760**
Cash and cash equivalents at the end of the year		**2,111**	**2,892**

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

1.1. General information

OTP Bank Plc. ("OTP Bank") established OTP Mortgage Bank Ltd. ("OTP Mortgage Bank" or the "Bank") as a fully owned subsidiary on 15 May 2001. The State Financial Supervisory Authority issued the operating license on 10 January 2002, and the Bank commenced operations on 1 February 2002.

OTP Bank is the ultimate parent of OTP Mortgage Bank, and also the ultimate parent of OTP Group.

These separate financial statements authorised for issue on 19 March 2020.

The Bank completed its publication in accordance with Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises, 575/2013/EU directive (CRR). OTP Mortgage Bank completed its publication with Separate Financial Statements prepared in accordance with IFRS as adopted by European Union jointly with OTP Bank Plc on the homepage of OTP Bank Plc (http://www.otpbank.hu/), on the homepage of the Bank (http://www.otpjzb.hu). Separate Financial Statements in accordance with IFRS as adopted by the EU is published on the homepage of the Bank, on the homepage Budapest Stock Exchange (http://www.bet.hu), furthermore on the website of the National Bank of Hungary (www.kozzetetelek.hu).

The Bank's registered office address is Nádor u. 21, Budapest 1051.

Internet homepage: https://www.otpbank.hu/OTP_JZB/online/index.jsp

Signatory of the separate financial statements is the Executive Officer, András Becsei.

The Mortgage Bank's Financial Statements were prepared by OTP Bank Plc. based on the Services Agreement between The Mortgage Bank and OTP Bank Plc. Responsible person for the control and management of accounting services: Zoltán Tuboly (Budapest), Managing Director of Accounting and Financial Department, Registration Number: 177289, IFRS qualified chartered accountant.

Due to Hungarian legislation audit services are statutory for OTP Mortgage 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: Zoltán Mádi-Szabó, registration number: 003247.

Audit service fee agreed by the Articles of Association for the year ended 2019 is HUF 47 million + VAT.

The Bank is a specialized financial institution with its main business being governed by Act XXX of 1997 on Mortgage Lending Institutions and Mortgage Bonds.

The main activity of the Bank is financing of purchase, renovation and development of residential properties. The purchased portfolio contains mainly subsidised housing loans, in addition housing and free purpose mortgage loans denominated in foreign currency that were converted back to foreign exchange. Over the past few years, the granted subsidized HUF housing loans and the granted HUF housing and free purpose mortgage loan are the dominant part of the entire mortgage bank portfolio. The Bank provides presently HUF denominated subsidised and not subsidised housing and free purpose mortgage loans, and HUF denominated real estate development loans too. From 2017 the Bank expanded their services with independent liens purchase and sale by instalment, provides also by refinancing loans to commercial banks.

The Bank employs limited number of staff at its head office and use approximately 367 branches of OTP Bank engaged in the housing loan business. Under syndication agreement between OTP Bank and OTP Mortgage Bank, OTP Bank provides services for OTP Mortgage Bank concerning the administration of the mortgage loans, for which fees are paid by OTP Mortgage Bank. Credit scoring and lending are performed at the branches of OTP Bank in accordance with the regulations of OTP Mortgage Bank. Loans are approved by OTP Mortgage Bank and OTP Bank acts for and on behalf of OTP Mortgage Bank during the conclusion of a loan agreement. The mortgage right, along with the restraint of transfer and encumbrance on property pledged to secure loans is entered in the property register for the benefit of OTP Mortgage Bank. Pledge of the mortgage bonds is the actual loans registered as normal collateral – collateralised by property inspector – and additional collateral values – prescribed by law – registered in the Bank's collateral register.

As the sole shareholder, OTP Bank provides financial and administrative support to the Bank. Details of related party balances and transactions are summarised in Note 26 to these financial statements.

A significant proportion of mortgage loans are extended for periods for more than ten or fifteen years whereas mortgage bonds generally have a shorter maturity (1-10 years). The remaining average maturity of the loan portfolio of the Bank is 10.3 years. The Bank is lengthening the average maturity of its outstanding mortgage bonds to reduce the liquidity gaps.

As at 31 December 2018 and 2019 the number and the average number of the employees at the Bank were 38 and 39 respectively.

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

1.2. Base of Accounting

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

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

OTP Mortgage Bank's functional currency is the Hungarian Forint ("HUF").

The accounting policies followed by the Bank in the preparation of these financial statements conform with International Financial Reporting Standards ("IFRS"). As adopted by the European Union Some of the accounting principles prescribed for statutory purposes are different from those generally recognized in international financial markets.

OTP Jelzálogbank Zrt. applying the option, allowed by Article 55 paragraph 177 Accounting Act effective as at 1 January 2017, to prepare its Separate Financial Statements exclusively in accordance with the IFRS issued by International Accounting Standards Board ("IASB") and accepted by the European Union.

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 Bank's 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 the following standards, amendments to the existing standards and interpretations issued by IASB and adopted by the EU were in issue but 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),

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

The Bank has elected not to adopt these new standards and amendments to existing standards in advance of their effective dates. The Bank anticipates that the adoption of these standards and amendments to existing standards will have no material impact on the financial statements of the Bank in the period of initial application

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

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

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

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of presentation

These separate financial statements have also 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 as adopted by the European Union requires 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 (see Note 3) 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 financial statements.

2.2. Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into HUF at exchange rates quoted by the National Bank of Hungary ("NBH") as at the date of the financial statements. Income and expenses arising in foreign currencies are converted at the middle rate of exchange quoted by OTP Bank Plc. on the transaction date. Resulting foreign exchange gains or losses are recorded to the Separate Statement of Profit or Loss.

2.3. Consolidated financial statements

These financial statements present the separate financial position and results of operations of the Bank. Consolidated financial statements are prepared by the Bank and consolidated net profit for the year and shareholders' equity differ 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 are published on the same date. As the ultimate parent, the Mortgage Bank is preparing consolidated financial statements of the Group of the Bank. The Ingatlanpont Ltd. is also part of a larger consolidation, which is made by OTP Bank, as a parent company managing the group.

2.4. Investments in subsidiaries

Investments in subsidiaries comprise those investments where the 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.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.5. Securities and other financial assets

The Bank classifies its financial assets into the following categories: fair value through profit or loss (either held for trading or assets initially classified as fair value through profit or loss), held-to-maturity loan and receivables and at fair value through other comprehensive income. Securities that are acquired principally for the purpose of generating profit from short-term fluctuations in price are classified as securities held for trading. Investments in financial assets (other than those which meet the definition of loans and receivables) with fixed maturity that the management has the expressed intention and ability to hold to maturity are classified as held-to-maturity. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as at fair value through other comprehensive income.
The Bank had no securities classified as held for trading or held-to-maturity as at 31 December 2019 and 2018.

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

FVOCI Securities consists of Hungarian Government bonds, mortgage bonds and other securities. Other securities include shares in investment funds and venture capital funds, corporate bonds and foreign securities.

The provision for impairment 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 impairment 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.

Those FVOCI financial assets that do not have a quoted market price and whose fair value cannot be reliably measured by other models mentioned above are measured at cost, less provision for impairment when appropriate. This exception is related only to equity instruments. Impairment on equity FVOCI securities is accounted only if there is a significant or prolonged decrease in the market value. Impairment losses recognised in profit or loss for equity FVOCI securities is not reversed through profit or loss

2.5.2. Derivative financial instruments

In the normal course of business, the Bank is a party to contracts for derivative financial instruments, which represent a very 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 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 Mortgage 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 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 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.

The Bank has certain swap and forward transactions, which are qualified as hedging instrument based on the Bank's risk management policy. However, these financial instruments are not qualified as hedging instrument based on IFRS 9, therefore the Bank qualified these derivative financial instruments as held for trading, and fair value adjustment is recognised directly in the Separate Statement of Profit or Loss.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.5. Securities and other financial assets [continued]

2.5.2. Derivative financial instruments [continued]

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 contracts does not represent the actual market or credit risk associated with these contracts.

Foreign currency contracts can be used by the Bank for risk management purposes. The Bank's risk management foreign currency contracts were used to hedge against exchange rate fluctuations on loans and advances to credit institutions denominated in foreign currency.

Interest rate swaps

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 swaps were used for management of interest rate exposures and have been accounted for at mark-to-market fair value.

2.5.3. 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 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. The ineffective portion of the hedge is charged directly to the Separate Statement of Profit or Loss.

The conditions of hedge accounting applied by the Bank are the following: formally designed as hedge, 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 the effective portion of the 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 equity 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 affect the Separate Statement of Profit or Loss for the period. The ineffective element of the hedge is charged directly to the Separate Statement of Profit or Loss.

Changes in the fair value of derivatives that are designated and qualify as 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. The ineffective element of the hedge is charged directly to the separate statement of profit or loss. The conditions of hedge accounting applied by the Bank are the following: formally designed as hedge, 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 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 equity are transferred to the separate statement of profit or loss and classified as revenue or expense in the periods during which the hedged assets and liabilities effect the separate statement of recognized and comprehensive income for the period. The ineffective element of the hedge is charged directly to the separate statement of profit or loss.

The Bank terminates the hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting or the Bank revokes the designation.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.6. 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.

2.7. Embedded derivatives

Sometimes, a derivative may be a component of a combined financial instrument that includes a host contract and a derivative (the embedded derivative) effecting 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.

The Bank has not had embedded derivatives in 2019 and in 2018.

2.8. Loans, placements with other banks and allowance for loan and placement losses

Loans and placements with other banks are accounted at amortised cost. Amortised cost contains the following items: the principal amounts outstanding including accrued interest, transaction costs, net of allowance for loan or placement losses. 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. Interest and amortised cost are accounted using effective interest rate method. When a borrower is unable to meet payments as they fall due or, in the opinion of the Management, there is an indication that a borrower may be unable to meet payments as they fall due, all unpaid interest becomes impaired.

According to IFRS 9, initially financial assets shall be recognized at fair value which is usually equal to transaction value of loans and receivables. Initial fair value of loans and receivables lent at interest below market conditions is lower than their transaction price. As a consequence, the Bank is deferring the difference between the fair value at initial recognition and the transaction price relating to loans and receivables because input data for measuring the fair values is not available on observable markets.

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

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

Allowance for losses on loans and placements with other banks are recognised by the Bank based on the expected credit loss model in accordance with IFRS 9. Based on the three stage model provision for impairment 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) provision for impairment is recognised in amount of lifetime expected credit loss.

In case of purchased or originated credit impaired financial assets provision for impairment 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 maintained to cover losses that have been specifically identified. Collective impairment losses of portfolios of loans, for which no objective evidence of impairment has been identified on an individual basis, are maintained 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

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

At subsequent measurement the Bank recognises through "Loss allowance on loan and placement losses" in the Statement of Profit or Loss impairment gain or loss as an amount of expected credit losses or reversal that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised in accordance with IFRS 9. If, in a subsequent period, the amount of the loss allowance decreases and the decrease can be related objectively to an event occurring after the loss allowance was recognised (such as an improvement in the debtor's credit rating), the previously recognised loss allowance shall be reversed by adjusting an allowance account. As a result of the reversal the carrying amount shall not exceed the amortised cost, which would be at the date of reversal, if no loss allowance had been recognised previously. If a financial asset, which previously classified in the first stage, classified subsequently in the second or third stage than loss allowance is adjusted to lifetime expected credit loss. If a financial asset, which previously classified in the second or third stages, classified subsequently in the first stage than loss allowance is adjusted to level of 12 month expected credit 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]

2.9. 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.

2.10. Liabilities from issued securities

Issued mortgage bonds are measured at amortized cost. The costs related to their issuance is included in the amortized cost of the issued securities and amortized over the term of the securities using effective interest method. Collateral of mortgage bonds are secured by the actual amount of loan receivables – involved by collateral inspector - and as required additional collateral – determined by law – registered in the Bank's collateral register.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.11. 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 computed using the straight-line method over the estimated useful lives of the assets based on the following annual percentages:

Intangible assets	
Software	33.3%
Property rights	33.3%
Property	6.0%
Office equipment and vehicles	14.5-33.3%

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 written down immediately to the estimated recoverable amount.

2.12. 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: ~2.9375%

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

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

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

Recognition of right-of-use assets

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.12. Leases [continued]

Average weighted amount of the implicit interest rate/incremental borrowing rate applied as at 1 January 2019 to recognize the lease liabilities: ~2.9375 %

2.13. Share capital

Share capital is the capital determined in the Articles of Association and registered by the Budapest-Capital Regional Court.

2.14. 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. 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 Bank recognizes interest income when it assumes that the interest associated with the transaction will flow to the Bank and the amount of the revenue can be reasonably measured. All interest income and expense arising from loans, placements with other banks, securities at fair value through other comprehensive income and amounts due to OTP Bank and other banks, liabilities from issued securities, subordinated bonds and loans are presented under these lines of the financial statements. Any fees received or paid related to the origination of the loan are an integral part of the effective interest rate and revenue is recognized with the effective interest rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

2.15. Fees and Commissions

Fees and commissions are recognised using effective interest method referring to provisions of IFRS 9, when they relate and have to be included in the amortised cost model. Certain fees and commissions that are not involved in the amortised cost model are recognised in the separate statement of comprehensive income on an accrual basis based on IFRS 15. (See further details in Note 21). These fees are that do not arise at the start of the loan term and cannot be estimated.

2.16. 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, based on tax rates that have been enacted at the date of the balance sheet. Deferred tax assets are recognized by the Bank for the amounts of income taxes that are recoverable in future periods in respect of deductible temporary differences as well as the carry forward of unused tax losses and the carry forward 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.

2.17. Off-balance sheet commitments and contingent liabilities

In the ordinary course of its business, the Group has entered into off-balance sheet commitments such as 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 which are under IAS 37 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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.18. Government subsidies

The Bank receives subsidies from the Hungarian government designed to compensate for the difference between the amount of interest charged to the customer, such interest being capped by legislation, and the interest charge on the issued mortgage bonds. Such subsidies are calculated on a monthly basis, are applicable over the life of the loan and are recognized among interest income in the Separate Statement of Recognized Income in the period to which they relate.

2.18. 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.

2.20. Statement of Cash Flows

For the purposes of reporting cash flows, cash and cash equivalents include cash, amounts due from banks and balances with the NBH, excluding compulsory reserves. Cash flows from hedging activities are classified in the same category as the item being hedged.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.21. 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**	**62,826**	**65,294**	**-**	**65,294**
Interest expense	**Interest expense**	**(33,624)**	**(34,352)**	**-**	**(34,352)**
Loss allowance on loan, placement and repo receivables losses	Release of loss allowance on loan, placement and repo receivables losses	3,218	5,139	-	5,139
	Loss allowance / (Release of loss allowance) on securities at fair value through other comprehensive income and on securities at amortised cost	(6)	2	2	-
	Provision for loan commitments and financial guarantees given	311	527	527	-
Loss allowance on loan and placement losses	**Risk cost total**	**3,523**	**5,668**	**529**	**5,139**
NET INTEREST INCOME AFTER RISK COST	**NET INTEREST INCOME AFTER RISK COST**	**32,712**	**36,610**	**529**	**36,081**
Provision for loan commitments and financial guarantees given		-	(553)	(529)	(24)
Risk of costs	Risk of costs	391	(1,567)	-	(1,567)
Net other operating expenses	**Net other operating income / (expenses)**	**391**	**(2,120)**	**(529)**	**(1,591)**
NET OPERATING INCOME	**NET OPERATING INCOME**	**409**	**(2,135)**	**(529)**	**(1,606)**

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 the European Union requires the management of the Bank to make judgements about estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience 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. Impairment on loans and placements

The Bank regularly assesses its loan portfolio 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.

3.2. Valuation of instruments without direct quotations

Financial instruments without direct quotations in an active market are valued using the valuation model technique. The models are regularly reviewed and each model is calibrated for the most recent available market data. While the models are built only on available data, their use is subject to certain assumptions and estimates (e.g. for correlations, volatilities, etc.). Changes in the model assumptions may affect the reported fair value of the relevant financial instruments.

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

3.3. Provisions

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

Other provision is recognized and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Bank is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Bank assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for. (See Note 19.)

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

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

NOTE 4: CASH, AMOUNTS DUE FROM BANKS AND BALANCES WITH THE NATIONAL BANK OF HUNGARY (in HUF million)

Amounts due from banks and balances with the NBH:

	2019	2018
Within one year		
in HUF	2.106	2,891
in foreign currency	5	1
	2.111	2,892
Total	**2.111**	**2,892**
From this: amounts due from OTP Bank	8	2,881
Compulsory reserve	11	11
Rate of the compulsory reserve	1%	2%

The main amount of cash due from banks shows the balance of the nostro accounts placed at OTP Bank of HUF 8 million and HUF 2,881 million as at 31 December 2019 and 2018, respectively. The remaining amounts represent the balances of the Bank's clearing account placed at the NBH.

The amount of the compulsory reserve is the multiplication of the daily average of the liabilities considered in the compulsory reserve calculation and the compulsory reserve rate, which are determined by the NBH in a specific decree.

The Bank is required to fulfill the reserve requirement the second month following the reserve calculation period. The Bank shall comply with the reserve requirement once a month on the last calendar day. The Bank fulfils the reserve requirement in accordance with the amount of the required calculated minimum reserve and keeps it on its bank account at National Bank of Hungary.

NOTE 5: PLACEMENTS WITH OTHER BANKS (in HUF million)

	2019	2018
Within one year		
in HUF	39,018	47,725
Over one year		
in HUF	97,084	80,025
Subtotal	**136,102**	**127,750**
Impairment	**(139)**	**(115)**
Total	**135,963**	**127,635**
From this: amounts due from OTP Bank	31,781	42,001

Interest conditions on placements with other banks	2019	2018
Within one year		
in HUF	0.1%-0.12%	0.04%-0.08%
Over one year		
in foreign currency	1.08%-1.12%	1.04%-1.43%

Average interest of placements with other banks	2019	2018
in HUF	0.13%	0.09%

NOTE 6: SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (in HUF million)

	2019	2018
Hungarian government bonds	18,922	10,647
Total	**18,922**	**10,647**

The whole portfolio was denominated in HUF as at 31 December 2019.

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

	2019	2018
Over one year, fixed interest	18,487	10,303
Interest conditions of securities available for sale	5.5%	6.5%

The valuation of the securities at fair value through other comprehensive income was as follows as at 31 December 2019:

	2019	
	Amortized cost	**Net fair value**
Hungarian government bonds	17,309	18,487
Total	**17,309**	**18,487**

The valuation of the securities at fair value through other comprehensive income was as follows as at 31 December 2018:

	2018	
	Amortized cost	**Net fair value**
Hungarian government bonds	10,213	10,303
Total	**10,213**	**10,303**

NOTE 7: LOANS (in HUF million)

	2019	2018
Short-term loans (within one year)		
in HUF	91,210	87,523
in CHF	2	2
in EUR	6	7
in JPY	30	36
in foreign currency total	38	45
	91,248	**87,568**
Long-term loans (over one year)		
in HUF	1,093,608	984,785
in CHF	8	9
in EUR	7	11
in JPY	295	333
in foreign currency total	310	353
	1,093,918	**985,138**
Loans Gross Total	**1,185,166**	**1,072,706**
Provision for impairment	(5,651)	(9,477)
Total	**1,179,515**	**1,063,229**

A significant part of the loans above are mortgage loans for purchasing real estate or home equity loans. The loans have collateral notified in the public property register in favour of OTP Mortgage Bank. Such loans and their collateral are included in the Bank's register and mortgage bonds can be issued up to this registered amount. The remaining parts of the loans are real estate development loans given to individual farmers that work in the agro-industry. Real estate and arable land can be accepted as collateral of these loans.

Interest conditions on loans, net of allowance for loan losses:

	2019	2018
Loans denominated in HUF with the maturity over one year	0.21%-16.84%	0.32%-16.84%
Average interest rate of mortgage loans denominated in foreign currency for purchasing real estate		
CHF	5.47%	6.24%
EUR	7.01%	7.54%
JPY	4.45%	4.66%
Average interest rate of mortgage loans denominated in foreign currency for any purposes		
CHF	7.90%	6.99%
EUR	7.42%	7.92%
JPY	5.14%	4.70%
Average interest rate of real estate development loans		
HUF	5.59%	6.04%
EUR	6.10%	6.19%

OTP Mortgage Bank Ltd. only provides loans with the original maturity over one year.

NOTE 7: LOANS (in HUF million) [continued]

An analysis of the loan portfolio by type, before allowances for loan losses, is as follows:

	2019		2018	
Mortgage loans	1,181,055	99.65%	1,067,525	99.52%
Retail and corporate loans	4,111	0.35%	5,181	0.48%
Total	**1,185,166**	**100.00%**	**1,072,706**	**100.00%**

An analysis of the change in the provision for impairment on loan losses is as follows:

	2019	2018
Balance as at 1 January	**9,477**	**8,888**
Change as a result of applying IFRS 9	-	7,387
Provision for the year	12,288	11,581
Release of provision	(15,940)	(18,382)
Partial write-off	(174)	-
Reclassification	-	3
Balance as at 31 December	**5,651**	**9,477**

The Bank sells non-performing non subsidised loans without recourse at estimated fair value to an OTP Group member, OTP Faktoring Ltd. In addition, the Bank sells non-performing subsidised loans without recourse at estimated fair value to OTP Bank Plc.

NOTE 8: INVESTMENTS IN SUBSIDIARIES (in HUF million)

	2019	2018
Investments in subsidiaries		
OTP Ingatlan Ltd.	1,577	1,337
OTP Pénzügyi Pont Llc.	420	-
Total	**1,997**	**1,337**

The OTP Mortgage Bank acquired a 100% shareholding in OTP Ingatlanpont Kft. in December 2016, the Mortgage Bank also made a capital increase in Ingatlanpont Kft. The acquisition was registered by the Court of Registration in January 2017. In August 2019, the Mortgage Bank made another capital increase in OTP Ingatlanpont Kft.

The OTP Mortgage Bank acquired a 100% shareholding in OTP Pénzügypont Zrt. in July 2019, The Mortgage Bank also made a capital increase in Pénzügypont Zrt. The acquisition was registered by the Court of Registration in October 2019.

NOTE 9: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF million)

For the year ended 31 December 2019

Cost	Intangible assets	Office equipment and vehicles	Construction in progress	Right of use assets	Total
Balance as at 1 January 2019	**1,728**	**98**	**2**	**-**	**1,828**
Additions	103	5	5	323	436
Disposals	-	-3	-5	-	-8
Balance as at 31 December 2019	**1,831**	**100**	**2**	**323**	**2,256**
Accumulated Depreciation and Amortization					
Balance as at 1 January 2019	**1,555**	**74**	**-**	**-**	**1,629**
Charge for the year	92	9	-	47	148
Disposals	-	-3	-	-	-3
Balance as at 31 December 2019	**1,647**	**80**	**-**	**47**	**1,774**
Net book value					
Balance as at 1 January 2019	**173**	**24**	**2**	**-**	**199**
Balance as at 31 December 2019	**184**	**20**	**2**	**276**	**482**

For the year ended 31 December 2018

Cost	Intangible assets	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January 2018	**1,629**	**97**	**5**	**1,731**
Additions	206	8	5	219
Disposals	-107	(7)	(8)	(122)
Balance as at 31 December 2018	**1,728**	**98**	**2**	**1,828**
Accumulated Depreciation and Amortization				
Balance as at 1 January 2018	**1,473**	**71**	**-**	**1,544**
Charge for the year	82	10	-	92
Disposals	-	(7)	-	(7)
Balance as at 31 December 2018	**1,555**	**74**	**-**	**1,629**
Net book value				
Balance as at 1 January 2018	**156**	**26**	**5**	**187**
Balance as at 31 December 2018	**173**	**24**	**2**	**199**

NOTE 10: FAIR VALUE OF DERIVATIVE FINANCIAL ASSETS DESIGNATED AS HEDGING ACCOUNTING (in HUF million)

	2019	2018
Interest rate swaps designated as cash flow hedge	229	1,837
Total	**229**	**1,837**

NOTE 11: OTHER ASSETS (in HUF million)

	2019	2018
Current income tax receivable	97	765
Trade receivables, other advances	363	337
Prepayments	69	107
Receivables from the Hungarian Government	-	-
Due from Hungarian Government from interest subsidies	1,084	93
Receivables from OTP Employee Stock Ownership Program	352	163
Other assets	115	1
Subtotal	**2,080**	**1,466**
Provision for other assets	(10)	(3)
Total	**2,070**	**1,463**
Balance as at 1 January	3	6
Effect of transition to application of IFRS 9	-	(1)
Reclassification	-	(3)
Charge for the period	21	12
Release of provision	(14)	(11)
Balance as at 31 December	**10**	**3**

NOTE 12: AMOUNTS DUE TO BANKS AND HUNGARIAN GOVERNMENT, DEPOSITS FROM THE NATIONAL BANK OF HUNGARY AND OTHER BANKS (in HUF million)

	2019	2018
Within one year		
In HUF	636,396	468,302
In EUR	10	11
In JPY	326	362
In CHF	9	14
Total in foreign currency	345	387
	636,741	**468,689**
Over one year		
in HUF	40,221	40,221
	676,962	**508,466**
Total	**676,962**	**508,910**
From this: amounts due to OTP Bank	676,761	508,617

Interest conditions on amounts due to OTP Bank and other banks

	2019	2018
Within one year		
In HUF	0.16%-0.21%	0.13%-2.04%
In foreign currency	(0.7)%-(0.05)%	(0.55)%-(0.24)%
Over one year		
In HUF	0.46%-0.5%	0.17%-0.6%

NOTE 13: LIABILITIES FROM ISSUED SECURITIES (in HUF million)

	2019	2018
Within one year:		
In HUF	18,070	50,339
Over one year		
In HUF	551,274	561,584
Total	**569,344**	**611,923**
Issued mortgage bonds during the period (nominal value)	-	276,000
Mortgage bonds became due or repurchased during the period (nominal value)	39,250	70,000

Interest conditions on issued securities

	2019	2018
In HUF	0.72%-11.00%	0.68%-11.00%

A reconciliation of the face value and the amortized cost is as follows:

	2019	2018
Nominal value of the issued securities	558,100	597,350
Unamortized premiums	3,227	3,499
Amortized cost	**561,327**	**600,849**

Face value and interest of mortgage bonds issued by OTP Mortgage Bank shall not exceed registered normal and additional collaterals (face value and interest). The Mortgage Bank keeps record of loans, normal and additional collateral values which are shown separately. Independent property inspector monitors the availability of mortgage bond's collateral values in accordance with regulations, the registration of loans, and its pledges as collaterals as the normal collateral of the mortgage bonds, the property register data and the normal and additional collateral in the coverage register.

There was a maturing mortgage bond in amount of HUF 39.25 billion. Mortgage bonds were not issued in 2019.

NOTE 13: LIABILITIES FROM ISSUED SECURITIES (in HUF million) [continued]

Issued securities denominated in HUF as at 31 December 2019 (in HUF million)

Name	Date of issue	Maturity	Nominal value in HUF million	Amortised cost in HUF million	Interest condition in % p.a.		Hedged
OJB2020_I	19/11/2004	12/11/2020	5,503	5,599	9,00%	fix	Not hedged
OJB2020_II	25/05/2011	12/11/2020	4,497	4,574	9,00%	fix	Not hedged
OJB2025_I	31/07/2009	31/07/2025	150,000	161,914	11,00%	fix	Not hedged
OJB2021_I	15/02/2017	27/10/2021	85,000	84,756	2,00%	fix	Not hedged
OJB2021_I	27/02/2017	27/10/2021	37,100	36,987	2,00%	fix	Not hedged
OJB2023_I	05/04/2018	24/11/2023	45,000	45,833	1,75%	fix	Not hedged
OJB2024_A	17/09/2018	20/05/2024	70,000	69,995	0,72%	variable	Not hedged
OJB2024_B	18/09/2018	24/05/2024	60,000	59,982	0,72%	variable	Not hedged
OJB2024_II	10/10/2018	24/10/2024	50,000	49,328	2,50%	fix	Not hedged
OJB2024_II	07/11/2018	24/10/2024	51,000	50,376	2,50%	fix	Not hedged
Total issued securities			**558,100**	**569,344**			

NOTE 14: FAIR VALUE OF DERIVATIVE FINANCIAL LIABLITIES DESIGNATED AS HEDGE ACCOUNTING (in HUF million)

	2019	2018
IRS designated as cash flow hedge	822	74
	822	**74**

NOTE 15: OTHE LIABILITIES (in HUF million)

	2019	2018
Accounts payables	5,983	6,816
Current income tax payable	419	857
Accrued fees	906	744
Provision for impairment off-balance sheet commitments and contingent liabilities	851	2,505
Salaries and social security payable	26	105
Other	1,227	1,247
Subtotal	**9,412**	**12,274**
Deferred tax liabilities	108	274
Total	**9,520**	**12,548**

NOTE 16: SHARE CAPITAL (in HUF million)

All 27,000 shares are ordinary shares with a nominal value of HUF 100.000 and are authorised and fully paid.

	2019	2018
Share capital (in HUF million)	37,000	27,000

The nominal value of the shares is HUF 100 thousand per share. 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 17: RETAINED EARNINGS AND RESERVES (in HUF million)

Based on the instructions of Act C of 2000 on accounting ("Act on Accounting") effective from annual periods beginning on 1 January 2017 financial statements of the Bank are prepared in accordance with IFRS as issued by the IASB as adopted by the EU.

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

Equity correlation table shall contain the opening and closing balances of the shareholder's equity in accordance with IFRS, furthermore deducted from this the opening and closing balances of the specified equity elements. Equity correlation table shall contain also untied retained earnings available for the payment of dividends, covering retained earnings from the last financial year for which accounts have been adopted comprising net profit for the period of that financial year minus cumulative unrealized gains claimed in connection with any increase in the fair value of investment properties, as provided in IAS 40 - Investment Property, reduced by the cumulative income tax accounted for under IAS 12 - Income Taxes.

Share capital

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

Retained earnings

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

Balance as at 1 January, 2019	Share capital	Capital reserve	Retained earnings and reserves	Evaluation reserve	Net income after income taxes	Share capital total
Capital items according to IFRS	**27,000**	**-**	**48,784**	**-**	**-**	**75,784**
Other comprehensive income	-	-	(95)	95	-	**-**
Net profit for the year	-	-	(27,467)	-	27,467	**-**
General reserve	-	15,391	(15,391)	-	-	**-**
Capital items according to 114/B.§ of Accounting Act	**27,000**	**15,391**	**5,831**	**95**	**27,467**	**75,784**

NOTE 17: RETAINED EARNINGS AND RESERVES (in HUF million) [continued]

Balance as at 31 December, 2019	Share capital	Capital reserve	Retained earnings and reserves	Evaluation reserve	Net income after income taxes	Share capital total
Capital items according to IFRS	**37,000**	**-**	**47,361**	**-**	**-**	**84,361**
Other comprehensive income	-	-	(1,090)	1,090	-	-
Net profit for the year	-	-	(27,172)	-	27,172	-
General reserve	-	18,109	(18,109)	-	-	-
Capital items according to 114/B.§ of Accounting Act	**37,000**	**18,109**	**990**	**1,090**	**27,172**	**84,361**

Dividends are recognised in the period in which they are approved by the owners. In 2018 the Bank paid HUF 27,500 million dividend from the profit for the year 2018. Regarding to the net income for the year 2019 dividend is expected to be proposed by the management in amount of HUF 14,000 million.

	2019	2018
Retained earnings and reserves	20,189	21,317
Net profit for the year	27,172	27,467
Untied retained earnings	**47,361**	**48,784**

NOTE 18: INTEREST SUBSIDIES RELATED TO HOUSING LOANS

During 2019 5 types of interest-subsidised loans were among OTP Mortgage Bank's portfolio:

(i) loans granted before 16 June 2003
(ii) loans granted between 16 June 2003 and 22 December 2003
(iii) loans granted between 22 December 2003 and 30 June 2009
(iv) loans granted after 1 October 2009
(v) Family Housing loans granted after 2012 including interest subsidy of families with three or more children, and including interest subsidy of housing loans at preferred townships.

Interest subsidised loans fulfil the following conditions

- granted for purchase, building of new property, or purchase, renovation, enlargement of existing property
- maximised interest rate
- interest subsidy fixed to the reference rate of the government bonds or to the reference rate of the issued mortgage bonds
- subsidy till the maturity of the loan, but maximum for 20 years, and loans granted after 2012 maximum for 5 years (except the subsidized mortgage loans of families with 3 children – or from 1 December 2018 families more than 3 children - granted maximum 25 years).

Relevant elements of the currently available interest subsidised loans:

- the applicants can be dedicated people in the Government Regulation
- purpose of the loan:
  - purchasing or building of new property
  - purchasing or modernisation or enlargement of used property

- in case of building or purchasing of property the building costs or the purchase price without the building plot price shall not exceed the amount of HUF 30 million, in case of purchase of used properties the amount of HUF 20 million, in case of modernization, enlargement and building/purchasing at a preferred township the cost shall not exceed the amount of HUF 15 million.interest subsidy loan amount shall not exceed in case of new properties the amount of HUF 15 million, and in case of used properties the amount of HUF 10 million. The interest subsidy is determined in the per cent of government bonds' yields depending on the purpose of the loan, and it can be granted as a maximum for 5 years.
- Families with three children - or from 1 December 2018 families more than 3 children - can apply maximum HUF 10 million loan, families with two children can apply maximum 15 million loan for building or purchasing of property, next to the family housing allowance without building cost and purchase price limit, and interest payment subsidized by the State for the first 25 years of the term.

The interest subsidy of housing loans at preferred townships is granted by the State for the first 25 years of the term. By the end of 2019, OTP Mortgage Bank had disbursed HUF 273,692 million of Family Housing Loans, its closing balance at the year was HUF 215,844 million.

NOTE 19: INTEREST INCOME AND EXPENSES (in HUF million)

	2019	2018
Interest income accounted for using the effective interest rate method from / on		
Loans at amortised cost	50,418	48,209
FVOCI securities	507	218
Placements with other banks	1,138	763
Amounts due from banks and balances with National Bank of Hungary	17	10
Interest subsidy on housing loans financed by mortgage bonds	10,965	13,364
Subtotal	**63,045**	**62,564**
Income similar to interest income		
Swap and forward deals related to Placements with other banks	(232)	2,730
Subtotal	**(232)**	**2,730**
Interest income total	**62,813**	**65,294**
Interest expense due to / from / on		
Amounts due to banks and deposits from the National Bank of Hungary and other banks	8,968	9,556
Leasing liabilities	8	-
Liabilities from issued securities	24,648	24,796
Subtotal	**33,624**	**34,352**

NOTE 20: RISK COST (in HUF million)

	2019	2018
Loss allowance of loans at amortised cost		
Loss allowance	(12,114)	(11,581)
Release of loss allowance	15,940	18,382
Loan losses	(584)	(1,639)
	3,242	**5,162**
Loss allowance of placements with other banks		
Loss allowance	(51)	(89)
Release of loss allowance	27	66
	(24)	**(23)**
Loss allowance of FVOCI securities		
Loss allowance	(53)	(31)
Release of loss allowance	47	33
	(6)	**2**
Provision on loan commitments and financial guarantees		
Provision for the period	(3,092)	(6,173)
Release of provision	3,403	6,700
	311	**527**
Net release of loss allowance total	**3 523**	**5,668**

NOTE 21: NET PROFIT FROM FEES AND COMMISSIONS (in HUF million)

Income from fees and commissions

	2019	2018
Fees and commissions relating to lending	1,139	1,230
Other	287	332
Total	**1,426**	**1,562**
Contract balances		
Receivables, which are included in 'other assets'	51	53

Expense from fees and commissions

	2019	2018
Fees and commissions relating to issued securities	244	168
Fees and commissions relating to lending	2,522	2,281
Others	433	393
Total	**3,199**	**2,842**
Net loss from fees and commissions	**(1,773)**	**(1,280)**

The other fees mainly consist of the cost of services in connection with lending activity and mortgage bond issues, which are not directly attributable to separate issuance.

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
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 %.	
Other	Fees that are not significant in the Banks total income are included in Other fees category. Such fees are 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 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 22: OTHER OPERATING INCOME AND EXPENSES OTHER ADMINISTRATIVE EXPENSES (in HUF million)

	2019	2018
Foreign exchange operations losses/gains	**(2)**	**2**
Other operating income		
Other	20	**(16)**
Total	**20**	**(16)**
Net other operating expense		
Provisions for future liabilities	1,387	(553)
Non- repayable assets contributed	(991)	(1,562)
Other	(5)	(5)
Total	**391**	**(2,120)**
Personnel expenses		
Wages	(486)	(438)
Taxes related to personnel expenses	(98)	(96)
Other personnel expenses	(62)	(56)
Total	**(646)**	**(590)**
Depreciation and amortization	**(148)**	**(92)**
Taxes, other than income tax:		
Bank tax	*(991)*	*(2,009)*
Other taxes	*(896)*	*(908)*
Total taxes, other than income tax	**(1,887)**	**(2,917)**
Services	(594)	(490)
Professional fees	(444)	(369)
Rental fees	(13)	(57)
Material type expenses	(4)	(21)
Administration expenses	(15)	(13)
Advertising	(1)	(1)
Total	**(2,958)**	**(3,868)**

Taxes, other than income taxes are Credit institution's contribution that is payable by the Bank on HUF denominated loans having interest subsidy from the Hungarian government, bank tax and other local taxes in 2019.

NOTE 22: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF million) [continued]

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

	2019	2018
Annual audit	47	44
Other services providing assurance	-	-
Other non-audit services	-	6
Total	**47**	**50**

NOTE 23: COMPENSATION OF KEY MANAGEMENT PERSONNEL (in HUF million)

	2019	2018
Key executives (Managing Director and Deputies)	54	53
Total	**54**	**53**

The remunerations of key management personnel include only short-term benefits.

NOTE 24: INCOME TAX (in HUF million)

The Bank is presently liable for income tax at a rate of 9% of taxable income.
A reconciliation of the total income tax charge for the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
Current tax expense	688	1,442
Deferred tax (benefit)	(264)	(264)
Total income tax expense	**424**	**1,178**

A reconciliation of the deferred tax liability as at 31 December 2019 and 2018 is as follows:

	2019	2018
Balance as at 1 January	**(274)**	**(557)**
Recognized in other comprehensive income as tax benefit	(98)	19
Deferred tax benefit	264	264
Balance as at 31 December	**(108)**	**(274)**

A reconciliation of deferred tax assets and liabilities as at 31 December 2019 and 2018 is as follows:

	2019	2018
Premium amortization for at fair value through other comprehensive income financial assets	-	19
Below market fair value adjustment in accordance with regulations related to customer loans	-	189
IBNR provision	-	46
Deferred tax assets	**-**	**254**
Fair value adjustment for at fair value through other comprehensive income financial assets	(106)	(8)
Fair value adjustment of other derivative financial instrument	-	(2)
Effect of using effective interest rate method	-	(516)
Difference in depreciation and amortization	(2)	(2)
Deferred tax liabilities	**(108)**	**(528)**
Net deferred tax liabilities	**(108)**	**(274)**

A reconciliation of the effective tax rate as at 31 December 2019 and 2018 is as follows:

	2019	2018
Profit before income tax	27,596	28,645
Income tax at statutory tax rate	2,484	2,578
Income tax adjustments due to permanent differences are as follows:		
Permanent differences due to local tax	-	57
Tax allowance for the year	-	(1,457)
Tax allowance (group membership)	(2,081)	-
Other	21	-
Income tax	**424**	**1,178**
Effective tax-rate	*1.54%*	*4.11%*

NOTE 25: LEASE (in HUF million)

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	272
Prepaid or accrued lease payments as at 31 December 2018	-
Right-of-use asset	272
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: ~2.9375 %.

Amounts recognised in profit and loss	2019
Interest expense on lease liabilities	8
Expense relating to short-term leases	13
Expense relating to leases of low value assets	-
Expense relating to variable lease payments not included in the measurement of lease liabilities	-

Leasing liabilities by maturities:

Within one year	48
Over one year	232
Total	**280**

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

Gross carrying amount	Right of uses of real estate
Balance as at 1 January	272
Additions due to new contracts	-
Derecognition due to matured contracts	-
Change due to revaluation and modification	51
Closing balance	**323**
Depreciation	
Balance as at 1 January	-
Depreciation charge	46
Derecognition due to matured contracts	-
Closing balance	**46**
Net carrying amount	**277**

NOTE 26: EARNINGS PER SHARE

Earnings per share attributable to ordinary shares are determined by dividing Net profit for the year by the weighted average number of ordinary shares outstanding during the period. The Bank has no preference shares and no options or other rights related to shares.

	2019	2018
Net profit for the year (in HUF million)	27,172	27,467
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	370,000	270,000
EPS (in HUF) basic and diluted	**73,438**	**101,730**

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF million)

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

27.1. 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 risk of the mortgage lending activity is controlled and the safety is enhanced by the legal environment, which provides that loans can only be extended against a specific collateral of real property and with certain legal assurances.
In the treasury activity the Group structures the levels of credit risk it undertakes by placing limits to each counter-party. Actual exposures against limits are monitored daily.

27.1.1. 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 27: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

27.1. Credit risk [continued]

27.1.1. 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 27: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

27.1. Credit risk [continued]

27.1.1. Analysis by loan types [continued]

Gross carrying amount and accumulated impairment of financial assets at amortized cost by IFRS 9 stages as at 31 December 2019:

		Gross carrying amount									
	Carrying amount	Stage 1	Stage 2	Stage 3	Purchased or originated credit impaired financial assets	Total	Stage1	Stage 2	Stage 3	Purchased or originated credit impaired financial assets	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	2,111	2,111	-	-	-	2,111	-	-	-	-	-
Placements with other banks, net of allowance for placement losses	135,963	136,102	-	-	-	136,102	139	-	-	-	139
Mortgage loans	*1,175,497*	*1,134,123*	*29,837*	*16,771*	*323*	*1,181,054*	*2,777*	*990*	*1,772*	*18*	*5,557*
Corporate loans	*4,017*	*3,939*	*128*	*45*	-	*4,111*	*41*	*28*	*25*	-	*94*
Loans at amortized cost	1,179,515	1,138,062	29,965	16,816	323	1,185,166	2,818	1,018	1,797	18	5,651
FVOCI securities[1]	18,922	18,922	-	-	-	18,922	18	-	-	-	18
Other financial assets	*872*	*477*	*399*	*5*	-	*881*	-	*8*	*1*	-	*9*
Other non-financial assets	*1,198*	*1,085*	*114*	-	-	*1,199*	*1*	-	-	-	*1*
Other assets	2,070	1,562	513	5	-	2,080	1	8	1	-	10
Financial assets total	**1,338,580**	**1,296,759**	**30,478**	**16,820**	**323**	**1,344,380**	**2,976**	**1,026**	**1,798**	**18**	**5,818**
Off balance sheet items	48,008	44,569	3,579	378	-	48,526	248	210	60	-	518

[1] FVOCI securities are recognised and measured at fair value in the Separate Statement of Financial Position. Loss allowance on FVOCI securities is recognised in the Statement of Comprehensive Income, which is included in this table as a part of the loss allowance.

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

27.1. Credit risk [continued]

27.1.1. Analysis by loan types [continued]

Gross carrying amount and accumulated impairment of financial assets at amortized cost by IFRS 9 stages as at 31 December 2018:

		Gross carrying amount						Loss allowance				
	Carrying amount	Stage 1	of which: assets with low credit risk	Stage 2	Stage 3	Purchased or originated credit impaired financial assets	Total	Stage1	Stage 2	Stage 3	Purchased or originated credit impaired financial assets	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	2,892	2,892	-	-	-	-	2,892	-	-	-	-	-
Placements with other banks, net of allowance for placement losses	127,636	127,751	-	-	-	-	127,751	115	-	-	-	115
Mortgage loans	*1,058,108*	*1,005,953*	-	*46,103*	*15,110*	*358*	1,067,524	*3,636*	*3,023*	*2,737*	*20*	9,416
Corporate loans	*5,121*	*4,893*	-	*192*	*97*	-	5,182	*16*	*11*	*34*	-	61
Loans at amortized cost	1,063,229	1,010,846	-	46,295	15,207	358	1,072,706	3,652	3,034	2,771	20	9,477
FVOCI securities[1]	10,647	10,647	-	-	-	-	10,647	12	-	-	-	12
Financial assets total	**1,204,404**	**1,152,136**	**-**	**46,295**	**15,207**	**358**	**1,213,996**	**3,779**	**3,034**	**2,771**	**20**	**9,604**
Off balance sheet items	35,115	29,117	-	6793	34	-	35,944	188	634	7	-	829

[1] FVOCI securities are recognised and measured at fair value in the Separate Statement of Financial Position. Loss allowance on FVOCI securities is recognised in the Statement of Comprehensive Income, which is included in this table as a part of the loss allowance.

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

27.1. Credit risk [continued]

27.1.1. Analysis by loan types [continued]

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

Loans at amortised cost

2019.12.31	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loss allowance as at 1 January 2019 IFRS 9	**3,652**	**3,034**	**2,771**	**20**	**9,477**
Transfer to Stage 1	62	(1,400)	(122)	-	(1,460)
Transfer to Stage 2	(88)	457	(520)	-	(151)
Transfer to Stage 3	(54)	(374)	969	-	541
Net remeasurement of loss allowance	(1,174)	(811)	(945)	(1)	(2,931)
New financial assets originated or purchased	708	224	102	-	1,034
Financial assets derecognised (other than write-offs)	(288)	(112)	(458)	(1)	(859)
Unwind of discount	-	-	173	1	**174**
Write-offs	-	-	(173)	(1)	**(174)**
Loss allowance as at 31 December 2019	**2,818**	**1,018**	**1,797**	**18**	**5,651**

Loans at amortised cost

2018.12.31	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loss allowance as at 1 January 2018 IFRS 9	5,848	4,771	5,629	28	16,276
Transfer to Stage 1	120	(1,972)	(326)	-	(2,1789
Transfer to Stage 2	(170)	1,451	(1,454)	-	(173)
Transfer to Stage 3	(21)	(313)	771	-	437
Net remeasurement of loss allowance	(2,473)	(876)	(692)	(3)	(4,044)
New financial assets originated or purchased	821	145	18	-	984
Financial assets derecognised (other than write-offs)	(465)	(172)	(1,173)	(5)	(1,815)
Unwind of discount	-	-	748	35	783
Write-offs	(8)	-	(750)	(35)	(793)
Loss allowance as at 31 December 2018	**3,652**	**3,034**	**2,771**	**20**	**9,477**

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

27.1. Credit risk [continued]

27.1.1. Analysis by loan types [continued]

Placements with other banks, net of allowance for placement losses

2019.12.31	**Stage 1**	**Total**
Loss allowance as at 1 January 2019	115	115
Financial assets derecognised (other than write-offs)	29	29
Net remeasurement of loss allowance	(5)	(5)
Loss allowance as at 31 December 2019	**139**	**139**

Placements with other banks, net of allowance for placement losses

2018.12.31	**Stage 1**	**Total**
Loss allowance as at 1 January 2018	92	92
Net remeasurement of loss allowance	23	23
Loss allowance as at 31 December 2018	**115**	**115**

Securities at amortised cost

2019.12.31	**Stage 1**	**Total**
Loss allowance as at 1 January 2019	12	12
New financial assets originated or purchased	18	18
Financial assets derecognised (other than write-offs)	(12)	(12)
Loss allowance as at 31 December 2019	**18**	**18**

Securities at amortised cost

2018.12.31	**Stage 1**	**Total**
Loss allowance as at 1 January 2018	14	14
New financial assets originated or purchased	12	12
Financial assets derecognised (other than write-offs)	(14)	(14)
Loss allowance as at 31 December 2018	**12**	**12**

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

27.1. Credit risk [continued]

27.1.1. Analysis by loan types [continued]

Off Balance sheet items

2019.12.31	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loss allowance as at 1 January 2019	188	635	6	829
Transfer from Stage 1 to Stage 2	7	(569)	(6)	(568)
Transfer from Stage 1 to Stage 3	(2)	3	-	1
Transfer from Stage 2 to Stage 1	(1)	(29)	18	(12)
Net remeasurement of loss allowance	(141)	(26)	-	(167)
New financial assets originated or purchased	222	196	42	460
Financial assets derecognised (other than write-offs)	(25)	-	-	(25)
Loss allowance as at 31 December 2019	**248**	**210**	**60**	**518**

Off Balance sheet items

2018.12.31	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loss allowance as at 1 January 2018	259	1,087	9	1,355
Transfer from Stage 1 to Stage 2	5	(951)	(8)	(954)
Transfer from Stage 1 to Stage 3	(2)	2	-	-
Transfer from Stage 2 to Stage 1	(1)	-	1	-
Net remeasurement of loss allowance	(229)	(69)	-	(298)
New financial assets originated or purchased	167	590	5	762
Financial assets derecognised (other than write-offs)	(11)	(24)	(1)	(36)
Loss allowance as at 31 December 2018	**188**	**635**	**6**	**829**

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

Collateral

The collateral value held by the Bank by types is as follows (**total collateral value**). The collateral cover loan as well as off-balance sheet exposures.

Types of collateral	2019	2018
Government guarantees	38,565	47,134
Mortgage	3,434,086	2,961,102
Total	**3,472,651**	**3,008,236**

The collateral value held by the Bank by types is as follows (**to the extent of the exposures**). The collateral cover loan as well as off-balance sheet exposures.

Types of collateral	2019	2018
Government guarantees	38,371	46,921
Mortgage	1,174,789	1,074,993
Total	**1,213,160**	**1,121,914**

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

2019	Gross carrying amount	Loss allowance	Carrying amount	Collateral value
Mortgage loans	16,828	(1,782)	15,046	48,020
Corporate loans	44	(25)	19	-
Total	**16,872**	**(1,807)**	**15,065**	**48,020**

2018	Gross carrying amount	Loss allowance	Carrying amount	Collateral value
Mortgage loans	15,144	(2,743)	12,401	34,158
Corporate loans	98	(35)	63	201
Total	**15,242**	**(2,778)**	**12,464**	**34,359**

Restructured loans

	2019		2018	
	Gross portfolio	Allowance	Gross portfolio	Allowance
Retail loans	5,216	(169)	9,153	(1,016)
Total	**5,216**	**(169)**	**9,153**	**(1,016)**

Restructured definition used by the Bank is in accordance with EBA (EU) 2015/227 regulation.

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

27.1. Credit risk [continued]

At fair value through other comprehensive income securities as at 31 December 2018

	Baa3		Not rated		Total
Hungarian government bonds	18,922	100.00%	-	0.00%	18,922
Total	**18,922**	**100.00%**	**-**	**0.00%**	**18,922**

27.2. Market risk

Market risks arise from positions taken in securities and other instruments. The Bank takes no significant exposure to market risks. Market risks are generally monitored and controlled by the Asset and Liability Management.

27.2.1. Interest rate sensitivity analysis[1]

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 based on the assumption that 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 modelled benchmark yields at the repricing dates assuming the unchanged margin compared to the last repricing.
- Fixed-rate assets and liabilities are 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.
- In case of assets and liabilities were the interest rate is lower than 0.3% we assumed the interest rate to be unchanged during the whole period.
- The sensitivity of interest income to changes in BUBOR is analysed.

The simulation were prepared by assuming two 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 beginning with January 1, 2019 would be increased by HUF 141 million (scenario 1) and increased by HUF 477 million (scenario 2) as a result of these simulation.

The effects of the parallel shifts of the yield-curves to the net interest income on a one-year period can be summarized as follows:

Description		**Effects to the net interest income in one year period**	
		2019	**2018**
HUF	(0.1%) parallel shift	178	(29)
HUF	0.1% parallel shift	(178)	29
Total		**(178)**	**(29)**

[1] Quantitative data on interest rate risk are shown in Note 26

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

27.2. Market risk [continued]

27.2.2. Foreign exchange rate sensitivity analysis[1]

The foreign exchange sensitivity analysis has been determined based on the net open position, taking into account both balance sheet exposure and off balance sheet exposure. The simulation was done based on the assumption, that the price changes happens as a one off event, and it takes neither the possible balance sheet dynamics, nor the potential increase or decrease of risk costs related to foreign exchange denominated assets, into consideration.

The total net open position of OTP Mortgage Bank was 23 million HUF short on 31th December 2019 (compared to 3 million HUF as of 31/12/2018), which consisted of EUR and JPY exposure. Since OTP Mortgage Bank has completed the conversion of foreign currency consumer mortgage loans into HUF, and no material FX exposures arise from its operation. The potential loss on current open foreign exchange exposure is marginal compared to the regulatory capital of the Bank.

27.3. 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 shareholder's 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 process, 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 - by including the owner of the Bank.

Capital adequacy

The capital adequacy of the Bank is supervised based on the financial statements data prepared in accordance with the International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB) and accepted by the European Union, rulings and indicators defined by the Basel Committee.
The Bank has entirely complied with the regulatory capital requirements for the year similar to prior years.
The capital adequacy calculations of the Bank for the year 2019 are prepared based on the data of the audited financial statements prepared in accordance with IFRS. The Bank uses the standard method for determining the regulatory capital requirements of the credit risk and market risk, and the alternative standard method in case of the operational risk. In 2019 the Mortgage Bank's solvency ratio is 14.0%. Regulatory capital is 76,897 million HUF; the total required regulatory capital is 43,895 million HUF.

In HUF million	**2019 IFRS**	**2018 IFRS**
Core capital	76,897	55,631
Supplementary capital	-	-
Regulatory capital	**76,897**	**55,631**
Credit risk capital requirement	42,028	36,160
Market risk capital requirement	-	52
Operational risk capital requirement	1,867	1,428
Total required regulatory capital	**43,895**	**37,641**
Surplus capital	**33,002**	**17,991**
Capital ratio	**14.0%**	**11.8%**

[1] Quantitative data on foreign exchange rate risk are shown in Note 25

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

27.3. Capital management [continued]

Capital adequacy [continued]

The positive components of the Core capital are the following:

Issued capital, Retained earnings of the previous year, Retained earnings, Cumulative Comprehensive Income, Other Reserves

The negative components of the Core capital are the following:

Prudential filter, Intangible assets

NOTE 28: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF million)

Off balance sheet items

	2019	2018
Current litigations	1,465	1,642
Loan facilities	48,527	35,944
Collateral	3,550	1,059
Other	180	1,511
Contingent and future liabilities total	**53,722**	**40,156**

NOTE 29: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF million)

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.

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.

In 2019, the following values were used as a personal expense for locally identified executives in share-based remuneration:

	The year 2016	The year 2017	The year 2018	The year 2019	Total
JZB	0,72	3,01	4,88	24,13	32,74

[1] Until the end of 2014 Board of Directors

NOTE 30: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF million)

As at 31 December 2019

	CHF	EUR	JPY	Total
Assets	10	12	326	348
Liabilities	(9)	(39)	(326)	(374)
Net position	**1**	**(27)**	**-**	**(26)**

As at 31 December 2018

	CHF	EUR	JPY	Total
Assets	11	16	362	389
Liabilities	(14)	(37)	(362)	(413)
Net position	**(3)**	**(21)**	**0**	**(24)**

Whilst the Bank monitors its foreign exchange position for compliance with the regulatory requirements of the NBH and own limit system established in respect of limits on open positions. The measurement of the Bank's open foreign currency position involves monitoring the VaR limit on the foreign exchange exposure of the Bank.

NOTE 31: RELATED PARTY TRANSACTIONS (in HUF million)

31.1. Outstanding balances/Transactions due from or due to OTP Bank Plc.

31.1.1. Outstanding balances in the Separate Statement of Financial Position related to OTP Bank Plc.

The Bank had the following assets and liabilities due from, or due to the OTP Bank Plc.:

Assets	**2019**	**2018**
Cash, amounts due from OTP Bank	8	2,891
Placements with OTP Bank	31,781	42,001
Accrued receivables	25	60

Liabilities	**2019**	**2018**
Amounts due to OTP Bank and other banks	(676,761)	(508,617)
Face value of issued mortgage bonds held by OTP Bank	(99,465)	(125,137)
Accrued interest expense due to OTP Bank	(3,053)	(3,423)
Other liabilities due to OTP Bank	(5,884)	(6,906)

31.1.2. Transactions in the Separate Statement of Profit or Loss related to OTP Bank Plc.

	2019	**2018**
Interest income	1,498	9,913
Interest expense	(21,774)	(916)
Account handling fees paid to OTP Bank	7,101	8,417
Other fees and commissions relating to lending received from OTP Bank	(570)	4
Other fees and commissions relating to lending paid to OTP Bank	(2,743)	(158)
Revenue from the value appraisal activity from OTP Bank	561	597

31.1.3. Transactions of the Mortgage Bank's loan portfolio related to OTP Bank Plc.

	2019	**2018**
Performing loans purchased from OTP Bank	-	398
Book value of performing loans purchased from OTP Bank	-	402

NOTE 31: RELATED PARTY TRANSACTIONS (in HUF million) [continued]

31.2. Outstanding balances related to key management personnel

The management, the members of the Board of Directors and the Supervisory Board and their close relatives have loans of HUF 1,449.2 million as at 31 December 2019. These loans were covered by HUF 3,184.8 million mortgages, which can be categorized into 3 different interest periods:

5 years:	3.1% - 15.32%
10 years:	5.7% - 9.26%
20 years:	8.4% - 8.8%

The APR[1] rate at the time the loan is disbursed is based on current market rates.

Compensations	**2019**
Share-based payment	33
Long-term employee benefits (on the basis of IAS 19)	10
Total	**43**

31.3. Outstanding balances/Transactions related to other related party[2]

31.3.1. Transactions related to OTP Building Society Ltd.

	2019	**2018**
Face value of issued mortgage bonds held by OTP Building Society Ltd.	52,742	53,281
Accrued interest expense	(1,889)	(2,046)

31.3.2. Transactions of the OTP Mortgage Bank's loan portfolio related to OTP Faktoring Ltd.

	2019	**2018**
Book value of non-performing loans sold to OTP Faktoring Ltd.	1,049	2,238
Selling price of the non-performing loans related to OTP Faktoring Ltd.	930	1,985

31.3.3. Transactions related to Merkantil Bank Ltd.

	2019	**2018**
Face value of issued mortgage bonds held by Merkantil Bank Ltd.	45,000	45,000
Accrued interest expense	(2,069)	(2,075)

31.3.4. Further Outstanding balances/Transactions related to other related party

	2019	**2018**
Other liabilities due to other related party	-	2
Other operating income from other related party	17	(17
Revenue from the value appraisal activity from OTP Faktoring Ltd. and from other related party	504	54

Compensation of key management personnel is shown in Note 23.

In the normal course of the business the Bank enters into other transactions with the entities within the OTP Group, the amounts and volumes of which are not significant to these financial statements taken as a whole. Only significant transactions were highlighted.

[1] Annual Percentage Rate

[2] The Bank has significant transactions with OTP Building Society Ltd., OTP Faktoring Ltd. and Merkantil Bank Ltd. in OTP Group, these transactions are highlighted.

NOTE 32: INTEREST RATE RISK MANAGEMENT

Interest rate risk is the risk that the value of a financial instrument can 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 the extent to which 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 provides a higher level of flexibility for the Bank in handling the interest rate adjustments and the interest rate risk exposure.

The following table presents the interest repricing dates of the Bank. Variable yield assets and liabilities have been reported in accordance with their next repricing date. Fixed income assets and liabilities have been reported in accordance with their maturity.

NOTE 32: INTEREST RATE RISK MANAGEMENT [continued]

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	**-**	**-**	**2,106**	**5**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,106**	**5**	**2,111**
fixed interest	-	-	2,106	5	-	-	-	-	-	-	-	-	2,106	5	2,111
Placements with other banks	**-**	**-**	**38,966**	-	-	-	**96,997**	-	-	-	**-**	-	**135,963**	**-**	**135,963**
fixed interest	-	-	38,966	-	-	-	96,997	-	-	-	-	-	135,963	-	135,963
Securities at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**18,922**	**-**	**-**	-	**18,922**	**-**	**18,922**
fixed interest	-	-	-	-	-	-	-	-	18,922	-	-	-	18,922	-	18,922
Loans	**126,963**	**170**	**264,237**	**171**	**99,401**	**2**	**58,171**	**-**	**630,400**	**-**	**-**	-	**1,179,172**	**343**	**1,179,515**
fix interest	-	-	-	-	-	-	-	-	607,682	-	-	-	607,682	-	607,682
variable interest	126,963	170	264,237	171	99,401	2	58,171	-	22,718	-	-	-	571,490	343	571,833
Derivative financial assets designated as hedge accounting relationships	-	-	-	-	-	-	-	-	**229**	**-**	-	-	**229**	-	**229**
variable interest	-	-	-	-	-	-	-	-	229	-	-	-	229	-	229
Other financial assets	**-**	**-**	**-**	**-**	**352**	**-**	**-**	**-**	**-**	**-**	**520**	-	**872**	-	**872**
fixed interest	-	-	-	-	352	-	-	-	-	-	-	-	352	-	352
non-interest bearing	-	-	-	-	-	-	-	-	-	-	520	-	520	-	520

NOTE 32: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]

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 OTP Bank and other banks	**-**	**-**	**-**	**-**	**636,373**	**345**	**-**	**-**	**40,244**	**-**	**-**	**-**	**676,617**	**345**	**676,962**
fixed interest	-	-	-	-	636,373	345	-	-	40,244	-	-	-	676,617	345	676,962
Liabilities from issued securities	**-**	**-**	**131,816**	**-**	**437,528**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**569,344**	**-**	**569,344**
fixed interest	-	-	0	-	437,528	-	-	-	-	-	-	-	437,528	-	437,528
variable interest	-	-	131,816	-	-	-	-	-	-	-	-	-	131,816	-	131,816
Derivative financial liabilities designated as hedge accounting relationships	**-**	**-**	-	-	-	-	-	-	**822**	-	-	-	**822**	-	**822**
variable interest	-	-	-	-	-	-	-	-	822	-	-	-	822	-	822
Leasing liabilities	**4**	**-**	**8**	**-**	**36**	**-**	**49**	**-**	**183**	**-**	**-**	**-**	**280**	**-**	**280**
fixed interest	4	-	8	-	36	-	49	-	183	-	-	-	280	-	280
Other financial liabilities	-	-	-	-	-	-	-	-	-	-	**8,619**	-	**8,619**	-	**8,619**
non-interest bearing	-	-	-	-	-	-	-	-	-	-	8,619	-	8,619	-	8,619
NET POSITION	**126.959**	**170**	**173.485**	**176**	**(974.184)**	**(343)**	**155.199**	**-**	**608.302**	**-**	**(8,099)**		**81.582**	**3**	**81.585**

NOTE 32 INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]

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	**-**	**-**	**2,892**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,892**	**-**	**2,892**
fixed interest	-	-	2,892	-	-	-	-	-	-	-	-	-	2,892	-	2,892
Placements with other banks	**127,615**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**21**	-	**127,636**	**-**	**127,636**
variable interest	85,615	-	-	-	-	-	-	-	-	-	-	-	85,615	-	85,615
fixed interest	42,000	-	-	-	-	-	-	-	-	-	-	-	42,000	-	42,000
non-interest bearing	-	-	-	-	-	-	-	-	-	-	21	-	21	-	21
Securities at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**10,303**	**-**	**-**	**-**	**-**	**-**	**344**	-	**10,647**	**-**	**10,647**
fixed interest	-	-	-	-	10,303	-	-	-	-	-		-	10,303	-	10,303
non-interest bearing	-	-	-	-		-	-	-	-	-	344	-	344	-	344
Loans	**167,485**	**181**	**314,769**	**207**	**85,156**	**-**	**56,778**	**-**	**438,653**	**-**	**-**	-	**1,062,841**	**388**	**1,063,229**
fix interest	-	-	-	-	-	-	-	-	5,649	-	-	-	5,649	-	5649
variable interest	167,485	181	314,769	207	85,156		56,778	-	433,004	-	-	-	1,057,192	388	1,057,580
Derivative financial assets designated as hedge accounting relationships	-	-	-	-	-	-	-	-	**1,837**	**-**	**-**	-	**1,837**	**-**	**1,837**
variable interest	-	-	-	-	-	-	-	-	1,837	-	-	-	1,837	-	1,837
Other assets	**296**	**-**	-	-	-	-	-	**-**	**-**	**-**	**-**	-	**296**	**-**	**296**
Customers	**190**	**-**	-	-	-	-	-	**-**	**-**	**-**	**-**	-	**190**	**-**	**190**
fixed interest	190	-	-	-	-	-	-	-	-	-	-	-	190	-	190
Accrued receivables	**106**	**-**	-	-	-	-	-	**-**	**-**	**-**	**-**	-	**106**	**-**	**106**
fixed interest	106	-	-	-	-	-	-	-	-	-	-	-	106	-	106

NOTE 32: **INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]**

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 OTP Bank and other banks	-	-	**99**	**387**	**467,759**	**-**	**12,194**	**-**	**28,027**	**-**	**444**	**-**	**508,523**	**387**	**508,910**
fixed interest	-	-	99	387	467,759	-	12,194	-	28,027	-	-	-	508,079		508,079
non-interest bearing	-	-	-	-	-	-	-	-	-	-	444	-	444	-	444
Liabilities from issued securities	-	-	**460,783**	**-**	**-**	**-**	**10,115**	**-**	**129,951**	**-**	**11,074**	**-**	**611,923**	**-**	**611,923**
fixed interest	-	-	460,783	-	-	-	10,115	-	-	-	-	-	470,898	-	470,898
variable interest	-	-	-	-	-	-	-	-	129,951	-	-	-	129,951	-	129,951
non-interest bearing	-	-	-	-	-	-	-	-	-	-	11,074	-	11,074	-	11,074
Derivative financial liabilities designated as hedge accounting relationships	-	-	-	-	-	-	-	-	**74**	**-**		**-**	**74**	**-**	**74**
variable interest	-	-	-	-	-	-	-	-	74	-	-	-	74	-	74
Other liabilities	**7,245**	-	-	-	-	-	-	-	-	-	-	-	**7,245**	-	**7,245**
Suppliers	**6,816**	-	-	-	-	-	-	-	-	-	-	-	**6,816**	-	**6,816**
fixed interest	6,816	-	-	-	-	-	-	-	-	-	-	-	6,816	-	6,816
Accrued receivables	**429**	-	-	-	-	-	-	-	-	-	-	-	**429**	-	**429**
fixed interest	429	-	-	-	-	-	-	-	-	-	-	-	429	-	429
NET POSITION	**288,151**	**181**	**(143,221)**	**(180)**	**(372,300)**	**-**	**34,469**	**-**	**282,438**	**-**	**(111,53)**		**78,384**	**1**	**78,385**

NOTE 33: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF million)

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 following tables provide an analysis of liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

The contractual amounts disclosed in the maturity analyses are the contractual undiscounted cash flows like gross finance lease obligations (before deducting finance charges); prices specified in forward agreements to purchase financial assets for cash; net amounts for pay-floating/receive-fixed interest rate swaps for which net cash flows are exchanged; contractual amounts to be exchanged in a derivative financial instrument for which gross cash flows are exchanged; gross loan commitments.

Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in that statement is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the end of the period.

As at 31 December 2019	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, due from banks and balances with the National Bank of Hungary	2,111	-	-	-	-	2,111
Placements with other banks, net of allowance for placement losses	33,474	5,527	97,100	-	-	136,101
Securities at fair value through other comprehensive income	435	-	-	15,000	-	15,435
Loans	21,670	64,425	332,430	766,642	-	1,185,167
Intangible assets	-	-	-	-	*184*	184
Derivative financial assets designated as hedge accounting relationships	-	-	32	197	-	229
Property and equipment	-	-	-	-	*22*	22
Other financial assets	881	-	-	-	-	881
TOTAL ASSETS	**58,571**	**69,952**	**429,562**	**781,839**	**206**	**1,340,130**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	201	636,509	12,204	28,049	-	676,963
Liabilities from issued securities	8,017	10,001	398,100	150,000	-	566,118
Derivative financial instruments designated as hedging instruments	-	-	264	558	-	822
Leasing liabilities	12	36	207	25	-	280
Other financial liabilities	8,101	-	-	-	-	8,101
TOTAL LIABILITIES	**16,331**	**646,546**	**410,775**	**178,632**	**-**	**1,252,284**
Receivables from derivative financial instruments designated as fair value hedge	-		32	197	-	229
Liabilities from derivative financial instruments designated as fair value hedge	-		264	558	-	822
Net position of financial instruments designated as fair value hedge	-		(232)	(361)	-	(593)
Net position of derivative financial instruments total	**-**		**(232)**	**(361)**	**-**	**(593)**
Commitments to extend credit	4,207	801	43,519	-	-	48,527
Off-balance sheet commitments	**4,207**	**801**	**43,519**	-	-	**48,527**

NOTE 33: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF million) [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, due from banks and balances with the National Bank of Hungary	2,892	-	-	-	-	2,892
Placements with other banks, net of allowance for placement losses	43,296	4,403	79,937	-	-	127,635
Securities at fair value through other comprehensive income	344	10,000	-	-	-	10,344
Loans	14,388	60,726	322,854	649,646		1,048,064
Derivative financial assets designated as hedge accounting relationships	-	-	-	*1,837*	-	1,837
Property and equipment	-	-	-	-	173	173
Intangible assets	-	-	-	-	26	26
Other financial assets	296	-	-	-	-	296
TOTAL ASSETS	**61,216**	**75,129**	**402,790**	**651,483**	**199**	**1,190,817**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	387	467,972	12,205	28,346	-	508,910
Liabilities from issued securities	50,324	-	177,100	381,000	-	608,424
Derivative financial instruments designated as hedging instruments	-	-	-	74	-	74
Other financial liabilities	7,245		-	-	-	7,245
TOTAL LIABILITIES	**57,956**	**467,972**	**189,305**	**409,420**	**-**	**1,124,653**
Receivables from derivative financial instruments designated as fair value hedge	-	-	277	1,560	-	1,837
Liabilities from derivative financial instruments designated as fair value hedge	-	-	15	59	-	74
Net position of financial instruments designated as fair value hedge	-	-	262	1,501	-	1,763
Net position of derivative financial instruments total	**-**	**-**	**262**	**1,501**	**-**	**1,763**
Commitments to extend credit	577	2,058	33,309	-	-	35,944
Off-balance sheet commitments	**577**	**2,058**	**33,309**	**-**	**-**	**35,944**

NOTE 34: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million)

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, reliable and public market information is not available so the Bank has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 38.e) 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, Bloomberg). Cash and amounts due from banks and balances with the NBH represent amounts available immediately thus the fair value equals to the carrying amount.

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.

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

Fair value of financial assets and liabilities

	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash, due from banks and balances with the National Bank of Hungary	2,111	2,111	2,892	2,892
Placements with other banks	135,963	135,963	127,635	127,635
Securities at fair value through other comprehensive income	18,922	18,922	10,647	10,647
Loans	1,179,515	1,480,143	1,063,229	1,345,848
Derivative financial assets designated as hedge accounting relationships	229	229	1,837	1,837
Other financial assets	872	872	296	296
FINANCIAL ASSETS TOTAL	**1,337,612**	**1,638,240**	**1,206,536**	**1,489,155**
Amounts due to OTP Bank and other banks	676,962	677,903	508,910	508,910
Liabilities from issued securities	569,344	664,775	611,923	674,523
Derivative financial instruments designated as hedging instruments	8,22	8,22	74	74
Leasing liabilities	280	280	-	-
Other financial liabilities	8,619	8,619	7,245	7,245
FINANCIAL LIABILITIES TOTAL	**1,256,027**	**1,352,399**	**1,128,152**	**1,190,752**

NOTE 34: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Fair value hierarchy

Methods and significant assumptions used to determine fair value of the different classes of financial instruments:

- 1st Level: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2nd Level: 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.
- 3rd Level: 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
FVOCI securities	18,922	18,922	-	-
Positive fair value of derivative financial instruments designated as fair value hedge	229	-	229	-
Negative fair value of derivative financial instruments designated as fair value hedge	822	-	822	-
Total	**18,329**	**18,922**	**593**	**-**

As at 31 December 2018

	Total	Level 1	Level 2	Level 3
FVOCI securities	10,647	10,647	-	-
Positive fair value of derivative financial instruments designated as fair value hedge	1,837	-	1,837	-
Negative fair value of derivative financial instruments designated as fair value hedge	74	-	74	-
Total	**12,410**	**10,647**	**1,763**	**-**

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

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

Cash flow hedge			**Maturity**			
Interest rate risk-interest rate swap (HUF)	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	Total
Notional	-	-	-	12,194	28,027	40,221
Average FX Rate	-	-	-	1.77%	2.46%	-

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

Cash flow hedge			**Maturity**			
Interest rate risk-interest rate swap (HUF)	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	Total
Notional	-	-	-	12,194	28,027	40,221
Average FX Rate	-	-	-	1.77%	2.46%	-

NOTE 34: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Derivatives held for hedging – as at 31 December 2019

Derivatives designated in cash flow hedges	Assets	Liabilities
Interest rate swaps	229	822
Total derivatives designated in cash flow hedges	**229**	**822**

Derivatives held for hedging – as at 31 December 2018

Derivatives designated in cash flow hedges	Assets	Liabilities
Interest rate swaps	1,837	74
Total derivatives designated in cash flow hedges	**1,837**	**74**

Hedge accounting – hedge instruments– as at 31 December 2019

Interest rate risk	Nominal amount	Carrying amount		Line item in the statement of financial position	Ineffectiveness for 2019
		Assets	Liabilities		
Interest rate swaps	40,221	229	822	Derivative assets (liabilities) held for risk management	392

Interest rate risk	Cash flow hedge reserve	Hedge effectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness
Interest rate swap	(2,124)	(392)	Interest Income/Placements with other banks, net of allowance for placement losses

Hedge accounting – hedge instruments– as at 31 December 2018

Interest rate risk	Nominal amount	Carrying amount		Line item in the statement of financial position	Ineffectiveness for 2018
		Assets	Liabilities		
Interest rate swaps	40,221	1,837	74	Derivative assets (liabilities) held for risk management	-160

Interest rate risk	Cash flow hedge reserve	Hedge effectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness
Interest rate swap	967	(160)	Interest Income/Placements with other banks, net of allowance for placement losses

NOTE 34: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Hedge accounting – hedge items– as at 31 December 2019

Interest rate risk	**Carrying amount**		**Accumulated amount of fair value hedge adjustments**		**Line item in the statement of financial position**
Interest rate swaps	Assets	Liabilities	Assets	Liabilities	
	-	40,221	-	40,221	Interest expense/ Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks

Hedge accounting – hedge items– as at 31 December 2018

Interest rate risk	**Carrying amount**		**Accumulated amount of fair value hedge adjustments**		**Line item in the statement of financial position**
Interest rate swaps	Assets	Liabilities	Assets	Liabilities	
	-	40,221	-	40,221	Interest expense/ Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks

NOTE 35: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2019

In June 2019 OTP Mortgage Bank bought 100% ownership of OTP Financial Point Ltd. (henceforth: Financial Point) from its former owners who is also member of OTP Group.

The acquisition was driven by the fact that demand for home savings accounts declined in the same time the mortgage loan products in Financial Point's sales structure has become dominant.

The purchase price of Financial Point was HUF 100 million. Financial Point received a capital increase of HUF 320 million in July 2019. Its book value at the end of the year was HUF 420 million.

In June 2019 OTP Mortgage Bank had another investment. OTP Ingatlanpont Llc. (henceforth: Ingatlanpont) had received a capital increase of HUF 240 million from OTP Mortgage Bank, which increased its book value to HUF 1.6 billion.

The equity of both investments is lower than their book value but their estimated fair value does not justify impairment.

NOTE 36: POST BALANCE SHEET EVENTS

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.
The rapid development of the COVID-19 virus and its social and economic impact in Hungary and globally may result in assumptions and estimates requiring revisions which may lead to material adjustments to the carrying value of assets and liabilities within the next financial year. At this stage management is not able to reliably estimate the impact as events are unfolding day-by-day.
In addition to the foregoing, Hungarian Government adopted the decree on March 18, 2020 on immediate measures to mitigate impact of coronavirus pandemic on national economy (the "Decree") prescribing a standstill in debt repayment (moratorium). The moratorium is prescribed for all debtors that wish to exercise it (private individuals, agricultural producers, entrepreneurs and business companies) entailing a standstill in debt repayment until December 31, 2020. Management is unable to estimate possible effects of the Decree on the Bank's financial statements.
The longer term impact may also affect loan volumes, cash flows, and profitability. Nevertheless at the date of these financial statements the OTP Mortgage Bank continues to meet its obligations as they fall due and therefore continues to apply the going concern basis of preparation.

OTP MORTGAGE BANK LTD.

CONSOLIDATED FINANCIAL STATEMENTS
IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING
STANDARDS AS ADOPTED BY
THE EUROPEAN UNION AND INDEPENDENT AUDITOR’S REPORT

FOR THE YEAR ENDED
31 DECEMBER 2019

Deloitte.

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

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

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

VAT ID: 10443785-2-42
EU VAT ID: HU10443785

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of OTP Mortgage Bank Ltd.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of OTP Mortgage Bank Ltd. 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 1,340,222 million, the related consolidated statement of profit or loss and the consolidated statement of comprehensive income, which shows a net profit for the year of HUF 26,360 million, the 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 judgment, 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.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the matter</th></tr>
<tr><td colspan="2">Calculation of expected credit losses on retail loans (ECL)</td></tr>
<tr><td>(See notes 7. and 27. 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 1,185,166 million and provisions for impairment on loan losses of HUF 5,651 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.</td><td>Our response as auditors included:

- testing and assessment of the modeling 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; and

- assessing the adequacy of the disclosures in the consolidated financial statements.</td></tr>
</table>

Other Information

Other information comprises the consolidated business report of the Group for 2019, which we obtained prior to the date of this auditor's report, and the annual report for 2019, 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 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.

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.

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.

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 judgment 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 Mortgage Bank Ltd. by the Shareholder's resolution on March 25, 2019 and our uninterrupted engagement has lasted for 19 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 Mortgage Bank Ltd., which we issued on March 19, 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 Mortgage Bank Ltd. and its controlled undertaking 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 19, 2020

....	....
Andrew Weekes	Mádi-Szabó Zoltán
Deloitte Auditing and Consulting Ltd.	Statutory registered auditor
1068 Budapest, Dózsa György út 84/C.	Registration number: 003247
Registration number: 000083	

CONTENTS

OTP MORTGAGE BANK LTD.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019
(in HUF million)

	Note	2019	2018
Cash, amounts due from banks and balances with the National Bank of Hungary	*4.*	2,584	3,369
Placements with other banks, net of allowance for placement losses	*5.*	135,963	127,635
Securities at fair value through other comprehensive income	*6.*	18,922	10,647
Loans	*7.*	1,179,175	1,063,229
Investments in subsidiaries, associates and other investments	*8.*	-	45
Intangible assets	*9.*	184	174
Property and equipment	*9.*	90	86
Right of use assets		405	-
Derivative financial assets designated as hedge accounting relationships	*10.*	229	1,837
Other assets	*11.*	2,670	1,773
TOTAL ASSETS		**1,340,222**	**1,208,795**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	*12.*	676,962	508,910
Liabilities from issued securities	*13.*	569,344	611,923
Derivative financial liabilities designated as hedge accounting relationship	*14.*	822	74
Deferred tax liabilities		77	274
Leasing liabilities	*25.*	414	-
Other liabilities	*15.*	10,249	12,964
TOTAL LIABILITIES		**1,257,868**	**1,134,145**
Share capital	*16.*	37,000	27,000
Retained earnings and reserves	*17.*	45,354	47,650
TOTAL SHAREHOLDER'S EQUITY		**82,354**	**74,650**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**1,340,222**	**1,208,795**

Budapest, 19 March 2020

....

András Becsei
Chief Executive Officer

OTP MORTGAGE BANK LTD.
CONSOLIDATED STATEMENT OF RECOGNIZED INCOME FOR THE YEAR ENDED 31 DECEMBER 2019 (in HUF million)

	Note	2019	2018
Interest income:			
Interest income calculated using the effective interest method	*19.*	63,058	62,565
Income similar to interest income	*19.*	-232	2,730
Total Interest Income		**62,826**	**65,295**
Total Interest Expense	**19.**	**(33,625)**	**(34,352)**
NET INTEREST INCOME		**29,201**	**30,943**
Risk cost total	20.	3,523	5,668
NET INTEREST INCOME AFTER RISK COST		**32,724**	**36,611**
Income from fees and commissions	21.	1,349	1,562
Expenses from fees and commissions	21.	(3,199)	(2,842)
Net profit from fees and commissions		**(1,850)**	**(1,280)**
Foreign exchange gains	22.	(6)	2
Gains on derivative instruments, net		-	(1)
Other operating income	22.	926	870
Net other operating expenses	22.	332	(2,177)
Net operating income		**1,252**	**(1,306)**
Personnel expenses	22.	(1,270)	(994)
Depreciation and amortization	22.	(199)	(112)
Other administrative expenses	22.	(3,904)	(4,436)
Other administrative expenses		**(5,373)**	**(5,542)**
PROFIT BEFORE INCOME TAX		**26,753**	**28,483**
Income tax expense	24.	(393)	(1,178)
NET PROFIT FOR THE PERIOD		**26,360**	**27,305**
Earnings per share (in HUF)			
Basic and diluted	26.	71,243	101,130

OTP MORTGAGE BANK LTD.
CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019 (in HUF million)

	Note	2019	2018
OTHER COMPREHENSIVE INCOME		**26,360**	**27,305**
Items that may be reclassified subsequently from other comprehensive income to profit or loss:			
Fair value adjustment of securities fair value through other comprehensive income		1,094	(214)
Deferred tax related to securities fair value through other comprehensive income		(98)	19
Fair value adjustment of derivative financial instruments		(2,124)	(967)
Other comprehensive income, net of income tax		**(1,128)**	(1,162)
NET COMPREHENSIVE INCOME		**25,232**	**26,143**

OTP MORTGAGE BANK LTD.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019 (in HUF million)

	Share Capital	Capital reserve	Share-based payment reserve	Retained earnings	Other comprehensive income	General reserve	Ties-up reserve	Total
Balance as at 1 January 2018	**27,000**	**476**	**-**	**33,330**	**276**	**12,645**	**960**	**75,687**
Effect of transition to application of IFRS 9	-	-	-	(7,944)	14	-	-	(7,930)
Balance as at 1 January 2018 in accordance with IFRS 9	**27,000**	**476**	**-**	**25,386**	**290**	**12,645**	**960**	**66,757**
Net profit for the period	-	-	-	27,305	-	-	-	27,305
Other comprehensive income	-	-	-	-	(1,162)	-	-	(1,162)
Total comprehensive income	**27,000**	**476**	**-**	**52,691**	**(872)**	**12,645**	**960**	**92,900**
Transfer to general reserve	-	-	-	(2,747)	-	2,747	-	-
Dividend for the year 2017	-	-	-	(18,250)	-	-	-	(18,250)
Balance as at 31 December 2018	**27,000**	**476**	**-**	**31,694**	**(872)**	**15,392**	**960**	**74,650**
Balance as at 1 January 2019	**27,000**	**476**	**-**	**31,694**	**(872)**	**15,392**	**960**	**74,650**
Net profit for the period	-	-	-	26,360	-	-	-	26,360
Other comprehensive income	-	-	-	-	(1,128)	-	-	(1,128)
Total comprehensive income	27,000	476	-	58,054	(2,000)	15,392	960	99,882
Dividend for the year 2018	-	-	-	(27,500)	-	-	-	(27,500)
Share-based payment	-	-	38	(2)	-	-	-	36
Transfer to general reserve	-	-	-	(2,717)	-	2,717	-	-
Share capital raise	-	-	-	(64)	-	-	-	(64)
Consolidation difference on acquisition of OTP Financial Point. Ltd.	10,000	-	-	-	-	-	-	10,000
Balance as at 31 December 2019	**37,000**	**476**	**38**	**27,771**	**(2,000)**	**18,109**	**960**	**82,354**

OTP MORTGAGE BANK LTD.
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019
(in HUF million)

	Note	2019	2018
OPERATING ACTIVITIES			
Profit before income tax		**26,753**	**28,483**
Net accrued interest		**54**	111
Depreciation and amortization	*9.*	199	112
Risk cost	*20.*	(3,523)	(5,668)
Unrealised gains on fair value adjustment of derivative financial instruments	*10.*	232	(2,730)
Increase in loans, net of allowances for loan losses	*7.*	(112,477)	(80,764)
Decrease in other assets before provisions for losses	*11.*	(897)	1,988
Decrease/(Increase) in other liabilities	*15.*	(2,715)	(1,008)
Share-based payments		36	-
Income tax paid	*24.*	(688)	(1,442)
Net cash (used in)/provided by operating activities		**(93,026)**	**(60,918)**
INVESTING ACTIVITIES			
Net accrued interest		(94)	8
Decrease in placements with other banks	*5.*	(8,234)	(52,395)
Proceeds from sale of securities at fair value through other comprehensive income	*6.*	(7,181)	430
Increase in investments in subsidiaries	*8.*	45	-
Additions to property, equipment and intangible assets	*9.*	(128)	(178)
Disposal to property, equipment and intangible assets	*9.*	(85)	51
Net cash used in investing activities		**(15,677)**	**(52,084)**
FINANCING ACTIVITIES			
Net accrued interest		(3,104)	951
Net (decrease)/increase in amounts due to OTP Bank and other banks	*12.*	168,099	(74,839)
Cash used for repurchase and redemption of issued securities	*13.*	(39.522)	(71,577)
Cash received from issuance of securities	*13.*	-	276,000
Consolidation difference on acquisition of OTP Financial Point. Ltd.		64	-
Share capital raise	*16.*	10,000	-
Leasing payments	¤	9	-
Dividend paid		(27,500)	(18,250)
Net cash provided by financing activities		**107,918**	**112,285**
Net (decrease)/increase in cash and cash equivalents		**(785)**	**(717)**
Cash and cash equivalents at the beginning of the year		**3,369**	**4,086**
Cash and cash equivalents at the end of the year		**2,584**	**3,369**

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

1.1. General information

OTP Bank Plc. ("OTP Bank") established OTP Mortgage Bank Ltd. ("OTP Mortgage Bank" or the "Group") as a fully owned subsidiary on 15 May 2001. The State Financial Supervisory Authority issued the operating license on 10 January 2002, and the Bank commenced operations on 1 February 2002.

OTP Bank is the ultimate parent of OTP Mortgage Bank, and also the ultimate parent of OTP Group.

These consolidated financial statements authorised for issue on 19 March 2020.

The Group completed its publication in accordance with Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises, 575/2013/EU directive (CRR). OTP Mortgage Bank completed its publication with Consolidated Financial Statements prepared in accordance with IFRS as adopted by European Union jointly with OTP Bank Plc on the homepage of OTP Bank Plc (http://www.otpbank.hu/), on the homepage of the Bank (http://www.otpjzb.hu). Separate Financial Statements in accordance with IFRS as adopted by the EU is published on the homepage of the Bank, on the homepage Budapest Stock Exchange (http://www.bet.hu), furthermore on the website of the National Bank of Hungary (www.kozzetetelek.hu).

The Bank's registered office address is Nádor u. 21, Budapest 1051.

Internet homepage: https://www.otpbank.hu/OTP_JZB/online/index.jsp

Signatory of the consolidated financial statements is the Executive Officer, András Becsei (1026 Budapest, Endrődi Sándor street 24/A.)

The Mortgage Bank's Financial Statements were prepared by OTP Bank Plc. based on the Services Agreement between The Mortgage Bank and OTP Bank Plc. Responsible person for the control and management of accounting services: Zoltán Tuboly (Budapest), Managing Director of Accounting and Financial Department, Registration Number: 177289, IFRS qualified chartered accountant.

Due to Hungarian legislation audit services are statutory for OTP Mortgage 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: Zoltán Mádi- Szabó, registration number: 003247.

Audit service fee agreed by the Articles of Association for the year ended 2019 is an amount of HUF 59 million + VAT.

The Group is a specialized financial institution with its main business being governed by Act XXX of 1997 on Mortgage Lending Institutions and Mortgage Bonds.

The main activity of the Group is financing of purchase, renovation and development of residential properties. The purchased portfolio contains mainly subsidised housing loans, in addition housing and free purpose mortgage loans denominated in foreign currency that were converted back to foreign exchange. Over the past few years, the granted subsidized HUF housing loans and the granted HUF housing and free purpose mortgage loan are the dominant part of the entire mortgage bank portfolio. The Group provides presently HUF denominated subsidised and not subsidised housing and free purpose mortgage loans, and HUF denominated real estate development loans too. From 2017, the Group expanded their services with independent liens purchase and sale by instalment, provided also by refinancing loans to commercial banks.

The Group employs limited number of staff at its head office and use approximately 367 branches of OTP Bank engaged in the housing loan business. Under syndication agreement between OTP Bank and OTP Mortgage Bank, OTP Bank provides services for OTP Mortgage Bank concerning the administration of the mortgage loans, for which fees are paid by OTP Mortgage Bank. Credit scoring and lending are performed at the branches of OTP Bank in accordance with the regulations of OTP Mortgage Bank. Loans are approved by OTP Mortgage Bank and OTP Bank acts for and on behalf of OTP Mortgage Bank during the conclusion of a loan agreement. The mortgage right, along with the restraint of transfer and encumbrance on property pledged to secure loans is entered in the property register for the benefit of OTP Mortgage Bank. Pledge of the mortgage bonds is the actual loans registered as normal collateral – collateralised by property inspector – and additional collateral values – prescribed by law – registered in the Group's collateral register.

As the sole shareholder, OTP Bank provides financial and administrative support to the Group. Details of related party balances and transactions are summarised in Note 29 to these financial statements.

A significant proportion of mortgage loans are extended for periods for more than ten or fifteen years whereas mortgage bonds generally have a shorter maturity (1-10 years). The remaining average maturity of the loan portfolio of the Group is 10.3 years. The Group is lengthening the average maturity of its outstanding mortgage bonds to reduce the liquidity gaps.

As at 31 December 2019 and 2018 the number and the average number of the employees at the Bank were 109 and 75 respectively.

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

1.2. Base of Accounting

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

OTP Mortgage Bank's functional currency is the Hungarian Forint ("HUF").

The accounting policies followed by the Group in the preparation of these financial statements conform with International Financial Reporting Standards ("IFRS"). As adopted by the European Union Some of the accounting principles prescribed for statutory purposes are different from those generally recognized in international financial markets.

OTP Jelzálogbank Zrt. applying the option, allowed by Article 55 §177. Hungarian Accounting Standards effective as at 01 January 2017, to prepare its Separate Financial Statements exclusively in accordance with the ("IFRS") issued by ("IASB") and accepted by the European Union.

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 Bank's 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 the following standards, amendments to the existing standards and interpretations issued by IASB and adopted by the EU were in issue but 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 Group has elected not to adopt these new standards and amendments to existing standards in advance of their effective dates. The Group anticipates that the adoption of these standards and amendments to existing standards will have no material impact on the financial statements of the Group in the period of initial application.

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

1.2. Base of Accounting [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 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 Group in the period of initial application.

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

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

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 separate financial statements have also 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 as adopted by the European Union requires management of the OTP Bank to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities (see Note 3) 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 financial statements.

2.2. Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into HUF at exchange rates quoted by the National Bank of Hungary ("NBH") as at the date of the financial statements. Income and expenses arising in foreign currencies are converted at the middle rate of exchange quoted by OTP Bank Plc. on the transaction date. Resulting foreign exchange gains or losses are recorded to the Consolidate Statement of Profit or Loss.

2.3. Consolidated financial statements

These financial statements present the separate financial position and results of operations of the Group. Consolidated financial statements are prepared by the Group and consolidated net profit for the year and shareholders' equity differ 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 are published on the same date. As the ultimate parent, the Mortgage Bank is preparing consolidated financial statements of the Group of the Bank.

2.4. Investments in subsidiaries

Investments in subsidiaries comprise those investments where the Group, through direct and indirect ownership interest, controls the investee. Control is achieved when the Group 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.
Impairment is determined based on the future economic benefits of the subsidiary and macroeconomic factors.

2.5. Securities and other financial assets

The Group classifies its financial assets into the following categories: fair value through profit or loss (either held for trading or assets initially classified as fair value through profit or loss), held-to-maturity loan and receivables and at fair value through other comprehensive income. Securities that are acquired principally for the purpose of generating profit from short-term fluctuations in price are classified as securities held for trading. Investments in financial assets (other than those which meet the definition of loans and receivables) with fixed maturity that the management has the expressed intention and ability to hold to maturity are classified as held-to-maturity. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as at fair value through other comprehensive income.
The Group had no securities classified as held for trading or held-to-maturity as at 31 December 2019 and 2018

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

FVOCI Securities consists of Hungarian Government bonds, mortgage bonds and other securities. Other securities include shares in investment funds and venture capital funds, corporate bonds and foreign securities.

The provision for impairment 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 impairment 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.

Those FVOCI financial assets that do not have a quoted market price and whose fair value cannot be reliably measured by other models mentioned above are measured at cost, less provision for impairment when appropriate. This exception is related only to equity instruments. Impairment on equity FVOCI securities is accounted only if there is a significant or prolonged decrease in the market value. Impairment losses recognised in profit or loss for equity FVOCI securities is not reversed through profit or loss.

2.5.2. Derivative financial instruments

In the normal course of business, the Group is a party to contracts for derivative financial instruments, which represent a very 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 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 Mortgage 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 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 included in the Consolidate 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.

The Group has certain swap and forward transactions, which are qualified as hedging instrument based on the Group's risk management policy. However, these financial instruments are not qualified as hedging instrument based on IFRS 9, therefore the Group qualified these derivative financial instruments as held for trading, and fair value adjustment is recognised directly in the Consolidate Statement of Profit or Loss.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.5. Securities and other financial assets [continued]

2.5.2. Derivative financial instruments [continued]

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 contracts does not represent the actual market or credit risk associated with these contracts.

Foreign currency contracts can be used by the Group for risk management purposes. The Group's risk management foreign currency contracts were used to hedge against exchange rate fluctuations on loans and advances to credit institutions denominated in foreign currency.

Iinterest rate swaps

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 Group's interest rate swaps were used for management of interest rate exposures and have been accounted for at mark-to-market fair value.

2.5.3. 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 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. The ineffective portion of the hedge is charged directly to the Consolidated Statement of Recognized Income.

The conditions of hedge accounting applied by the Group are the following: formally designed as hedge, 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 the effective portion of the 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 equity are transferred to the Consolidate Statement of Profit or Loss and classified as revenue or expense in the periods during which the hedged assets and liabilities affect the Consolidate Statement of Profit or Loss for the period. The ineffective element of the hedge is charged directly to the Consolidate Statement of Profit or Loss.

The Group terminates the hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

Changes in fair value of derivatives that are designated and qualify as 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 equity 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.6. Offsetting

Financial assets and liabilities may be offset and the net amount is reported in the statement of financial position when the Group 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 Group does not offset any financial assets and financial liabilities.

2.7. Embedded derivatives

Sometimes, a derivative may be a component of a combined financial instrument that includes a host contract and a derivative (the embedded derivative) effecting 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.

The Group has not had embedded derivatives in 2019 and in 2018.

2.8. Loans, placements with other banks and allowance for loan and placement losses

Loans and placements with other banks are accounted at amortised cost. Amortised cost contains the following items: the principal amounts outstanding including accrued interest, transaction costs, net of allowance for loan or placement losses. 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. Interest and amortised cost are accounted using effective interest rate method. When a borrower is unable to meet payments as they fall due or, in the opinion of the Management, there is an indication that a borrower may be unable to meet payments as they fall due, all unpaid interest becomes impaired.

According to IFRS 9 initially financial assets shall be recognized at fair value which is usually equal to transaction value of loans and receivables. Initial fair value of loans and receivables lent at interest below market conditions is lower than their transaction price. As a consequence, the 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 is not available on observable markets.

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

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

2.9 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 provision for impairment 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) provision for impairment is recognised in amount of lifetime expected credit loss.

In case of purchased or originated credit impaired financial assets provision for impairment 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 maintained to cover losses that have been specifically identified. Collective impairment losses of portfolios of loans, for which no objective evidence of impairment has been identified on an individual basis, are maintained 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

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

At subsequent measurement the Bank recognises through "Loss allowance on loan and placement losses" in the Statement of Profit or Loss impairment gain or loss as an amount of expected credit losses or reversal that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised in accordance with IFRS 9. If, in a subsequent period, the amount of the loss allowance decreases and the decrease can be related objectively to an event occurring after the loss allowance was recognised (such as an improvement in the debtor's credit rating), the previously recognised loss allowance shall be reversed by adjusting an allowance account. As a result of the reversal the carrying amount shall not exceed the amortised cost, which would be at the date of reversal, if no loss allowance had been recognised previously. If a financial asset, which previously classified in the first stage, classified subsequently in the second or third stage than loss allowance is adjusted to lifetime expected credit loss. If a financial asset, which previously classified in the second or third stages, classified subsequently in the first stage than loss allowance is adjusted to level of 12 month expected credit 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]

2.9. 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.

2.10. Liabilities from issued securities

Issued mortgage bonds are measured at amortized cost. The costs related to their issuance is included in the amortized cost of the issued securities and amortized over the term of the securities using effective interest method. Collateral of mortgage bonds are secured by the actual amount of loan receivables – involved by collateral inspector - and as required additional collateral – determined by law – registered in the Group’s collateral register.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.11. 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 computed using the straight-line method over the estimated useful lives of the assets based on the following annual percentages:

Intangible assets	
Software	33.3%
Property rights	33.3%
Property	6.0%
Office equipment and vehicles	14.5-33.3%

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 Group 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 Group 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 written down immediately to the estimated recoverable amount.

2.12. 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: ~2.9375%

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

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

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

Recognition of right-of-use assets

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.12. Leases [continued]

Average weighted amount of the implicit interest rate/incremental borrowing rate applied as at 1 January 2019 to recognize the lease liabilities: ~2.9375 %

2.13. Share capital

Share capital is the capital determined in the Articles of Association and registered by the Budapest-Capital Regional Court.

2.14. 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. 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 Group recognizes interest income when it 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 arising from loans, placements with other banks, securities at fair value through other comprehensive income and amounts due to OTP Bank and other banks, liabilities from issued securities, subordinated bonds and loans are presented under these lines of the financial statements.

2.15. Fees and Commissions

Fees and commissions are recognised using effective interest method referring to provisions of IFRS 9, when they relate and have to be included in the amortised cost model. On the other hand certain fees and commissions that are not involved in the amortised cost model are recognised in the separate statement of profit or loss on an accrual basis based on IFRS 15. (See further details in Note 21). These fees are that do not arise at the start of the loan term and cannot be estimated.

2.16. 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, based on tax rates that have been enacted at the date of the balance sheet. 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 carry forward of unused tax losses and the carry forward of unused tax credits. The Group 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 Consolidated Financial Statements for the second period preceding the current tax year), banking tax is not considered as income tax.

2.17. Off-balance sheet commitments and contingent liabilities

In the ordinary course of its business, the Group has entered into off-balance sheet commitments such as 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 which are under IAS 37 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

2.18. Government subsidies

The Group receives subsidies from the Hungarian government designed to compensate for the difference between the amount of interest charged to the customer, such interest being capped by legislation, and the interest charge on the issued mortgage bonds. Such subsidies are calculated on a monthly basis, are applicable over the life of the loan and are recognized among interest income in the Separate Statement of Profit or Loss in the period to which they relate.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.19. 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.

2.20. Statement of Cash Flows

For the purposes of reporting cash flows, cash and cash equivalents include cash, amounts due from banks and balances with the NBH, excluding compulsory reserves. Cash flows from hedging activities are classified in the same category as the item being hedged.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.21. 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**	**62,826**	**65,295**	**-**	**65,295**
Interest expense	**Interest expense**	**(33,625)**	**(34,352)**	**-**	**(34,352)**
Loss allowance on loan, placement and repo receivables losses	Release of loss allowance on loan, placement and repo receivables losses	3,218	5,139	-	5,139
	Loss allowance / (Release of loss allowance) on securities at fair value through other comprehensive income and on securities at amortised cost	(6)	2	2	-
	Provision for loan commitments and financial guarantees given	311	527	527	-
Loss allowance on loan and placement losses	**Risk cost total**	**3,523**	**5,668**	**529**	**5,139**
NET INTEREST INCOME AFTER RISK COST	**NET INTEREST INCOME AFTER RISK COST**	**32,724**	**36,611**	**529**	**36,082**
Provision for loan commitments and financial guarantees given		-	(548)	(529)	(19)
Risk of costs	Risk of costs	332	(1,629)	-	(1,629)
Net other operating expenses	**Net other operating income / (expenses)**	**332**	**(2,177)**	**(529)**	**(1,648)**
NET OPERATING INCOME	**NET OPERATING INCOME**	**1,252**	**(1,306)**	**(529)**	**(777)**

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 the European Union 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 historical experience 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. Impairment on loans and placements

The Group regularly assesses its loan portfolio 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.

3.2. Valuation of instruments without direct quotations

Financial instruments without direct quotations in an active market are valued using the valuation model technique. The models are regularly reviewed and each model is calibrated for the most recent available market data. While the models are built only on available data, their use is subject to certain assumptions and estimates (e.g. for correlations, volatilities, etc.). Changes in the model assumptions may affect the reported fair value of the relevant financial instruments.

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

3.3. Provisions

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

Other provision is recognized and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Bank is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Bank assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for. (See Note 19.)

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

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

NOTE 4: CASH, AMOUNTS DUE FROM BANKS AND BALANCES WITH THE NATIONAL BANK OF HUNGARY (in HUF million)

Amounts due from banks and balances with the NBH:

	2019	2018
Within one year		
in HUF	2,535	3,359
in foreign currency	49	10
Total	**2,584**	**3,369**
From this: amounts due from OTP Bank	481	3,358
Compulsory reserve	11	11
Rate of the compulsory reserve	1%	2%

The main amount of cash due from banks shows the balance of the nostro accounts placed at OTP Bank of HUF 481 million and HUF 3,358 million as at 31 December 2019 and 2018, respectively. The remaining amounts represent the balances of the Group's clearing account placed at the NBH.

The amount of compulsory reserve is the multiplication of liabilities considered in compulsory reserve calculation and compulsory reserve rate, which determined by the NBH in a specific decree.

The Bank fulfils the reserve requirement afterwards in following second month. The Bank shall comply with the reserve requirement once a month on the last calendar day. The Bank fulfils the reserve requirement in accordance with the amount of the required calculated minimum reserve and keeps it on its bank account at National Bank of Hungary.

NOTE 5: PLACEMENTS WITH OTHER BANKS (in HUF million)

	2019	2018
Within one year		
in HUF	39,018	47,725
Over one year		
in HUF	97,084	80,025
Subtotal	**136,102**	**127,750**
Impairment	(139)	(115)
Total	**135,963**	**127,635**
From this: amounts due from OTP Bank	31,781	42,001

Interest conditions on placements with other banks	2019	2018
Within one year		
in HUF	0.1%-0.12%	0.04%-0.08%
Over one year		
in foreign currency	1.08-1.12%	1.04-1.43%

Average interest of placements with other banks	2019	2018
in HUF	0.13%	0.09%

NOTE 6: SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (in HUF million)

	2019	2018
Hungarian government bonds	18,922	10,647
Total	**18,922**	**10,647**

The whole portfolio was denominated in HUF as at 31 December 2019.

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

	2019	2018
Over one year, fixed interest	18,487	10,303
Interest conditions of securities at fair value through other comprehensive income	5.5%	6.5%

The valuation of the securities at fair value through other comprehensive income was as follows as at 31 December 2019:

	2019	
	Amortized cost	**Net fair value**
Hungarian government bonds	17,309	18,487
Total	**17,309**	**18,487**

The valuation of the securities at fair value through other comprehensive income was as follows as at 31 December 2018:

	2018	
	Amortized cost	**Net fair value**
Hungarian government bonds	10,213	10,303
Total	**10,213**	**10,303**

NOTE 7: LOANS (in HUF million)

	2019	2018
Short-term loans (within one year)		
in HUF	91,210	87,523
in CHF	2	2
in EUR	6	7
in JPY	30	36
in foreign currency total	38	45
	91,248	**87,568**
Long-term loans (over one year)		
in HUF	1,093,268	984,785
in CHF	8	9
in EUR	7	11
in JPY	295	333
in foreign currency total	310	353
	1,093,578	**985,138**
Loans Gross Total	**1,184,826**	**1,072,706**
Provision for impairment	(5,651)	(9,477)
Total	**1,179,175**	**1,063,229**

A significant part of the loans above are mortgage loans for purchasing real estate or for any purpose. The loans have collateral notified in the public property register in favour of OTP Mortgage Bank. Such loans and their collateral are included in the Group's register and mortgage bonds can be issued up to this registered amount. The remaining parts of the loans are real estate development loans given to individual farmers that work in the agro-industry. Real estate and arable land can be accepted as collateral of these loans.

Interest conditions on loans, net of allowance for loan losses:

	2019	2018
Loans denominated in HUF with the maturity over one year	0.21%-16.84%	0.32%-16.84%
Average interest rate of mortgage loans denominated in foreign currency for purchasing real estate		
CHF	5.47%	6.24%
EUR	7.01%	7.54%
JPY	4.45%	4.66%
Average interest rate of mortgage loans denominated in foreign currency for any purposes		
CHF	7.90%	6.99%
EUR	7.42%	7.92%
JPY	5.14%	4.70%
Average interest rate of real estate development loans		
HUF	5.59%	6.04%
EUR	6.10%	6.19%

OTP Mortgage Bank Ltd. only provides loans with the original maturity over one year.

NOTE 7: LOANS (in HUF million) [continued]

An analysis of the loan portfolio by type, before allowances for loan losses, is as follows:

	2019		2018	
Mortgage loans	1,176,919	99.65%	1,067,525	99.52%
Loans to medium and large corporates	4,111	0.35%	5,181	0.48%
Total	**1,184,826**	**100.00%**	**1,072,706**	**100.00%**

An analysis of the change in the provision for impairment on loan losses is as follows:

	2019	2018
Balance as at 1 January	**9,477**	**8,888**
Change as a result of applying IFRS 9	-	7,387
Provision for the year	12,288	11,581
Release of provision	(15,940)	(18,382)
Partial write-off	(174)	-
Reclassification	-	3
Balance as at 31 December	**5,651**	**9,477**

The Group sells non-performing non subsidised loans without recourse at estimated fair value to an OTP Group member, OTP Faktoring Ltd, in addition the Group sells non-performing subsidised loans without resource at estimated fair value to OTP Bank Plc.

NOTE 8: INVESTMENTS IN SUBSIDIARIES (in HUF million)

	2019	2018
Investments in subsidiaries	-	45
Total	**-**	**45**

In December 2016 the Mortgage Bank acquired 100% share in OTP Ingatlanpont Ltd., and then executed capital increase. The Bank’s ownership was registered in January 2017 at the Registry Court. The OTP Ingatlanpont Llc and OTP Financial Point Ltd are 100% owned by the Mortgage Bank in 2019.

One of the former owners of the Mortgage Bank's new investments was OTP Ingatlanpont Kft., but the controlling right was exercised by another owner the OTP Lakástakarék Zrt. For this reason, it was not taken into account in the Mortgage Bank's consolidated report in 2018.

NOTE 9: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF million)

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 2019	**1,748**	**15**	**255**	**2**	**477**	**2,497**
Increase due to acquisition	-	-	33	-	-	33
Additions	103	2	12	13	28	158
Disposals	(19)	(1)	(31)	(13)	-	(64)
Balance as at 31 December 2019	**1,832**	**16**	**269**	**2**	**505**	**2,624**
Accumulated Depreciation and Amortization						
Balance as at 1 January 2019	**1,574**	**2**	**184**	**-**	**-**	**1,760**
Charge for the year	93	1	35	-	100	229
Disposals	(19)	(1)	(24)	-	-	(44)
Balance as at 31 December 2019	**1,648**	**2**	**195**	**-**	**100**	**1,945**
Net book value						
Balance as at 1 January 2019	**174**	**13**	**71**	**2**	**477**	**737**
Balance as at 31 December 2019	**184**	**14**	**74**	**2**	**405**	**646**

For the year ended 31 December 2018

Cost	Intangible assets	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January 2018	**1,649**	**8**	**243**	**5**	**1,905**
Additions	206	7	24	28	265
Disposals	(107)	-	(12)	(31)	(150)
Balance as at 31 December 2018	**1,748**	**15**	**255**	**2**	**2,020**
Accumulated Depreciation and Amortization					
Balance as at 1 January 2018	**1,491**	**1**	**168**	**-**	**1,660**
Charge for the year	83	1	28	-	112
Disposals	-	-	(12)	-	(12)
Balance as at 31 December 2018	**1,574**	**2**	**184**	**-**	**1,760**
Net book value					
Balance as at 1 January 2018	**158**	**7**	**75**	**5**	**245**
Balance as at 31 December 2018	**174**	**13**	**71**	**2**	**260**

NOTE 10: FAIR VALUE OF DERIVATIVE FINANCIAL ASSETS DESIGNATED AS HEDGING ACCOUNTING (in HUF million)

	2019	2018
Interest rate swaps designated as cash flow hedge	229	1,837
Total	**229**	**1,837**

NOTE 11: OTHER ASSETS (in HUF million)

	2019	2018
Current income tax receivable	157	766
Trade receivables, other advances	847	732
Prepayments	90	117
Inventories	4	9
Due from Hungarian Government from interest subsidies	1.084	93
Receivables from OTP Employee Stock Ownership Program	484	-
Other assets	156	176
Subtotal	**2,822**	**1,893**
Provision for other assets	(152)	(120)
Total	**2,670**	**1,773**

	2019	2018
Balance as at 1 January	**120**	**120**
Effect of transition to application of IFRS 9	-	(1)
Reclassification	-	(3)
Charge for the period	97	74
Release of provision	(65)	(70)
Balance as at 31 December	**152**	**120**

NOTE 12: AMOUNTS DUE TO BANKS AND HUNGARIAN GOVERNMENT, DEPOSITS FROM THE NATIONAL BANK OF HUNGARY AND OTHER BANKS (in HUF million)

	2019	2018
Within one year		
In HUF	636,396	468,302
In EUR	10	11
In JPY	326	362
In CHF	9	14
Total in foreign currency	*345*	*387*
	636,741	**468,689**
Over one year		
in HUF	40,221	40,221
	676,962	**508,910**
Total	**676,962**	**508,910**
From this: amounts due to OTP Bank	676,761	508,617

Interest conditions on amounts due to OTP Bank and other banks

	2019	2018
Within one year		
In HUF	0.16%-0.21%	0.13%-2.04%
In foreign currency	(0.7)%-(0.05)%	(0.55)%-(0.24)%
Over one year		
In HUF	0.46%-0.5%	0.17%-0.6%

NOTE 13: LIABILITIES FROM ISSUED SECURITIES (in HUF million)

	2019	2018
Within one year:		
In HUF	18,070	50,339
Over one year		
In HUF	551,274	561,584
Total	**569,344**	**611,923**
Issued mortgage bonds during the period (nominal value)	-	276,000
Mortgage bonds became due or repurchased during the period (nominal value)	39,250	70,000

Interest conditions on issued securities

	2019	2018
In HUF	0.72%-11.00%	0.68%-11.00%

A reconciliation of the face value and the amortized cost is as follows:

	2019	2018
Nominal value of the issued securities	558,100	597,350
Unamortized premiums	3,227	3,499
Amortized cost	**561,327**	**600,849**

Face value and interest of mortgage bonds issued by OTP Mortgage Bank shall not exceed registered normal and additional collaterals (face value and interest). The Mortgage Bank keeps record of loans, normal and additional collateral values, which are shown separately. Independent property inspector monitors the availability of mortgage bond's collateral values in accordance with regulations, the registration of loans, and its pledges as collaterals as the normal collateral of the mortgage bonds, those property register data and the normal and additional collateral in the coverage register.

There was a maturing mortgage bond in amount of HUF 39.25 billion. Mortgage bonds were not issued in 2019.

NOTE 13: LIABILITIES FROM ISSUED SECURITIES (in HUF million) [continued]

Issued securities denominated in HUF as at 31 December 2019 (in HUF million)

Name	Date of issue	Maturity	Nominal value in HUF million	Amortised cost in HUF million	Interest condition in % p.a.		Hedged
OJB2020_I	19/11/2004	12/11/2020	5,503	5,599	9,00%	fix	Not hedged
OJB2020_II	25/05/2011	12/11/2020	4,497	4,574	9,00%	fix	Not hedged
OJB2025_I	31/07/2009	31/07/2025	150,000	161,914	11,00%	fix	Not hedged
OJB2021_I	15/02/2017	27/10/2021	85,000	84,756	2,00%	fix	Not hedged
OJB2021_I	27/02/2017	27/10/2021	37,100	36,987	2,00%	fix	Not hedged
OJB2023_I	05/04/2018	24/11/2023	45,000	45,833	1,75%	fix	Not hedged
OJB2024_A	17/09/2018	20/05/2024	70,000	69,995	0,72%	variable	Not hedged
OJB2024_B	18/09/2018	24/05/2024	60,000	59,982	0,72%	variable	Not hedged
OJB2024_II	10/10/2018	24/10/2024	50,000	49,328	2,50%	fix	Not hedged
OJB2024_II	07/11/2018	24/10/2024	51,000	50,376	2,50%	fix	Not hedged
Total			**558,100**	**569,344**			

NOTE 14: FAIR VALUE OF DERIVATIVE FINANCIAL LIABLITIES DESIGNATED AS HEDGE ACCOUNTING (in HUF million)

	2019	2018
IRS designated as cash flow hedge	822	74
	822	**74**

NOTE 15: OTHE LIABILITIES (in HUF million)

	2019	2018
Account payable	6,107	6,922
Current income tax payable	450	902
Provision for impairment off-balance sheet commitments and contingent liabilities	800	2,508
Accrued fees	11,477	1,126
Salaries and social security payable	49	137
Other	1,366	1,369
Subtotal	**10,249**	**12,964**
Deferred tax liabilities	77	274
Total	**10,326**	**13,238**

NOTE 16: SHARE CAPITAL (in HUF million)

All 37,000 shares are ordinary shares with a nominal value of HUF 100 thousand and are authorised and fully paid.

	2019	2018
Share capital (in HUF million)	37,000	27,000

The nominal value of the shares is HUF 100.000 per share. 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 17: RETAINED EARNINGS AND RESERVES (in HUF million)

Based on the instructions of Act C of 2000 on accounting ("Act on Accounting") effective from annual periods beginning on 1 January 2017 financial statements of the Group are prepared in accordance with IFRS as issued by the IASB as adopted by the EU.

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 Group.

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.

NOTE 17: RETAINED EARNINGS AND RESERVES (in HUF million) [continued]

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

Retained earnings

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

Balance as at 1 January, 2019	Share capital	Capital reserve	Retained earnings and reserves	Evaluation reserve	Net income after income taxes	Share capital total
Capital items according to IFRS	**27,000**	**-**	**47,650**	**-**	**-**	**74,650**
Other comprehensive income	-	-	(95)	95	-	**-**
Net profit for the year	-	-	(27,305)	-	27,305	**-**
General reserve	-	15,391	(15,391)	-	-	**-**
Capital items according to 114/B.§ of Accounting Act	**27,000**	**15,391**	**4,859**	**95**	**27,305**	**74,650**

Balance as at 31 December, 2019	Share capital	Capital reserve	Retained earnings and reserves	Evaluation reserve	Net income after income taxes	Share capital total
Capital items according to IFRS	**37,000**	**-**	**45,354**	**-**	**-**	**82,354**
Other comprehensive income	-	-	(1,090)	1,090	-	-
Net profit for the year	-	-	(26,360)	-	26,360	-
General reserve	-	18,109	(18,109)	-	-	-
Capital items according to 114/B.§ of Accounting Act	**37,000**	**18,109**	**(205)**	**1,090**	**26,360**	**82,354**

Dividends are recognised in the period in which they are approved by the owners. In 2019 the Group paid HUF 27,500 million dividend from the profit for the year 2018. Regarding to the net income for the year 2019 dividend is expected to be proposed by the management in amount of HUF 14,000 million.

	2019	**2018**
Retained earnings	18,994	20,345
Net profit for the year	26,360	27,305
Untied retained earnings	**45,354**	**47,650**

NOTE 18: INTEREST SUBSIDIES RELATED TO HOUSING LOANS

During 2019, 5 types of interest subsidised loans were among OTP Mortgage Bank's portfolio:

(i) loans granted before 16 June 2003
(ii) loans granted between 16 June 2003 and 22 December 2003
(iii) loans granted between 22 December 2003 and 30 June 2009
(iv) loans granted after 1 October 2009
(v) Family Housing loans granted after 2012 including interest subsidy of families with three or more children, and including interest subsidy of housing loans at preferred townships.

Interest subsidised loans fulfil the following conditions

- granted for purchase, building of new property, or purchase, renovation, enlargement of existing property
- maximised interest rate
- interest subsidy fixed to the reference rate of the government bonds or to the reference rate of the issued mortgage bonds
- subsidy till the maturity of the loan, but maximum for 20 years, and loans granted after 2012 maximum for 5 years (except the subsidized mortgage loans of families with 3 children – or from 1 December 2018 families more than 3 children - granted maximum 25 years).

Relevant elements of the currently available interest subsidised loans:

- the applicants can be dedicated people in the Government Regulation
- purpose of the loan:
  - purchasing or building of new property
  - purchasing or modernisation or enlargement of used property

- in case of building or purchasing of property the building costs or the purchase price without the building plot price shall not exceed the amount of HUF 30 million, in case of purchase of used properties the amount of HUF 20 million, in case of modernization, enlargement and building/purchasing at a preferred township the cost shall not exceed the amount of HUF 15 million.interest subsidy loan amount shall not exceed in case of new properties the amount of HUF 15 million, and in case of used properties the amount of HUF 10 million. The interest subsidy is determined in the per cent of government bonds' yields depending on the purpose of the loan, and it can be granted as a maximum for 5 years.
- Families with three children - or from 1 December 2018 families more than 3 children - can apply maximum HUF 10 million loan, families with two children can apply maximum 15 million loan for building or purchasing of property, next to the family housing allowance without building cost and purchase price limit, and interest payment subsidized by the State for the first 25 years of the term.

The interest subsidy of housing loans at preferred townships is granted by the State for the first 25 years of the term. By the end of 2019, OTP Mortgage Bank had disbursed HUF 273,692 million of Family Housing Loans, its closing balance at the year was HUF 215,844 million.

NOTE 19: INTEREST INCOME AND EXPENSES (in HUF million)

	2019	2018
Interest income accounted for using the effective interest rate method from / on		
Loans at amortised cost	50,431	48,209
FVOCI securities	507	218
Placements with other banks	1.138	763
Amounts due from banks and balances with National Bank of Hungary	17	11
Interest subsidy on housing loans financed by mortgage bonds	10,965	13,364
Subtotal	**63,058**	**62,565**
Income similar to interest income		
Swap and forward deals related to Placements with other banks	(232)	2,730
Subtotal	**(232)**	**2,730**
Interest income total	**62 826**	**65,295**
Interest expense due to / from / on		
Amounts due to banks and deposits from the National Bank of Hungary and other banks	8,968	9,556
Leasing liabilities	9	-
Liabilities from issued securities	24,648	24,796
Subtotal	**33,625**	**34,352**

NOTE 20: RISK COST (in HUF million)

	2019	2018
Loss allowance of loans at amortised cost		
Loss allowance	(12,114)	(11,581)
Release of loss allowance	15,940	18,382
Loan losses	(584)	(1,639)
	3,242	**5,162**
Loss allowance of placements with other banks		
Loss allowance	(51)	(90)
Release of loss allowance	27	67
	(24)	**(23)**
Loss allowance of FVOCI securities		
Loss allowance	(53)	(31)
Release of loss allowance	47	33
	(6)	**2**
Provision on loan commitments and financial guarantees		
Provision for the period	(3,092)	(6,173)
Release of provision	3,403	6,700
	311	**527**
Risk cost total	**3 523**	**5,668**

NOTE 21: NET PROFIT FROM FEES AND COMMISSIONS (in HUF million)

Income from fees and commissions

	2019	2018
Fees and commissions relating to lending	1,139	1,230
Other	210	332
Total	**1,349**	**1,562**

Expense from fees and commissions

	2019	2018
Fees and commissions relating to issued securities	(244)	(168)
Fees and commissions relating to lending	(2,522)	(2,281)
Others	(433)	(393)
Total	**(3,199)**	**(2,842)**
Net loss from fees and commissions	**(1,850)**	**(1,280)**

The other fees mainly consist of the cost of services in connection with lending activity and mortgage bond issues, which are not directly attributable to separate issuance.

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
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 %.	
Other	Fees that are not significant in the Banks total income are included in Other fees category. Such fees are, 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 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 22: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF million)

	2019	2018
Foreign exchange operations losses/gains	**(6)**	**2**
Other operating income		
Gains on transactions related to property activities	748	715
Other	178	155
Total	**926**	**870**
Net other operating expense		
Provisions for future liabilities	(1,364)	548
Non- repayable assets contributed	991	1,562
Other	41	67
Total	**(332)**	**2,177**
Personnel expenses		
Wages	(933)	(722)
Taxes related to personnel expenses	(198)	(166)
Other personnel expenses	(139)	(106)
Total	**(1,270)**	**(994)**
Depreciation and amortization	**(199)**	**(112)**
Taxes, other than income tax:		
Bank tax	*991*	*2,009*
Other taxes	*941*	*936*
Total taxes, other than income tax	1,932	2,945
Services	1,002	637
Professional, supervisory fees	467	386
Rental fees	183	198
Material type expenses	24	50
Administration expenses	27	25
Advertising	269	195
Total	**3,904**	**4,436**

Taxes, other than income taxes are Credit institution's contribution that is payable by the Group on HUF denominated loans having interest subsidy from the Hungarian government, bank tax and other local taxes in 2019.

NOTE 22: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF million) [continue]

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

	2019	2018
Annual audit	59	44
Other non-audit services	-	6
Total	**59**	**50**

NOTE 23: COMPENSATION OF KEY MANAGEMENT PERSONNEL (in HUF million)

	2019	2018
Key executives (Managing Director and Deputies)	54	53
Total	**54**	**53**

NOTE 24: INCOME TAX (in HUF million)

The Group is presently liable for income tax at a rate of 9% of taxable income.
A reconciliation of the total income tax charge for the years ended 31 December 2019 and 2018 is as follows:

	2019	2018
Current tax expense	688	1,442
Deferred tax (benefit)/expense	(295)	(264)
Total income tax expense/(benefit)	**393**	**1,178**

A reconciliation of the deferred tax liability as at 31 December 2019 and 2018 is as follows:

	2019	2018
Balance as at 1 January	**(274)**	**(557)**
Recognized in other comprehensive income as tax benefit/(expense)	(98)	19
Deferred tax benefit/(expense)	295	264
Balance as at 31 December	**(77)**	**(274)**

A reconciliation of deferred tax assets and liabilities as at 31 December 2019 and 2018 is as follows:

	2019	2018
Premium amortization for at fair value through other comprehensive income financial assets	-	19
Below market fair value adjustment in accordance with regulations related to customer loans	-	189
IFRS 9 transition difference	-	46
Deferred tax assets	**-**	**254**
Fair value adjustment for at fair value through other comprehensive income financial assets	(106)	(8)
Fair value adjustment of other derivative financial instrument	-	(2)
Effect of using effective interest rate method	31	(516)
Premium amortization for available for issued securities	-	-
One-off effect arising on transition to IFRS	(2)	(2)
Difference in depreciation and amortization	**(77)**	**(528)**
Deferred tax liabilities		
Net deferred tax liabilities	**(77)**	**(274)**

A reconciliation of the effective tax rate as at 31 December 2019 and 2018 is as follows:

	2019	2018
Profit before income tax	26,753	28,483
Income tax at statutory tax rate	2,408	2,563
Income tax adjustments due to permanent differences are as follows:		
Permanent differences due to local tax	-	57
Tax allowance for the year	-	(1,457)
Tax allowance (group membership)	(2,081)	-
OTP Ingatlanpont Ltd. negative profit before income tax	25	-
OT Financial Point Llc. negative profit before income tax	20	-
Other	21	**15**
Income tax	**393**	**1,178**
Effective tax-rate	*1.47%*	*4.14%*

NOTE 25: LEASE (in HUF million)

The Bank as a lessee:

At initial application of IFRS 16 the Group 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	425
Prepaid or accrued lease payments as at 31 December 2018	-
Right-of-use asset	425
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: ~2.9375 %.

Amounts recognised in profit and loss	**2019**
Interest expense on lease liabilities	9
Expense relating to short-term leases	169
Expense relating to leases of low value assets	-
Rental fees for software	36
Expense relating to variable lease payments not included in the measurement of lease liabilities	-

Leasing liabilities by maturities:

Within one year	108
Over one year	306
Total	**414**

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**
Balance as at 1 January	424
Additions due to new contracts	28
Derecognition due to matured contracts	-
Change due to revaluation and modification	52
Closing balance	**504**
Depreciation	
Balance as at 1 January	-
Depreciation charge	99
Derecognition due to matured contracts	-
Closing balance	**99**
Net carrying amount	**405**

NOTE 26: EARNINGS PER SHARE

Earnings per share attributable to ordinary shares are determined by dividing Net profit for the year by the weighted average number of ordinary shares outstanding during the period. The Group has no preference shares and no options or other rights related to shares.

	2019	2018
Net profit for the year (in HUF million)	26,360	27,305
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	370,000	270,000
EPS (in HUF) basic and diluted	**71,243**	**101,130**

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF million)

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[1]:

27.1. Credit risk

The Group takes on exposure to credit risk, which is the risk that the counter-party will be unable to pay amounts in full when due. The risk of the mortgage lending activity is controlled and the safety is enhanced by the legal environment, which provides that loans can only be extended against a specific collateral of real property and with certain legal assurances.
In the treasury activity the Group structures the levels of credit risk it undertakes by placing limits to each counter-party. Actual exposures against limits are monitored daily.

27.1.1. Analysis by loan types

Defining the expected credit loss on individual and collective basis

On individual basis:

The following non-retail, micro- and small enterprise exposures fall under the individual assessment:

- 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 take into account 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 the possible difference between the realised cash flows and 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.

[1] The management of liquidity risk related to financial instruments are shown in Note 28.

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

27.1. Credit risk [continued]

27.1.1. Analysis by loan types [continued]

On a collective valuation 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 exposures which are insignificant on a stand-alone basis and not part of the workout management,
- exposure which are not in stage 3, and are 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 27: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

27.1. Credit risk [continued]

27.1.1. Analysis by loan types [continued]

Gross carrying amount and accumulated impairment of financial assets at amortized cost by IFRS 9 stages as at 31 December 2019:

		Gross carrying amount					Loss allowance				
	Carrying amount	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired financial assets**	**Total**	**Stage1**	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired financial assets**	**Total**
Cash, amounts due from banks and balances with the National Bank of Hungary	2,584	2,584	-	-	-	2,584	-	-	-	-	-
Placements with other banks, net of allowance for placement losses	135,963	136,102	-	-	-	136,102	139	-	-	-	139
Mortgage loans	*1,175,158*	*1,133,789*	*29,833*	*16,770*	*323*	*1,180,715*	*2,777*	*990*	*1,772*	*18*	*5,557*
Corporate loans	*4,017*	*3,939*	*128*	*44*	-	*4,111*	*41*	*28*	*25*	-	*94*
Loans at amortized cost	1,179,175	1,137,728	29,961	16,814	323	1,184,826	2,818	1,018	1,797	18	5,651
FVOCI securities[1]	18,922	18,922	-	-	-	18,922	18	-	-	-	18
Other financial assets	*1,404*	*477*	*1,073*	*5*	-	*1,555*	-	*150*	*1*	-	*151*
Other non-financial assets	*1,266*	*1,085*	*182*	-	-	*1,267*	*1*	-	-	-	*1*
Other assets	2,670	1,562	1,255	5	-	2,822	1	150	1	-	152
Financial assets total	**1,339,314**	**1,296,898**	**31,216**	**16,819**	**323**	**1,345,256**	**2,976**	**1,168**	**1,798**	**18**	**5,960**
Off balance sheet items	48,008	44,569	3,579	378	-	48,526	248	210	60	-	518

[1] FVOCI securities are recognised and measured at fair value in the Consolidate Statement of Financial Position (see in the Note 6.). Loss allowance on FVOCI securities is recognised in the Consolidate Statement of Comprehensive Income, which is included in this table as a part of the loss allowance.

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

27.1. Credit risk [continued]

27.1.1. Analysis by loan types [continued]

Gross carrying amount and accumulated impairment of financial assets at amortized cost by IFRS 9 stages as at 31 December 2018:

		Gross carrying amount					Loss allowance				
	Carrying amount	**Stage 1**	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired financial assets**	**Total**	**Stage1**	**Stage 2**	**Stage 3**	**Purchased or originated credit impaired financial assets**	**Total**
Cash, amounts due from banks and balances with the National Bank of Hungary	3,369	3,369	-	-	-	3,369	-	-	-	-	-
Placements with other banks, net of allowance for placement losses	127,636	127,751	-	-	-	127,751	115	-	-	-	115
Mortgage loans	*1,058,108*	*1,005,953*	*46,103*	*15,110*	*358*	1,067,524	*3,636*	*3,023*	*2,737*	*20*	9,416
Corporate loans	*5,121*	*4,893*	*192*	*97*	-	5,182	*16*	*11*	*34*	-	61
Loans at amortized cost	1,063,229	1,010,846	46,295	15,207	358	1,072,706	3,652	3,034	2,771	20	9,477
FVOCI securities[1]	10,647	10,647	-	-	-	10,647	12	-	-	-	12
Financial assets total	**1,204,881**	**1,152,613**	**46,295**	**15,207**	**358**	**1,214,473**	**3,779**	**3,034**	**2,771**	**20**	**9,604**
Off balance sheet items	35,115	29,117	6,793	34	-	35,944	188	634	7	-	829

[1] FVOCI securities are recognised and measured at fair value in the Separate Statement of Financial Position (see in the Note 6.). Loss allowance on FVOCI securities is recognised in the Statement of Comprehensive Income, which is included in this table as a part of the loss allowance.

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

27.1.1. Analysis by loan types [continued]

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

Loans at amortised cost

2019.12.31	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loss allowance as at 1 January 2019 IFRS 9	**3,652**	**3,034**	**2,771**	**20**	**9,477**
Transfer to Stage 1	62	(1,400)	(122)	-	(1,460)
Transfer to Stage 2	(88)	457	(520)	-	(151)
Transfer to Stage 3	(54)	(374)	969	-	541
Net remeasurement of loss allowance	(1,174)	(811)	(945)	(1)	(2,931)
New financial assets originated or purchased	708	224	102	-	1,034
Financial assets derecognised (other than write-offs)	(288)	(112)	(458)	(1)	(859)
Unwind of discount	-	-	173	1	**174**
Write-offs	-	-	(173)	(1)	**(174)**
Loss allowance as at 31 December 2019	**2,818**	**1,018**	**1,797**	**18**	**5,651**

Loans at amortised cost

2018.12.31	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loss allowance as at 1 January 2018 IFRS 9	5,848	4,771	5,629	28	16,276
Transfer to Stage 1	120	(1,972)	(326)	-	(2,178)
Transfer to Stage 2	(170)	1,451	(1,454)	-	(173)
Transfer to Stage 3	(21)	(313)	771	-	437
Net remeasurement of loss allowance	(2,473)	(876)	(692)	(3)	(4,044)
New financial assets originated or purchased	821	145	18	-	984
Financial assets derecognised (other than write-offs)	(465)	(172)	(1,173)	(5)	(1,815)
Unwind of discount	-	-	748	35	783
Write-offs	(8)	-	(750)	(35)	(793)
Loss allowance as at 31 December 2018	**3,652**	**3,034**	**2,771**	**20**	**9,477**

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

27.1.1. Analysis by loan types [continued]

Placements with other banks, net of allowance for placement losses

2019.12.31	Stage 1	Total
Loss allowance as at 1 January 2019	115	115
Financial assets derecognised (other than write-offs)	29	29
Net remeasurement of loss allowance	(5)	(5)
Loss allowance as at 31 December 2019	**139**	**139**

Placements with other banks, net of allowance for placement losses

2018.12.31	Stage 1	Total
Loss allowance as at 1 January 2018	92	92
Net remeasurement of loss allowance	23	23
Loss allowance as at 31 December 2018	**115**	**115**

Securities at amortised cost

2019.12.31	Stage 1	Total
Loss allowance as at 1 January 2019	12	12
New financial assets originated or purchased	18	18
Financial assets derecognised (other than write-offs)	(12)	(12)
Loss allowance as at 31 December 2019	**18**	**18**

Securities at amortised cost

2018.12.31	Stage 1	Total
Loss allowance as at 1 January 2018	14	14
New financial assets originated or purchased	12	12
Financial assets derecognised (other than write-offs)	(14)	(14)
Loss allowance as at 31 December 2018	**12**	**12**

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

27.1. Credit risk [continued]

27.1.1. Analysis by loan types [continued]

Off Balance sheet items

2019.12.31	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loss allowance as at 1 January 2019	188	635	6	829
Transfer to Stage 1	7	(569)	(6)	(568)
Transfer to Stage 2	(2)	3	-	1
Transfer to Stage 3	(1)	(29)	18	(12)
Net remeasurement of loss allowance	(141)	(26)	-	(167)
New financial assets originated or purchased	222	196	42	460
Financial assets derecognised (other than write-offs)	(25)	-	-	(25)
Loss allowance as at 31 December 2019	**248**	**210**	**60**	**518**

Off Balance sheet items

2018.12.31	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loss allowance as at 1 January 2018	259	1,087	9	1,355
Transfer to Stage 1	5	(951)	(8)	(954)
Transfer to Stage 2	(2)	2	-	-
Transfer to Stage 3	(1)	-	1	-
Net remeasurement of loss allowance	(229)	(69)	-	(298)
New financial assets originated or purchased	167	590	5	762
Financial assets derecognised (other than write-offs)	(11)	(24)	(1)	(36)
Loss allowance as at 31 December 2018	**188**	**635**	**6**	**829**

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

Collateral

The collateral value held by the Group by types is as follows (**total collateral value**). The collateral cover loan as well as off-balance sheet exposures.

Types of collateral	2019	2018
Government guarantees	38,565	47,134
Mortgage	3,434,086	2,961,102
Total	**3,472,651**	**3,008,236**

The collateral value held by the Group by types is as follows (**to the extent of the exposures**). The collateral cover loan as well as off-balance sheet exposures.

Types of collateral	2019	2018
Government guarantees	38,371	46,921
Mortgage	1,174,789	1,074,993
Total	**1,213,160**	**1,121,914**

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

2019	Gross carrying amount	Loss allowance	Carrying amount	Collateral value
Mortgage loans	16,828	(1,782)	15,046	48,020
Corporate loans	44	(25)	19	-
Total	**16,872**	**(1,807)**	**15,065**	**48,020**

2018	Gross carrying amount	Loss allowance	Carrying amount	Collateral value
Mortgage loans	15,144	(2,743)	12,401	34,158
Corporate loans	98	(35)	63	201
Total	**15,242**	**(2,778)**	**12,464**	**34,359**

Restructured loans

	2019		2018	
	Gross portfolio	Allowance	Gross portfolio	Allowance
Retail loans	5,216	(169)	9,153	(1,016)
Total	**5,216**	**(169)**	**9,153**	**(1,016)**

Restructured definition used by the Bank is in accordance with EBA (EU) 2015/227 regulation.

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

27.1. Credit risk [continued]

At fair value through other comprehensive income securities as at 31 December 2019

	Baa3		Not rated		Total
Hungarian government bonds	18,922	100.00%	-	0.00%	18,922
Total	**18,922**	**100.00%**	**-**	**0.00%**	**18,922**

27.2. Market risk

Market risks arise from positions taken in securities and other instruments. The Group takes no significant exposure to market risks. Market risks are generally monitored and controlled by the Asset and Liability Management function.

27.2.1. Interest rate sensitivity analysis[1]

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 the adverting 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.
- The assets and liabilities with interest rate that is lower than 0.3% assumed to be unchanged during the whole period.
- The sensitivity of interest income to changes in BUBOR is analysed.

The simulation were prepared by assuming two 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 beginning with January 1, 2019 would be increased by HUF 141 million (scenario 1) and increased by HUF 477 million (scenario 2) as a result of these simulation.

The effects of the parallel shifts of the yield-curves to the net interest income on a one-year period can be summarized as follows:

Description		**Effects to the net interest income in one year period**	
		2019	**2018**
HUF	(0.1%) parallel shift	178	(29)
HUF	0.1% parallel shift	(178)	28
Total		**(178)**	**(29)**

[1] Quantitative data on interest rate risk are shown in Note 26

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

27.2. Market risk [continued]

27.2.2. Foreign exchange rate sensitivity analysis

The foreign exchange sensitivity analysis have been determined based on the net open position, taking into account both balance sheet exposure and off balance sheet exposure. The simulation was made on the assumption, that the price changes happens as a one off event, and neither does it take into consideration possible balance sheet dynamics, nor the potential increase or decrease of risk costs related to foreign exchange denominated assets.

The total net open position of OTP Mortgage Bank was 23 million HUF short on 31th December 2019 (compared to 3 million HUF as of 31/12/2018), which consisted of EUR and JPY exposure. Since OTP Mortgage Bank has completed the conversion of foreign currency consumer mortgage loans into HUF, from its operation does not arise material FX exposures. The potential loss on current open foreign exchange exposure is marginal compared to the regulatory capital of the Bank.

27.3. 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 includes the management and evaluation of the shareholder's 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 in the short turn is the continuous monitoring of its capital position, in the long turn the strategic and the business planning, which includes the monitoring and forecast of the capital position of the Group.
The Group 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 Group exceeded its Core and Supplementary capital, the Group ensures the prudent operation by occasional measures including the owner of the Group.

Capital adequacy

The capital adequacy of the Group is supervised based on the financial statements data prepared in accordance with the International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB) and accepted by the European Union, rulings and indicators defined by the Basel Committee.
The Group has entirely complied with the regulatory capital requirements for the year similar to prior years.
The capital adequacy calculations of the Group for the year 2019 are prepared based on the data of the audited financial statements prepared in accordance with IFRS. The Group uses the standard method for determining the regulatory capital requirements of the credit risk and market risk, and the alternative standard method in case of the operational risk. In 2019 the Mortgage Bank's solvency ratio is 14.0%. Regulatory capital is 76,897 million HUF; the total required regulatory capital is 43,895 million HUF.

In HUF million	**2019 IFRS**	**2018 IFRS**
Core capital	76,897	55,631
Supplementary capital	-	-
Regulatory capital	**76,897**	**55,631**
Credit risk capital requirement	41,028	36,160
Market risk capital requirement	-	52
Operational risk capital requirement	1,867	1,428
Total required regulatory capital	**43,895**	**37,641**
Surplus capital	**33,002**	**17,991**
Solvency ratio	**14,0%**	**11,8%**

NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]

27.3. Capital management [continued]

Capital adequacy [continued]

The positive components of the Core capital are the following:

Issued capital, Retained earnings of the previous year, Retained earnings, Cumulative Comprehensive Income, Other Reserves

The negative components of the Core capital are the following:

Prudential filter, Intangible assets

NOTE 28: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF million)

Off balance sheet items

	2019	2018
Current litigations	1,465	1,642
Loan facilities	48,527	35,944
Collateral	3,550	1,059
Other	180	1,511
Contingent and future liabilities total	**53,722**	**40,156**

NOTE 29: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF million)

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.

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.

In 2019, the following values were used as a personal expense for locally identified executives in share-based remuneration:

The year 2016	The year 2017	The year 2018	The year 2019	Total
0,72	3,01	4,88	29,23	37,84

[1] Until the end of 2014 Board of Directors

NOTE 30: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK (in HUF million)

As at 31 December 2019

	CHF	EUR	JPY	Total
Assets	10	12	326	348
Liabilities	(9)	(39)	(326)	(374)
Net position	1	(27)	-	(26)

As at 31 December 2018

	CHF	EUR	JPY	Total
Assets	11	16	362	389
Liabilities	(14)	(37)	(362)	(413)
Net position	(3)	(21)	0	(24)

Whilst the Group monitors its foreign exchange position for compliance with the regulatory requirements of the NBH and own limit system established in respect of limits on open positions. The measurement of the Group's open foreign currency position involves monitoring the VaR limit on the foreign exchange exposure of the Group.

NOTE 31: RELATED PARTY TRANSACTIONS (in HUF million)

30.1. Outstanding balances/Transactions due from or due to OTP Bank Plc.

30.1.1. Outstanding balances in the Consolidated Statement of Financial Position related to OTP Bank Plc.

The Group had the following assets and liabilities due from, or due to the OTP Bank Plc.:

Assets	2019	2018
Cash, amounts due from OTP Bank	481	3,368
Placements with OTP Bank	31,781	42,001
Accrued receivables	35	60

Liabilities	2019	2018
Amounts due to OTP Bank and other banks	(676,761)	(508,617)
Face value of issued mortgage bonds held by OTP Bank	(99,465)	(125,137)
Accrued interest expense due to OTP Bank	(3,053)	(3,423)
Other liabilities due to OTP Bank	(5,899)	(6,998)

31.1.2. Transactions in the Consolidated Statement of Profit or Loss related to OTP Bank Plc.

	2019	2018
Interest income	1,498	9,913
Interest expense	(21,774)	(916)
Account handling fees paid to OTP Bank	7,101	8,417
Other fees and commissions relating to lending received from OTP Bank	(570)	4
Other fees and commissions relating to lending paid to OTP Bank	(2,743)	(158)
Revenue from the value appraisal activity from OTP Bank	561	597

31.1.3. Transactions of the Mortgage Bank's loan portfolio related to OTP Bank Plc.

	2019	2018
Performing loans purchased from OTP Bank	-	398
Book value of performing loans purchased from OTP Bank	-	402

NOTE 31: RELATED PARTY TRANSACTIONS (in HUF million) [continued]

31.2. Outstanding balances related to key management personnel

The management, the members of the Board of Directors and the Supervisory Board and their close relatives have loans of HUF 1,449.2 million as at 31 December 2019. These loans were covered by HUF 3,184.8 million mortgages, which can be categorized into 3 different interest periods:

5 years:	3.1% - 15.32%
10 years:	5.7% - 9.26%
20 years:	8.4% - 8.8%

The APR[1] rate at the time the loan is disbursed is based on current market rates.

Compensations	**2019**
Share-based payment	37
Long-term employee benefits (on the basis of IAS 19)	10
Total	**47**

31.3. Outstanding balances/Transactions related to other related party[2]

31.3.1. Transactions related to OTP Building Society Ltd.

	2019	**2018**
Face value of issued mortgage bonds held by OTP Building Society Ltd.	52,742	53,281
Accrued interest expense	(1,889)	(2,046)

31.3.2. Transactions of OTP Mortgage Bank's loan portfolio related to OTP Faktoring Ltd.

	2019	**2018**
Book value of non-performing loans sold to OTP Faktoring Ltd.	1,049	2,238
Selling price of the non-performing loans related to OTP Faktoring Ltd.	930	1,985

31.3.3. Transactions related to Merkantil Bank Ltd.

	2019	**2018**
Face value of issued mortgage bonds held by Merkantil Bank Ltd.	45,000	45,000
Accrued interest expense	(2,069)	(2,075)

31.3.4. Further Outstanding balances/Transactions related to other related party

	2019	**2018**
Other liabilities due to other related party	80	21
Other operating income from other related party	75	(17)
Revenue from the value appraisal activity from OTP Faktoring Ltd. and from other related party	504	545

Compensation of key management personnel is shown in Note 23.

In the normal course of the business the Group enters into other transactions with the entities within the OTP Group, the amounts and volumes of which are not significant to these financial statements taken as a whole. Only significant transactions were highlighted.

[1] Annual Percentage Rate

[2] The Group has significant transactions with OTP Building Society Ltd., OTP Faktoring Ltd. and Merkantil Bank Ltd. in OTP Group, these transactions are highlighted.

NOTE 32: 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 Group '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 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 32: INTEREST RATE RISK MANAGEMENT [continued]

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	**473**	**-**	**2,106**	**5**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,579**	**5**	**2,584**
fixed interest	405	-	2,106	5	-	-	-	-	-	-	-	-	2,511	5	2,516
variable interest	68	-	-	-	-	-	-	-	-	-	-	-	68	-	68
Placements with other banks	**-**	**-**	**38,966**	**-**	**-**	**-**	**96,997**	**-**	**-**	**-**	**-**	**-**	**135,963**	**-**	**135,963**
fixed interest	-	-	38,966	-	-	-	96,997	-	-	-	-	-	135,963	-	135,963
Securities at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**18,922**	**-**	**-**	**-**	**18,922**	**-**	**18,922**
fixed interest	-	-	-	-	-	-	-	-	18,922	-	-	-	18,922	-	18,922
Loans	**126,958**	**170**	**264,230**	**171**	**99,396**	**2**	**58,169**	**-**	**630,079**	**-**	**-**	**-**	**1,178,832**	**343**	**1,179,175**
fix interest	-	-	-	-	-	-	-	-	607,665	-	-	-	607,665	-	607,665
variable interest	126,958	170	264,230	171	99,396	2	58,169	-	22,414	-	-	-	571,167	343	571,510
Derivative financial assets designated as hedge accounting relationships	-	-	-	-	-	-	-	-	**229**	-	-	-	**229**	-	**229**
variable interest	-	-	-	-	-	-	-	-	229	-	-	-	229	-	229
Other financial assets	**-**	**-**	**-**	**-**	**484**	**-**	**-**	**-**	**-**	**-**	**920**	**-**	**1,404**	**-**	**1,404**
fixed interest	-	-	-	-	484	-	-	-	-	-	-	-	484	-	484
non-interest bearing	-	-	-	-	-	-	-	-	-	-	920	-	920	-	920

NOTE 32: INTEREST RATE RISK MANAGEMENT [continued]

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 OTP Bank and other banks	**-**	**-**	**-**	**-**	**636,373**	**345**	**-**	**-**	**40,244**	**-**	**-**	**-**	**676,617**	**345**	**676,962**
fixed interest	-	-	-	-	636,373	345	-	-	40,244	-	-	-	676,617	345	676,962
Liabilities from issued securities	**-**	**-**	**131,816**	**-**	**437,528**	**-**	**-**	**-**	**-**	**-**	-	-	**569,344**	**-**	**569,344**
fixed interest	-	-	-	-	437,528	-	-	-	-	-	-	-	437,528	-	437,528
variable interest	-	-	131,816	-	-	-	-	-	-	-	-	-	131,816	-	131,816
Derivative financial liabilities designated as hedge accounting relationships	**-**	**-**	-	-	-	-	-	-	**822**	-	-	-	**822**	-	**822**
variable interest	-	-	-	-	-	-	-	-	822	-	-	-	822	-	822
Leasing liabilities	**5**	**4**	**11**	**7**	**49**	**33**	**49**	**35**	**182**	**39**	**-**	**-**	**296**	**118**	**414**
fixed interest	5	4	11	7	49	33	49	35	182	39	-	-	296	118	414
Other financial liabilities	-	-	-	-	-	-	-	-	-	-	**9,522**	-	**9,522**	-	**9,522**
non-interest bearing	-	-	-	-	-	-	-	-	-	-	9,522	-	9,522	-	9,522
NET POSITION	**127,426**	**166**	**173,475**	**169**	**(974,070)**	**(376)**	**155,117**	**(35)**	**607,982**	**(39)**	**118,356**	**170**	**81,328**	**(115)**	**81,113**

NOTE 32: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]

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	**-**	**-**	**3,369**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,369**	**-**	**3,369**
fixed interest	-	-	3,369	-	-	-	-	-	-	-	-	-	3,369	-	3,369
Placements with other banks	**127,615**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**21**	-	**127,636**	**-**	**127,636**
fixedinterest	85,615	-	-	-	-	-	-	-	-	-		-	85,615	-	85,615
variable interest	42,000	-	-	-	-	-	-	-	-	-		-	42,000	-	42,000
non-interest bearing	-	-	-	-	-	-	-	-	-	-	21	-	21	-	21
Securities at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**10,303**	**-**	**-**	**-**	**-**	**-**	**344**	-	**10,647**	**-**	**10,647**
fixed interest	-	-	-	-	10,303	-	-	-	-	-		-	10,303	-	10,303
non-interest bearing	-	-	-	-		-	-	-	-	-	344	-	344	-	344
Loans	**167,485**	**181**	**314,769**	**207**	**85,156**	**-**	**56,778**	**-**	**438,653**	**-**	**-**	-	**1,062,841**	**388**	**1,063,229**
fix interest	-	-	-	-	-	-	-	-	5,649	-	-	-	5,649	-	5,649
variable interest	167,485	181	314,769	207	85,156		56,778	-	433,004	-	-	-	1,057,192	388	1,057,580
Derivative financial assets designated as hedge accounting relationships	-	-	-	-	-	-	-	-	**1,837**	**-**	**-**	-	**1,837**	**-**	**1,837**
variable interest	-	-	-	-	-	-	-	-	1,837	-	-	-	1,837	-	1,837
Other assets	**702**	**-**	**-**	**-**	-	-	-	**-**	**-**	**-**	**-**	-	**702**	**-**	**702**
Customers	**585**	**-**	**-**	**-**	-	-	-	**-**	**-**	**-**	**-**	-	**585**	**-**	**585**
fixed interest	585	-	-	-	-	-	-	-	-	-	-	-	585	-	585
Accrued receivables	**117**	**-**	**-**	**-**	-	-	-	**-**	**-**	**-**	**-**	-	**117**	**-**	**117**
fixed interest	117	-	-	-	-	-	-	-	-	-	-	-	117	-	117

NOTE 32: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]

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 OTP Bank and other banks	-	-	**99**	**387**	**467,759**	-	**12,194**	-	**28,027**	-	**444**	-	**508,523**	**387**	**508,910**
fixed interest	-	-	99	387	467,759	-	12,194	-	28,027	-	-	-	508,079	387	508,466
variable interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest bearing	-	-	-	-	-	-	-	-	-	-	444	-	444	-	444
Liabilities from issued securities	-	-	**39,265**	-	-	-	**10,115**	-	**551,469**	-	**11,074**	-	**611,923**	-	**611,923**
fixed interest	-	-	39,265	-	-	-	10,115		421,518	-	-	-	470,898	-	470,898
variable interest	-	-	-	-	-	-	-	-	129,951	-	-	-	129,951	-	129,951
non-interest bearing	-	-	-	-	-	-	-	-	-	-	11,074	-	11,074	-	11,074
Derivative financial liabilities designated as hedge accounting relationships	-	-	-	-	-	-	-	-	**74**	-		-	**74**	-	**74**
variable interest	-	-	-	-	-	-	-	-	74	-	-	-	74	-	74
Other liabilities	**7,733**	-	-	-	-	-	-	-	-	-	-	-	**7,733**	-	**7,733**
Suppliers	**6,922**	-	-	-	-	-	-	-	-	-	-	-	**6,922**	-	**6,922**
fixed interest	6,922	-	-	-	-	-	-	-	-	-	-	-	6,922	-	6,922
Accrued receivables	**811**	-	-	-	-	-	-	-	-	-	-	-	**811**	-	**811**
fixed interest	811	-	-	-	-	-	-	-	-	-	-	-	811	-	811
NET POSITION	**288,069**	**181**	**278,297**	**(180)**	**(372,300)**	-	**34,469**	-	**(139,170)**	-	**(111,53)**		**78,779**	**1**	**78,780**

NOTE 33: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF million)

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 laid down by the NBH.

The following tables provide an analysis of liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities.

The contractual amounts disclosed in the maturity analyses are the contractual undiscounted cash flows like gross finance lease obligations (before deducting finance charges); prices specified in forward agreements to purchase financial assets for cash; net amounts for pay-floating/receive-fixed interest rate swaps for which net cash flows are exchanged; contractual amounts to be exchanged in a derivative financial instrument for which gross cash flows are exchanged; gross loan commitments.

Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in that statement is based on discounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the end of the period.

As at 31 December 2019	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, due from banks and balances with the National Bank of Hungary	2,583	-	-	-	-	2,583
Placements with other banks, net of allowance for placement losses	33,474	5,527	97,100	-	-	136,101
Securities at fair value through other comprehensive income	435	-	-	15,000	-	15,435
Loans	21,669	64,423	332,429	766,307	-	1,184,828
Intangible assets	-	-	-	-	*184*	184
Derivative financial assets designated as hedge accounting relationships	-	-	32	197	-	229
Property and equipment	-	-	-	-	*90*	90
Other financial assets	1,111	444	-	-	-	1,555
TOTAL ASSETS	**59,272**	**70,394**	**429,561**	**781,504**	**274**	**1,341,005**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	201	636,508	12,204	28,049	-	676,962
Liabilities from issued securities	8,017	10,001	398,100	150,000	-	566,118
Derivative financial liabilities designated as hedge accounting relationships	-	-	264	558	-	822
Leasing liabilities	27	81	281	25	-	414
Other financial liabilities	8,324	491	-	-	-	8,815
TOTAL LIABILITIES	**16,569**	**647,082**	**410,849**	**178,632**	**-**	**1,253,131,**
Receivables from derivative financial instruments designated as fair value hedge	-		32	197	-	229
Liabilities from derivative financial instruments designated as fair value hedge	-		264	558	-	822
Net position of financial instruments designated as fair value hedge	-		(232)	(361)	-	(593)
Net position of derivative financial instruments total	**-**		**(232)**	**(361)**	**-**	**-593**
Commitments to extend credit	4,207	801	43,519	-	-	48,527
Off-balance sheet commitments	**4,207**	**801**	**43,519**	-	-	**48,527**

NOTE 33: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF million) [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, due from banks and balances with the National Bank of Hungary	3,369	-	-	-	-	3,369
Placements with other banks, net of allowance for placement losses	43,296	4,403	79,936	-	-	127,635
Securities at fair value through other comprehensive income	344	10,000	-	-	-	10,344
Loans	14,388	60,726	322,854	*649,646*		1,048,064
Derivative financial assets designated as hedge accounting relationships	-	-	-	*1,837*	-	1,837
Property and equipment	-	-	-	-	*86*	86
Intangible assets	-	-	-	-	*174*	174
Other financial assets	702	-	-	-	-	702
TOTAL ASSETS	**62,099**	**75,129**	**402,790**	**651,483**	**260**	**1,191,761**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	387	467,972	12,205	28,346	-	508,910
Liabilities from issued securities	50,324	-	177,100	381,000	-	608,424
Derivative financial liabilities designated as hedge accounting relationships	-	-	-	74	-	74
Other financial liabilities	7,736		-	-	-	7,736
TOTAL LIABILITIES	**58,447**	**467,97**	**189,305**	**409,420**	**-**	**1,125,144**
Receivables from derivative financial instruments designated as fair value hedge	-	-	277	1,560	-	1,837
Liabilities from derivative financial instruments designated as fair value hedge	-	-	15	59	-	74
Net position of financial instruments designated as fair value hedge	-	-	262	1,501	-	1,763
Net position of derivative financial instruments total	**-**	**-**	**262**	**1,501**	**-**	**1,763**
Commitments to extend credit	577	2,058	33,309	-	-	35,944
Off-balance sheet commitments	**577**	**2,058**	**33,309**	**-**	**-**	**35,944**

NOTE 34: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million)

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 32. e) 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 Group 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, Bloomberg). Cash and amounts due from banks and balances with the NBH represent amounts available immediately thus the fair value equals to the carrying amount.

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.

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

Fair value of financial assets and liabilities

	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash, due from banks and balances with the National Bank of Hungary	2,584	2,584	3,369	3,369
Placements with other banks	135,963	135,963	127,635	127,635
Securities at fair value through other comprehensive income	18,922	18,922	10,647	10,647
Loans	1,179,175	1,480,143	1,063,229	1,345,848
Derivative financial assets designated as hedge accounting relationships	229	229	1,837	1,837
Other financial assets	1,404	1,404	702	702
FINANCIAL ASSETS TOTAL	**1,338,277**	**1,639,245**	**1,207,419**	**1,490,038**
Amounts due to OTP Bank and other banks	676,962	677,903	508,910	508,910
Liabilities from issued securities	569,344	664,775	611,923	674,523
Derivative financial instruments designated as hedging instruments	822	822	74	74
Leasing liabilities	414	414	-	-
Other financial liabilities	9,333	9,333	7,736	7,736
FINANCIAL LIABILITIES TOTAL	**1,256,875**	**1,353,247**	**1,128,643**	**1,191,243**

NOTE 34: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million)

Fair value hierarchy

Methods and significant assumptions used to determine fair value of the different classes of financial instruments:

- 1st Level: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2nd Level: 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.
- 3rd Level: 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
FVOCI securities	18,922	18,922	-	-
Positive fair value of derivative financial instruments designated as fair value hedge	229	-	229	-
Negative fair value of derivative financial instruments designated as fair value hedge	822	-	822	-
Total	**18,329**	**18,922**	**-593**	**-**

As at 31 December 2018

	Total	Level 1	Level 2	Level 3
FVOCI securities	10,647	10,647	-	-
Positive fair value of derivative financial instruments designated as fair value hedge	1,837	-	1,837	-
Negative fair value of derivative financial instruments designated as fair value hedge	74	-	74	-
Total	**12,410**	**10,647**	**1,763**	**-**

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

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

Cash flow hedge	**Maturity**					
Interest rate risk-interest rate swap (HUF)	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	Total
Notional	-	-	-	12,194	28,027	40,221
Average FX Rate	-	-	-	1.77%	2.46%	-

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

Cash flow hedge	**Maturity**					
Interest rate risk-interest rate swap (HUF)	Up to one month	One to three months	Three months to one year	One year to five years	More than five years	Total
Notional	-	-	-	12,194	28,027	40,221
Average FX Rate	-	-	-	1.77%	2.46%	-

NOTE 33: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Derivatives held for hedging – as at 31 December 2019

Derivatives designated in cash flow hedges	**Assets**	**Liabilities**
Interest rate swaps	229	822
Total derivatives designated in cash flow hedges	**229**	**822**

Derivatives held for hedging – as at 31 December 2018

Derivatives designated in cash flow hedges	**Assets**	**Liabilities**
Interest rate swaps	1,837	74
Total derivatives designated in cash flow hedges	**1,837**	**74**

Hedge accounting – hedge instruments– as at 31 December 2019

Interest rate risk	**Nominal amount**	**Carrying amount**		**Line item in the statement of financial position**	**Ineffectiveness for 2019**
		Assets	Liabilities		
Interest rate swaps	40,221	229	822	Derivative assets (liabilities) held for risk management	392

Interest rate risk	**Cash flow hedge reserve**	**Hedge effectiveness recognised in profit or loss**	**Line item in profit or loss that includes hedge ineffectiveness**
Interest rate swap	(2,124)	(392)	Interest Income/Placements with other banks, net of allowance for placement losses

Hedge accounting – hedge instruments– as at 31 December 2018

Interest rate risk	**Nominal amount**	**Carrying amount**		**Line item in the statement of financial position**	**Ineffectiveness for 2018**
		Assets	Liabilities		
Interest rate swaps	40,221	1,837	74	Derivative assets (liabilities) held for risk management	(160)

Interest rate risk	**Cash flow hedge reserve**	**Hedge effectiveness recognised in profit or loss**	**Line item in profit or loss that includes hedge ineffectiveness**
Interest rate swap	967	(160)	Interest Income/Placements with other banks, net of allowance for placement losses

NOTE 34: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]

Hedge accounting – hedge items– as at 31 December 2019

Interest rate risk	Carrying amount		Accumulated amount of fair value hedge adjustments		Line item in the statement of financial position
Interest rate swaps	Assets	Liabilities	Assets	Liabilities	
	-	40,221	-	40,221	Interest expense/ Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks

Hedge accounting – hedge items– as at 31 December 2018

Interest rate risk	Carrying amount		Accumulated amount of fair value hedge adjustments		Line item in the statement of financial position
Interest rate swaps	Assets	Liabilities	Assets	Liabilities	
	-	40,221	-	40,221	Interest expense/ Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks

NOTE 35: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2019

In June 2019, OTP Mortgage Bank bought 100% ownership of OTP Financial Point Ltd. (henceforth: Financial Point) from its former owners who is also member of OTP Group.

The acquisition was driven by the fact that demand for home savings accounts were declined in the same time the mortgage loan products in Financial Point's sales structure has become dominant.

The purchase price of Financial Point was HUF 100 million. Financial Point received a capital increase of HUF 320 million in July 2019. Its book value at the end of the year was HUF 420 million.

In June 2019, OTP Mortgage Bank had another investment. OTP Ingatlanpont Llc (henceforth: Ingatlanpont) had received a capital increase of HUF 240 million from OTP Mortgage Bank, which increased its book value to HUF 1.6 billion.

The equity of both investments is lower than their book value, but their estimated fair value does not justify impairment.

NOTE 36: POST BALANCE SHEET EVENTS

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

The rapid development of the COVID-19 virus and its social and economic impact in Hungary and globally may result in assumptions and estimates requiring revisions which may lead to material adjustments to the carrying value of assets and liabilities within the next financial year. At this stage management is not able to reliably estimate the impact as events are unfolding day-by-day.

In addition to the foregoing, Hungarian Government adopted the decree on March 18, 2020 on immediate measures to mitigate impact of coronavirus pandemic on national economy (the “Decree”) prescribing a standstill in debt repayment (moratorium). The moratorium is prescribed for all debtors that wish to exercise it (private individuals, agricultural producers, entrepreneurs and business companies) entailing a standstill in debt repayment until December 31, 2020. Management is unable to estimate possible effects of the Decree on the Bank’s financial statements.

The longer term impact may also affect loan volumes, cash flows, and profitability. Nevertheless at the date of these financial statements the OTP Mortgage Bank continues to meet its obligations as they fall due and therefore continues to apply the going concern basis of preparation.