OTP BANK PLC.

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

FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2019

OTP BANK PLC.
CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

OTP BANK PLC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS AT 30 JUNE 2019
(in HUF mn)

	Note	30 June 2019	31 December 2018	30 June 2018
Cash, amounts due from banks and balances with the National Banks	*4.*	1,504,941	1,547,272	1,181,072
Placements with other banks, net of loss allowance for placements	*5.*	494,745	420,606	629,013
Financial assets at fair value through profit or loss	*6.*	190,504	181,356	332,150
Securities at fair value through other comprehensive income	*7.*	2,145,586	1,883,849	1,925,893
Loans at amortized cost and at fair value	*8.*	9,474,300	8,066,593	7,737,845
Associates and other investments	*9.*	17,422	17,591	18,672
Securities at amortized cost	*10.*	1,792,912	1,740,520	1,649,681
Property and equipment	*11.*	268,234	253,773	247,213
Intangible assets and goodwill	*11.*	198,795	166,711	175,089
Right-of-use assets	*28.*	49,831	-	-
Investment properties	*12.*	40,623	38,115	37,074
Derivative financial assets designated as hedge accounting	*13.*	5,952	15,201	13,441
Deferred tax assets	*13.*	22,693	20,769	28,551
Other assets	*13.*	251,840	237,932	237,732
TOTAL ASSETS		**16,458,378**	**14,590,288**	**14,213,426**
Amounts due to banks, the National Governments, deposits from the National Banks and other banks	*14.*	522,371	392,706	600,048
Deposits from customers	*15.*	12,699,826	11,285,085	10,870,394
Liabilities from issued securities	*16.*	385,397	417,966	305,109
Derivative financial liabilities held for trading	*17.*	73,576	73,316	131,519
Derivative financial liabilities designated as hedge accounting	*18.*	11,425	7,407	8,905
Deferred tax liabilities	*18.*	10,837	6,865	8,498
Other liabilities	*18.*	680,570	498,857	498,064
Subordinated bonds and loans	*19.*	81,532	81,429	83,512
TOTAL LIABILITIES		**14,465,534**	**12,763,631**	**12,506,049**
Share capital	*20.*	28,000	28,000	28,000
Retained earnings and reserves	*21.*	2,026,878	1,864,204	1,740,524
Treasury shares	*22.*	(65,715)	(67,999)	(64,660)
Non-controlling interest	*23.*	3,681	2,452	3,513
TOTAL SHAREHOLDERS' EQUITY		**1,992,844**	**1,826,657**	**1,707,377**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**16,458,378**	**14,590,288**	**14,213,426**

OTP BANK PLC.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2019
(in HUF mn)

	Note	Six month period ended 30 June 2019	Six month period ended 30 June 2018	Year ended 31 December 2018
Interest income accounted for using the effective interest rate method		370,015	317,685	660,141
Interest income accounted for not using the effective interest rate method		57,267	43,792	98,379
Interest incomes		**427,282**	**361,477**	**758,520**
Interest expenses		**(92,967)**	**(69,679)**	**(133,797)**
NET INTEREST INCOME		**334,315**	**291,798**	**624,723**
Loss allowance on loans and placements	*8.,24.*	(18,619)	(8,654)	(39,287)
NET INTEREST INCOME AFTER LOSS ALLOWANCE ON LOANS AND PLACEMENTS		**315,696**	**283,144**	**585,436**
Income from fees and commissions	*25.*	185,531	160,441	338,081
Expense from fees and commissions	*25.*	(30,973)	(26,260)	(60,405)
Net profit from fees and commissions		**154,558**	**134,181**	**277,676**
Foreign exchange gains, net		18,234	18,436	40,615
Gains on securities, net		6,187	(837)	1,345
Gains on financial assets /liabilities measured at fair value through profit or loss		918	(100)	597
Dividend income		5,387	5,136	5,736
Release of loss allowance on securities at fair value through other comprehensive income and on securities at amortized cost		45	(166)	608
Other operating income	*26.*	26,255	18,520	39,422
Other operating expense	*26.*	(16,084)	(9,024)	(25,995)
Net operating gain		**40,942**	**31,965**	**62,328**
Personnel expenses	*26.*	(131,443)	(118,630)	(251,041)
Depreciation and amortization	*11.*	(36,177)	(25,212)	(51,475)
Goodwill impairment	*11.*	(4,887)	(229)	(5,962)
Other administrative expenses	*26.*	(142,124)	(130,241)	(264,803)
Other administrative expenses		**(314,631)**	**(274,312)**	**(573,281)**
PROFIT BEFORE INCOME TAX		**196,565**	**174,978**	**352,159**
Income tax expense	*27.*	(18,606)	(20,407)	(33,837)
NET PROFIT FOR THE PERIOD		**177,959**	**154,571**	**318,322**
From this, attributable to:				
Non-controlling interest		**173**	**145**	**89**
Owners of the company		**177,786**	**154,426**	**318,233**
Consolidated earnings per share (in HUF)				
Basic	*37.*	**678**	**590**	**1,215**
Diluted	*37.*	**678**	**590**	**1,215**

OTP BANK PLC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2019
(in HUF mn)

	Six month period ended 30 June 2019	Six month period ended 30 June 2018	Year ended 31 December 2018
NET PROFIT FOR THE PERIOD	**177,959**	**154,571**	**318,322**
Items that may be reclassified subsequently to profit or loss:			
Fair value adjustment of securities at fair value through other comprehensive income	12,938	(39,002)	(32,289)
Deferred tax related to securities at fair value through other comprehensive income	(1,460)	2,995	2,829
Derivative financial instruments designated as cash flow hedge	14	33	(9)
Net investment hedge in foreign operations	(573)	(5,276)	(3,253)
Foreign currency translation difference	32,099	52,604	10,007
Items that will not be reclassified subsequently to profit or loss:			
Fair value changes of equity instruments at fair value through other comprehensive income	5,605	13,986	9,137
Change of actuarial costs related to employee benefits	-	-	(65)
Subtotal	**48,623**	**25,340**	**(13,643)**
NET COMPREHENSIVE INCOME	**226,582**	**179,911**	**304,679**
From this, attributable to:			
Non-controlling interest	419	175	(134)
Owners of the company	226,163	179,736	304,813

OTP BANK PLC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2019 (in HUF mn)

	Note	Share capital	Capital reserve	Share-based payment reserve	Retained earnings and other reserves[1]	Option reserve	Treasury shares	Total attributable to shareholders'	Non-controlling interest	Total
Balance as at 1 January 2018		28,000	52	31,835	1,695,460	(55,468)	(63,289)	1,636,590	3,465	1,640,055
Effect of transition due to IFRS 9 application		-	-	-	(51,475)	-	-	(51,475)	(127)	(51,602)
Adjusted balance as at 1 January 2018		28,000	52	31,835	1,643,985	(55,468)	(63,289)	1,585,115	3,338	1,588,453
Net profit for the period		-	-	-	154,426	-	-	154,426	145	154,571
Other Comprehensive Income		-	-	-	25,310	-	-	25,310	30	25,340
Total comprehensive income		-	-	-	179,736	-	-	179,736	175	179,911
Share-based payment	*32.*	-	-	1,737	-	-	-	1,737	-	1,737
Dividend for the year 2017		-	-	-	(61,320)	-	-	(61,320)	-	(61,320)
Sale of Treasury shares	*22.*	-	-	-	-	-	10,128	10,128	-	10,128
Treasury shares – loss on sale		-	-	-	(2,131)	-	-	(2,131)	-	(2,131)
Treasury shares – acquisition	*22.*	-	-	-	-	-	(11,499)	(11,499)	-	(11,499)
Payments to ICES holders	*21.*	-	-	-	1,024	-	-	1,024	-	1,024
Balance as at 30 June 2018		28,000	52	33,572	1,761,294	(55,468)	(64,660)	1,702,790	3,513	1,706,303
Balance as at 1 January 2019		28,000	52	35,632	1,883,988	(55,468)	(67,999)	1,824,205	2,452	1,826,657
Net profit for the period		-	-	-	177,786	-	-	177,786	172	177,958
Other Comprehensive Income		-	-	-	48,377	-	-	48,377	247	48,624
Total comprehensive income		-	-	-	226,163	-	-	226,163	419	226,582
Increase due to business combination		-	-	-	-	-	-	-	810	810
Share-based payment	*32.*	-	-	1,603	-	-	-	1,603	-	1,603
Dividend for the year 2018		-	-	-	(61,320)	-	-	(61,320)	-	(61,320)
Correction due to MRP		-	-	-	376	-	-	376	-	376
Sale of Treasury shares	*22.*	-	-	-	-	-	10,153	10,153	-	10,153
Treasury shares - loss on sale	*22.*	-	-	-	(5,117)	-	-	(5,117)	-	(5,117)
Treasury shares - acquisition	*22.*	-	-	-	-	-	(7,869)	(7,869)	-	(7,869)
Payments to ICES holders	*21.*	-	-	-	969	-	-	969	-	969
Balance as at 30 June 2019		28,000	52	37,235	2,045,059	(55,468)	(65,715)	1,989,163	3,681	1,992,844

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

OTP BANK PLC.
CONSOLIDATED STATEMENT OF CASH-FLOWS (UNAUDITED)
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2019
(in HUF mn)

OPERATING ACTIVITIES	Note	Six month period ended 30 June 2019	Six month period ended 30 June 2018	Year ended 31 December 2018
Net profit for the period (attributable to the owners of the company)		**177,786**	**154,426**	**318,233**
Net accrued interest		(3,859)	(992)	(2,434)
Dividend income		(5,387)	(5,136)	(5,736)
Depreciation and amortization	*11.*	36,177	25,212	51,475
Goodwill impairment	*11.*	4,887	229	5,962
(Release of loss allowance) / Loss allowance on securities	*7.,10.*	(45)	166	(608)
Loss allowance on loans and placements	*8., 24.*	25,898	8,654	39,287
Loss allowance on investments	*9.*	170	557	1,232
Loss allowance / (Release of loss allowance) / on investment properties	*12.*	178	(51)	244
Impairment on tangible and intangible assets		-	-	2,262
Loss allowance on other assets	*13.*	2,278	722	944
Release of provision on off-balance sheet commitments and contingent liabilities	*18.*	(59)	(1,114)	(1,841)
Share-based payment	*2.,32.*	1,603	1,737	3,797
Unrealized losses on fair value change of securities held for trading		5,605	13,979	9,128
Unrealized losses / (gains) on fair value change of derivative financial instruments		25,433	(18,778)	(29,525)
Net changes in assets and liabilities in operating activities				
Net (increase) / decrease in financial assets at fair value through profit or loss	*6.*	(3,972)	80,502	178,542
Net decrease / (increase) in compulsory reserves at the National Banks	*4.*	156,131	(115,458)	(329,936)
Net increase in loans at amortized cost before loss allowance for loans and in loans at fair value	*8.*	(513,899)	(806,370)	(1,166,242)
Net increase in other assets before loss allowance	*13.*	(8,702)	(26,417)	(26,857)
Net increase in deposits from customers	*15.*	362,414	639,373	1,054,945
Net increase in other liabilities	*18.*	119,412	82,519	101,877
Income tax paid		(10,309)	(5,687)	(17,377)
Net Cash Provided by Operating Activities		**371,740**	**28,073**	**187,372**

OTP BANK PLC.
CONSOLIDATED STATEMENT OF CASH-FLOWS (UNAUDITED)
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2019
(in HUF mn)
[continued]

	Note	Six month period ended 30 June 2019	Six month period ended 30 June 2018	Year ended 31 December 2018
INVESTING ACTIVITIES				
Net decrease / (increase) in placement with other banks before loss allowance for placements	*5.*	43,673	(166,812)	42,811
Purchase of securities at fair value through other comprehensive income	*7.*	(1,309,723)	(487,556)	(1,644,093)
Proceeds from sale of securities at fair value through other comprehensive income	*7.*	1,226,762	688,773	1,896,981
Net decrease / (increase) in investments in associates	*9.*	207	(2,294)	(4,324)
Net increase in investments in other companies	*9.*	(854)	(4,946)	(1,984)
Dividends received		6,033	5,416	5,490
Purchase of securities at amortized cost	*10.*	(2,723,371)	(987,507)	(2,615,632)
Redemption of securities at amortized cost	*10.*	2,676,738	651,800	2,188,898
Purchase of property, equipment and intangible assets	*11.*	(58,004)	(38,010)	(104,199)
Proceeds from disposals of property, equipment and intangible assets	*11.*	15,560	3,801	37,425
Net increase in investment properties before loss allowance	*12.*	(2,686)	(1,638)	(2,974)
Net increase in advances for investments included in other assets	*13.*	(6)	(47)	(21)
Net cash paid for acquisition		(34,866)	-	-
Net Cash Used in Investing Activities		**(160,537)**	**(339,020)**	**(201,622)**
FINANCING ACTIVITIES				
Net (decrease) / increase in amounts due to banks, the National Governments, deposits from the National Banks and other banks	*14.*	(29,589)	127,425	(79,905)
Cash received from issuance of securities	*16.*	7,976	63,022	224,413
Cash used for redemption of issued securities	*16.*	(41,084)	(8,372)	(57,401)
(Decrease) / Increase in subordinated bonds and loans	*19.*	(3,774)	7,816	5,733
Payments to ICES holders	*21.*	969	1,024	(1,256)
Sale of Treasury shares	*22.*	-	5,443	7,138
Purchase of Treasury shares	*22.*	(2,833)	(8,946)	(14,238)
Dividends paid	*21.*	(60,928)	(61,317)	(61,164)
Net Cash (Used in) / Provided by Financing Activities		**(129,263)**	**126,095**	**23,320**
Net increase / (decrease) in cash and cash equivalents		**81,940**	**(184,852)**	**9,070**
Cash and cash equivalents at the beginning of the period		**819,979**	**800,689**	**800,689**
Foreign currency translation		31,860	52,573	10,220
Cash and cash equivalents at the end of the period	*4.*	**933,779**	**668,410**	**819,979**

NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

1.1. General information

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

The Bank's registered office address is 16, Nador Street, Budapest 1051.

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

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

	30 June 2019	31 December 2018
Domestic and foreign private and institutional investors	99%	98%
Employees	1%	1%
Treasury shares	-	1%
Total	**100%**	**100%**

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

The Bank and its subsidiaries ("Entities of the Group", together the "Group") provide a full range of commercial banking services through a wide network of 1,552 branches. The Group has operations in Hungary, Bulgaria, Serbia, Croatia, Russia, Romania, Ukraine, Slovakia, Albania and Montenegro.

The number of employees at the Group:

	30 June 2019	31 December 2018
The number of employees at the Group	42,532	41,128
The average number of employees at the Group	43,497	41,225

1.2. Basis of Accounting

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

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

The Group's presentation and functional currency is the Hungarian Forint ("HUF").

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

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

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

1.2. Basis of Accounting [continued]

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

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

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

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

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

At the date of authorization of these financial statements there are no new standards, amendments to the existing standards nor interpretations which are issued by IASB and adopted by the EU which are not yet effective.

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

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

- **IFRS 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 IFRS 10 "Consolidated Financial Statements"** and **IAS 28 "Investments in Associates and Joint Ventures"** – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date was deferred indefinitely until the research project on the equity method has been concluded),

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

1.2. Basis of Accounting [continued]

1.2.3. Standards and Interpretations issued by IASB, but not yet adopted by the EU [continued]

- **Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of Material (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

Hedge accounting regarding the portfolio of financial assets and liabilities, whose principle has not been adopted by the EU, is still unregulated.

According to the Group's 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 consolidated financial statements, if applied as at the balance sheet date.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of Presentation

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

The presentation of Consolidated Financial Statements in conformity with IFRS as adopted by the EU requires the Management of the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
Future changes in economic conditions, business strategies, regulatory requirements, accounting rules and other factors could result in a change in estimates that could have a material impact on future financial statements.

2.2. Foreign currency translation

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.2. Foreign currency translation [continued]

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.
Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

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

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

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

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

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

2.3. Principles of consolidation

Included in these Consolidated Financial Statements are the accounts of those subsidiaries in which the Bank exercises control. The list of the major fully consolidated subsidiaries, the percentage of issued capital owned by the Bank and the description of their activities is provided in Note 34. However, certain subsidiaries in which the Bank holds a controlling interest have not been consolidated because the effect of consolidating such companies is not material to the Consolidated Financial Statements as a whole (see Note 2.13.).
As the ultimate parent, OTP Bank is preparing Consolidated Financial Statements of the Group.

2.4. Accounting for acquisitions

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.4. Accounting for acquisitions [continued]

If the Group loses control of a subsidiary, derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost and recognizes any difference as a gain or loss on the sale attributable to the parent in Statement of Profit or Loss.
Goodwill acquired in a business combination is tested for impairment annually or more frequently if events or changes in circumstances indicate. The goodwill is allocated to the cost generating units that are expected to benefit from the synergies of the combinations.
The Group calculates the fair value based on discounted cash-flow model. The 3 year period explicit cash-flow model serves as a basis for the impairment test by which the Group defines the impairment need on goodwill based on the strategic factors and financial data of its cash-generating units.

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

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

2.5. Securities at amortized cost

The Group measures at amortized cost those securities which are held for contractual cash collecting purposes, and contractual terms of these securities give rise to cash flows that are solely payment of principal and interest on the principal amount outstanding. The amortisation of any discount or premium on the acquisition of a security at amortized cost is aggregated with other investment income receivable over the term of the investment so that the revenue recognized in each period represents a constant yield on the investment. Securities at amortised cost are accounted for on a trade date basis.
Such securities comprise mainly securities issued by the Hungarian and foreign Governments and corporate bonds.

2.6. Financial assets at fair value through profit or loss

2.6.1. Securities held for trading

Investments in securities are accounted for on a trade date basis and are initially measured at fair value. Securities held for trading are measured at subsequent reporting dates at fair value, so unrealized gains and losses on held for trading securities are recognized in profit or loss and included in the Consolidated Statement of Profit or Loss for the period. The Group holds held for trading securities within the business model to obtain short-term gains, consequently realised and unrealised gains and losses are recognized in the net operating income. The Group applies the FIFO[1] inventory valuation method for securities held for trading.
Such securities consist of equity instruments, shares in investment funds, Hungarian and foreign government bonds, discounted treasury bills and other securities.

2.6.2. Derivative financial instruments

In the normal course of business, the Group is a party to contracts for derivative financial instruments, which represent a low initial investment compared to the notional value of the contract and their value depends on value of underlying asset and are settled in the future. The derivative financial instruments used include interest rate forward or swap agreements and currency forward or swap agreements and options. These financial instruments are used by the Group both for trading purposes and to hedge interest rate risk and currency exposures associated with its transactions in the financial markets.
Derivative financial instruments are accounted for on a trade date basis and are initially measured at fair value and at subsequent reporting dates also at fair value. Fair values are obtained from quoted market prices, discounted cash-flow models and option pricing models as appropriate. The Group adopts multi curve valuation approach for calculating the net present value of future cash-flows – based on different curves used for determining forward rates and used for discounting purposes. It shows the best estimation of such derivative deals that are collateralised as the Group has almost all of its open derivative transactions collateralised.

[1] First In First Out

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

2.6.2. Derivative financial instruments [continued]

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss and are included in the Consolidated Statement of Profit or Loss for the period. Each derivative deal is determined as asset when fair value is positive and as liability when fair value is negative.
Certain derivative transactions, while providing effective economic hedges under the risk management policy of the Group, do not qualify for hedge accounting under the specific rules of IFRS 9 and are therefore treated as derivatives held for trading with fair value gains and losses charged directly to the Consolidated Statement of Profit or Loss.

Foreign currency contracts

Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot date (settlement occurs two days after the trade date) or at a forward date (settlement occurs more than two days after the trade date). The notional amount of these spot contracts does not represent the actual market or credit risk associated with these contracts.
Foreign currency contracts are used by the Group for risk management and trading purposes. The risk management foreign currency contracts of the Group were used to hedge the exchange rate fluctuations of loans and deposits to credit institutions denominated in foreign currency.

Foreign exchange swaps and interest rate swaps

The Group enters into foreign exchange swap and interest rate swap (“IRS”) transactions. The swap transaction is an agreement concerning the swap of certain financial instruments, which usually consists of spot and one or more forward contracts.
IRS transactions oblige two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount (the base of the interest calculation). Notional principal is the amount upon which interest rates are applied to determine the payment streams under IRS transactions. Such notional principal amounts often are used to express the volume of these transactions but are not actually exchanged between the counterparties.
IRS transactions are used by the Group for risk management and trading purposes.

Cross-currency interest rate swaps

The Bank enters into cross-currency interest rate swap (CCIRS) transactions which have special attributes, i.e. the parties exchange the notional amount at the beginning and also at the maturity of the transaction. A special type of these deals is the mark-to-market CCIRS agreements. At this kind of deals the parties – in accordance with the foreign exchange prices – revalue the notional amount during lifetime of the transaction.

Equity and commodity swaps

Equity swaps obligate two parties to exchange more payments calculated with reference periodically reset rates of interest and performance of indexes. A specific notional principal amount is the base of the interest calculation. The payment of index return is calculated on the basis of current market price compared to the previous market price. In case of commodity swaps payments are calculated on the basis of the strike price of a predefined commodity compared to its average market price in a period.

Forward rate agreements (FRA)

A forward rate agreement is an agreement to settle amounts at a specified future date based on the difference between an interest rate index and an agreed upon fixed rate. Market risk arises from changes in the market value of contractual positions caused by movements in interest rates.

The Group limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counterparties. The Group’s forward rate agreements were transacted for management of interest rate exposures and have been accounted for at mark-to-market fair value.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

2.6.2. Derivative financial instruments [continued]

Foreign exchange options

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

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

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

Changes in fair value of derivatives that are designated and qualify as hedging instrument in cash-flow hedges and that prove to be highly effective in relation to the hedged risk are recognized in their effective portion as reserve in Other Comprehensive Income. Amounts deferred in Comprehensive Income are transferred to the Consolidated Statement of Profit or Loss and classified as revenue or expense in the periods during which the hedged assets and liabilities affect the Consolidated Statement of Profit or Loss for the period. The ineffective element of the changes in fair value of hedging instrument is charged directly to the Consolidated Statement of Profit or Loss.
The Group terminates the hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting.

2.8. Offsetting

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

2.9. Embedded derivatives

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

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

So long as a hybrid contract contains a host that is a financial asset the general accounting rules for classification, recognition and measurement of financial assets are applicable for the whole contract.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.10. Securities at fair value through other comprehensive income

Securities at fair value through other comprehensive income are held within a business model whose objective is achieved by both collecting of contractual cash flows and selling securities. Furthermore contractual terms of these securities give rise on specified dates to cash flows that are solely payment of principal and interest on the principal amount outstanding

Investments in securities are accounted for on a trade date basis and are initially measured at fair value. Securities at fair value through other comprehensive income are measured at subsequent reporting dates at fair value. Unrealized gains and losses on securities at fair value through other comprehensive income are recognized directly in Other Comprehensive Income, except for interest and foreign exchange gains/losses on monetary items, unless such financial asset at fair value through other comprehensive income is part of an effective hedge. Such gains and losses will be reported when realized in Consolidated Statement of Profit or Loss for the applicable period. The Group applies the FIFO[1] inventory valuation method for securities at fair value through other comprehensive income.

Such securities consist of Hungarian and foreign government bonds, corporate bonds, mortgage bonds, discounted Treasury bills and other securities.

The Group has elected to present in the Statement of Other Comprehensive Income changes of fair value of those equity instruments which are neither held for trading nor recognised under IFRS 3.

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

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

In some cases the Group made an irrevocable election at initial recognition for certain equity instruments to present subsequent changes in fair value of these securities in the consolidated other comprehensive income instead of in profit or loss.

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

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

Those Loans and placements with other banks that are accounted at amortized cost, stated at the principal amounts outstanding (including accrued interest), net of allowance for loan or placement losses, respectively. Transaction fees and charges should adjust the carrying amount at initial recognition and be included in effective interest calculation.

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

Interest and amortised cost are accounted using effective interest rate method.

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

[1] First In First Out

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.11. Loans, placements with other banks and loss allowance for loans and placements [continued]

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

Loss allowance for loans and placements with other banks represent Management assessment for potential losses in relation to these activities.
Loss allowance for loans and placements with other banks is recognised by the Group based on the expected credit loss model in accordance with IFRS 9. Based on the three stage model loss allowance is recognised at an amount equal to 12-month expected credit loss from the initial recognition. On financial assets with significantly increased credit risk or credit impaired financial assets (based on objective evidences) loss allowance is recognised in amount of lifetime expected credit loss.
In case of purchased or originated credit impaired financial assets loss allowance is recognised in amount of lifetime expected credit loss since initial recognition. Impairment gain is recognised if lifetime expected credit loss for purchased or originated credit impaired financial assets at measurement date are less than the estimated credit loss at initial recognition.

The allowances for loan and placement losses are determined to cover losses that have been specifically identified. Collective impairment losses of portfolios of loans, for which no objective evidence of loss allowance has been identified on an individual basis, are determined to reduce the carrying amount of the portfolios of financial assets with similar credit risk characteristics to their estimated recoverable amounts at the balance sheet date. The expected cash-flows for portfolios of similar assets are estimated based on historical loss experience. 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 Group recognises impairment gain or loss through "Loss allowance on loan and placement losses" in the Consolidated Statement of Profit or Loss as an amount of expected credit losses or reversal that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised in accordance with IFRS 9.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss shall be reversed by adjusting an loss 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 made 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.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote. The loan is written off against the related account "Loss allowance on loans and placements" in the Consolidated Statement of Profit or Loss.
The Group applies partial or full write-off for loans based on the definitions and prescriptions of financial instruments in accordance with IFRS 9. If the Group has no reasonable expectations regarding a financial asset (loan) to be recovered, it will be written off partially or fully at the time of emergence. A loan will be written off if it is matured or was terminated by the Group.

The gross amount and impairment loss of the loans shall be written off in the same amount to the estimated maximum recovery amount while the net carrying value remains unchanged. Loan receivables legally demanded from clients are equal to the former gross amount of the loan before the partial write-off.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.12. Sale and repurchase agreements, security lending

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on Consolidated Statement of Financial Position and the consideration received is recorded in Other liabilities or Amounts due to banks, the National Governments, deposits from the National Banks and other banks. Conversely, debt or equity securities purchased under a commitment to resell are not recognized in the Consolidated Statement of Financial Position and the consideration paid is recorded either in Placements with other banks or Deposits from customers. Interest is accrued based on the effective interest method evenly over the life of the repurchase agreement.
In the case of security lending transactions the Group doesn't recognize or derecognize the securities because believes that the transferor retains substantially all the risks and rewards of the ownership of the securities. Only a financial liability or financial receivable is recognized for the consideration amount.

2.13. Associates and other investments

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

2.14. Property and equipment, Intangible assets

Property and equipment and Intangible assets are stated at cost, less accumulated depreciation and amortization and impairment, if any. The depreciable amount (book value less residual value) of the non-current assets must be allocated over the useful lives.

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

Intangible assets	
Software	3.33-67%
Property rights	2.8-92%
Property	1-33%
Office equipment and vehicles	1-50%

Depreciation and amortization on Property and equipment and Intangible assets commence on the day such assets are placed into service.
At each balance sheet date, the Group reviews the carrying value of its Property and equipment and Intangible assets to determine if there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent (if any) of the impairment loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

The Group may conclude contracts for purchasing property, equipment and intangible assets, where the purchase price is settled in foreign currency. By entering into such agreements, firm commitment in foreign currency due on a specified future date arises at the Group.
Reducing the foreign currency risk caused by firm commitment, forward foreign currency contracts may be concluded to ensure the amount payable in foreign currency on a specified future date on one hand and to eliminate the foreign currency risk arising until settlement date of the contract on the other hand.
In the case of an effective hedge the realised profit or loss of the hedging instrument is stated as the part of the cost of the hedged asset as it has arisen until recognising the asset and it is tightly connecting to the purchasing.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.15. Financial liabilities

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

2.16. Leases

The Group as a lessor

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

The Group as a lessee

Applied rules for lessee changed after 1 January 2019 in accordance with IFRS 16. At initial application of IFRS 16 the Group as lessee chose the modified retrospective approach and recognised the right-of-use assets measuring them at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application. The Group applied the following practical expedients available during the transition:

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

At the commencement date, the lessee recognises a right-of-use asset and a lease liability, except for short-term leases and leases, where the underlying asset is of low value. For these leases, the Group recognises the lease payments as an expense on either a straight-line basis over the lease term or another systematic basis if that basis is more representative of the pattern of the lessee’s benefit.
At the commencement date, the lease liability is measured at the present value of the lease payments that are not paid at that date, discounted by using the rate implicit in the lease, or if this cannot be determined, by using the incremental borrowing rate of the Group.
At the commencement date, the right-of-use asset is measured at cost that comprises the amount of the initial measurement of the lease liability; any lease payments made at or before the commencement date, less any lease incentives received; any initial direct costs incurred by the lessee; and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

2.17. Investment properties

Investment properties of the Group are land, buildings, part of buildings which held (as the owner or as the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use in the production or supply of services or for administrative purposes or sale in the ordinary course of business. The Group measures the investment properties at cost less accumulated depreciation and impairment, if any.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.17. Investment properties [continued]

The depreciable amount (book value less residual value) of the investment properties must be allocated over their useful lives. The depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets.

2.18. Treasury shares

Treasury shares are shares which are purchased on the stock exchange and the over-the-counter market by the Bank and its subsidiaries and are presented in the Consolidated Financial Position at cost as a deduction from Consolidated Shareholders' Equity.
Gains and losses on the sale of treasury shares are credited or charged directly to shareholder's equity. Derecognition of treasury shares is based on the FIFO method.

2.19. Interest income and interest expense

Interest income and expenses are recognized in profit or loss in the period to which they relate, using the effective interest rate method. The time-proportional interest income of derivative financial instruments is calculated without using the effective interest method and the positive fair value adjustment of interest rate swaps are also included in interest income. Interest from loans and deposits are accrued on a daily basis. Interest income and expenses include certain transaction costs and the amortisation of any discount or premium between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.
The Group recognizes interest income when if assumes that the interest associated with the transaction will flow to the Group and the amount of the revenue can be reasonably measured. All interest income and expense recognized are arising from loans, placements with other banks, securities at fair value through other comprehensive income, securities at amortized cost and amounts due to banks, deposits from customers, liabilities from issued securities, subordinated bond and loans are presented under these lines of financial statements.

2.20. Fees and Commissions

Fees and commissions are recognized using the effective interest method referring to loss allowances of IFRS 9, when they relate and have to be included in amortized cost model. Certain fees and commissions that are not involved in the amortized cost model are recognized in the Consolidated Statement of Profit or Loss on an accrual basis based on IFRS 15 Revenue from contracts with customers (see more details in Note 25).

2.21. Dividend income

The Group recognizes dividend income in the Consolidated Financial Statements when its right to receive payment is established.

2.22. Income tax

The annual taxation charge is based on the tax payable under fiscal regulations prevailing in the country where the company is incorporated, adjusted for deferred taxation.

Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences between the tax bases of assets and liabilities and their carrying value for financial reporting purposes, measured at the tax rates that apply to the future period when the asset is expected to be realized or the liability is settled.

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

2.23. Off-balance sheet commitments and contingent liabilities

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

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

The Group recognizes provision 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.

2.24. Share-based payment and employee benefit

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

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

Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on Management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. The Group has applied the requirement of IAS 19 Employee Benefits. IAS 19 requires to recognise employee benefits to be paid as a liability and as an expense in the Consolidated Financial Statements.

2.25. Consolidated Statement of Cash-flows

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

2.26. Segment reporting

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.
Based on the above, the segments identified by the Group are the business and geographical segments.
The Group's operating segments under IFRS 8 are therefore as follows: OTP Core Hungary, Russia, Ukraine, Bulgaria, Romania, Serbia, Croatia, Slovakia, Montenegro, Albania, Merkantil Bank, Asset Management subsidiaries, Other subsidiaries, Corporate Center.

2.27. Comparative figures

These Consolidated Financial Statements are prepared in accordance with the same accounting policies in all respects as the Consolidated Financial Statements prepared in accordance with IFRS as adopted by the EU for the year ended 31 December 2018, which were approved by the Management board on 8 March 2019.

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

The presentation of financial statements in conformity with IFRS as adopted by EU requires the Management of the Group to make judgement about estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on expected loss and other factors that are considered to be relevant. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period. Actual results could differ from those estimates. Significant areas of subjective judgement include:

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

3.1. Loss allowances on financial instruments

The Group regularly assesses its financial instruments portfolio for loss allowance. Management determines the adequacy of the loss allowances based upon reviews of individual loans and placements, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. The use of the three stage model was implemented for IFRS 9 purposes. The impairment methodology is used to classify financial instruments in order to determine whether credit risk has significantly increased since initial recognition and to identify the credit-impaired assets. For instruments with credit-impairment or significant increase of credit risk lifetime expected losses will be recognized (see more details in Note 29.1.1)

3.2. Valuation of instruments without direct quotations

Financial instruments without direct quotations in an active market are valued using the valuation model technique. The models are regularly reviewed and each model is calibrated for the most recent available market data. While the models are built only on available data, their use is subject to certain assumptions and estimates (e.g. correlations, volatilities, etc.). Changes in the model assumptions may affect the reported fair value of the relevant financial instruments.
IFRS 13 Fair Value Measurement seeks to increase consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. The hierarchy categorises the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

3.3. Provisions

Provision is recognized and measured for commitments to extend credit and for warranties arising from banking activities based on IFRS 9 Financial Instruments. Provision for these instruments is recognised based on the credit conversion factor, which shows the proportion of the undrawn credit line that will probably be drawn.
Other provisions are recognized and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Group is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Group assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for. (See Note 18.)
Other provision for off-balance sheet items includes provision for litigation, provision for retirement and expected liabilities and provision for confirmed letter of credit.
A provision is recognized by the Group when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

3.4. Impairment on goodwill

Goodwill acquired in a business combination is tested for impairment annually or more frequently when there is an indication that the unit might be impaired, in accordance with IAS 36 "Impairment of assets".
The Group calculates the fair value based on discounted cash-flow model. The 3 year period explicit cash-flow model serves as a basis for the impairment test by which the Group defines the impairment need on goodwill based on the strategic factors and financial data of its cash-generating units. In the calculation of the goodwill impairment, also the expectations about possible variations in the amount or timing of those future cash-flows, the time value of money, represented by the current market risk-free rate of interest and other factors are reflected.

3.5. Business model

The financial assets held by the Group are classified into three categories depending on the business model within the financial assets are managed.
Business model whose objective is to hold financial assets in order to collect contractual cash flows. Within this business model the Group manages mainly loans and advances and long term securities and other financial assets. Business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Within this business model the Group only manages securities.
Business model whose objective is to achieve gains in a short term period. Within this business model the Group manages securities and derivative financial instrument.

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

	30 June 2019	31 December 2018
Cash on hand		
In HUF	139,322	172,176
In foreign currency	239,294	233,198
	378,616	**405,374**
Amounts due from banks and balances with the National Banks		
Within one year:		
In HUF	118,531	58,743
In foreign currency	1,006,506	1,083,155
	1,125,037	**1,141,898**
Over one year:		
In HUF	-	-
In foreign currency	1,288	-
	1,288	**-**
Total	**1,504,941**	**1,547,272**
Compulsory reserve set by the National Banks[1]	**(571,162)**	**(727,293)**
Cash and cash equivalents	**933,779**	**819,979**

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

	30 June 2019	31 December 2018
Within one year		
In HUF	93,679	45,117
In foreign currency	290,646	291,111
	384,325	**336,228**
Over one year		
In HUF	86,091	80,459
In foreign currency	24,902	4,416
	110,993	**84,875**
Loss allowance on placements	(573)	(497)
Total	**494,745**	**420,606**

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

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

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

	30 June 2019	31 December 2018
Balance as at 1 January	**497**	**68**
Effect of transition due to IFRS 9 application	-	269
Loss allowance for the period	1,981	2,879
Release of loss allowance for the period	(1,924)	(2,683)
Reclassification	-	(105)
Foreign currency translation difference	19	69
Closing balance	**573**	**497**

Interest conditions of placements with other banks:

	30 June 2019	31 December 2018
In HUF	(0.15)% - 3.4%	(1.0)% - 3.84%
In foreign currency	(2.9)% - 19.3%	(2.28)% - 13.69%

	30 June 2019	31 December 2018
Average interest rates on placements with other banks	1.89%	1.62%

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

	30 June 2019	31 December 2018
Securities held for trading		
Government bonds	42,452	34,462
Equity instruments and fund units	13,532	12,746
Discounted Treasury bills	3,123	1,059
Other securities	8,270	2,172
	67,377	**50,439**
Non-trading securities mandatorily at fair value through profit or loss	31,628	27,512
Shares in fund units	30,777	26,206
Bonds	851	1,306
Total	**99,005**	**77,951**

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

Positive fair value of derivative financial assets held for trading

	30 June 2019	31 December 2018
Interest rate swaps held for trading	52,563	44,120
Foreign exchange swaps held for trading	23,540	31,994
Foreign exchange forward contracts held for trading	2,791	2,502
CCIRS and mark-to-market CCIRS[1] held for trading	1,963	12,417
Other derivative transactions held for trading	10,642	12,372
	91,499	**103,405**
Total	**190,504**	**181,356**

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

	30 June 2019	31 December 2018
Denominated in HUF (%)	28.7%	30.0%
Denominated in foreign currency (%)	71.3%	70.0%
Total	**100.0%**	**100.0%**

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

	30 June 2019	31 December 2018
Denominated in HUF (%)	18.0%	19.5%
Denominated in foreign currency (%)	82.0%	80.5%
Total	**100.0%**	**100.0%**

	30 June 2019	31 December 2018
Interest rates on securities held for trading	0.01% - 7.5%	0.01% - 7.5%

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

	30 June 2019	31 December 2018
Within one year		
With variable interest	30	2,043
With fixed interest	17,429	9,015
	17,459	**11,058**
Over one year		
With variable interest	2,158	2,198
With fixed interest	34,228	24,437
	36,386	**26,635**
Non-interest bearing securities	13,532	12,746
Total	**67,377**	**50,439**

[1] CCIRS: Cross Currency Interest Rate Swaps (See Note 2.6.2.)

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

	30 June 2019	31 December 2018
Securities at fair value through other comprehensive income		
Government bonds	1,471,938	1,420,341
Discounted Treasury bills	466,982	288,613
Mortgage bonds	99,680	82,133
Corporate bonds	69,297	62,099
Listed securities:		
In HUF	*2,056*	-
In foreign currency	*43,460*	*37,683*
	45,516	*37,683*
Non-listed securities:		
In HUF	*19,104*	*22,974*
In foreign currency	*4,677*	*1,442*
	23,781	*24,416*
Subtotal	**2,107,897**	**1,853,186**
Non-trading equity instruments and fund units designated to measure at fair value through other comprehensive income		
Listed securities:		
In HUF	-	-
In foreign currency	*7,153*	*5,358*
	7,153	*5,358*
Non-listed securities:		
In HUF	*539*	*576*
In foreign currency	*29,997*	*24,729*
	30,536	*25,305*
Subtotal	**37,689**	**30,663**
Equity instruments	31,574	29,505
Shares in fund units	6,115	1,158
Total securities at fair value through other comprehensive income	**2,145,586**	**1,883,849**

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

	30 June 2019	31 December 2018
Denominated in HUF (%)	56.3%	57.8%
Denominated in foreign currency (%)	43.7%	42.2%
Total	**100.0%**	**100.0%**

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

An analysis of government bonds by currency (%):

	30 June 2019	31 December 2018
Denominated in HUF (%)	47.7%	52.4%
Denominated in foreign currency (%)	52.3%	47.6%
Total	**100.0%**	**100.0%**

	30 June 2019	31 December 2018
Interest rates on securities at fair value through other comprehensive income denominated in HUF	0.16% - 7.5%	0.01% - 7.5%
Interest rates on securities at fair value through other comprehensive income denominated in foreign currency	0.3% - 20.4%	0.3% - 20.4%

	30 June 2019	31 December 2018
Average interest rates securities at fair value through other comprehensive income denominated in HUF	1.91%	1.69%
Average interest rates on securities at fair value through other comprehensive income denominated in foreign currency	2.58%	2.29%

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

	30 June 2019	31 December 2018
Within one year		
With variable interest	3,187	13,732
With fixed interest	954,411	656,026
	957,598	**669,758**
Over one year		
With variable interest	64,456	101,829
With fixed interest	1,085,843	1,081,599
	1,150,299	**1,183,428**
Non-interest bearing securities	37,689	30,663
Total	**2,145,586**	**1,883,849**

Certain securities are hedged against interest rate risk. See Note 29.4.

During the first half year of 2019 and the year 2018 the Group didn't sell any of equity instruments designated at fair value through other comprehensive income.

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

	30 June 2019	31 December 2018
Short-term loans and promissory notes (within one year)	2,706,477	2,517,071
Long-term loans and promissory notes (over one year)	7,453,176	6,200,361
	10,159,653	**8,717,432**
Loss allowance on loans	(717,296)	(685,364)
Loans at amortized cost	**9,442,357**	**8,032,068**
Short-term loans at fair value through profit or loss with market risk value adjustment	3,200	3,487
Long-term loans at fair value through profit or loss with market risk value adjustment	30,416	32,854
Accumulated negative changes in fair value due to credit risk	(1,673)	(1,816)
Loans measured at fair value through profit or loss	**31,943**	**34,525**
Total loans at amortized cost and at fair value	**9,474,300**	**8,066,593**

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

	30 June 2019	31 December 2018
In HUF	31%	34%
In foreign currency	69%	66%
Total	**100%**	**100%**

Interest rates of the loan portfolio are as follows:

	30 June 2019	31 December 2018
Short-term loans denominated in HUF	(0.01)% - 48.57%	0.0% - 37.45%
Long-term loans denominated in HUF	0.0% - 37.5%	0.01% - 38.98%
Short-term loans denominated in foreign currency	(0.36)% - 90.0%	(0.64)% - 90.0%
Long-term loans denominated in foreign currency	(0.36)% - 90.0%	(0.64)% - 90.0%

	30 June 2019	31 December 2018
Average interest rates on loans denominated in HUF	6.58%	6.87%
Average interest rates on loans denominated in foreign currency	6.89%	7.05%

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

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

	30 June 2019	31 December 2018
Balance as at 1 January	**685,364**	**738,796**
Effect of transition due to IFRS 9 application	-	47,626
Loss allowance for the period	282,997	460,340
Release of loss allowance	(142,591)	(271,375)
Use of loss allowance	(45,675)	(126,747)
Portional write-off	(89,767)	(126,906)
Partial write-off[1]	(626)	(42,998)
Reclassification	-	26
Foreign currency translation difference	27,594	6,602
Closing balance	**717,296**	**685,364**

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

	30 June 2019	31 December 2018
Loss allowance on placements and gains from write-off and sale of placements	41	144
Loss allowance on loans and gains from write-off and sale of loans	18,578	39,143
Total	**18,619**	**39,287**

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

	30 June 2019	31 December 2018
Investments		
Investments in associates (non-listed)	11,060	11,904
Other investments (non-listed) at cost	12,110	11,279
	23,170	**23,183**
Loss allowance on investments	(5,748)	(5,592)
Total	**17,422**	**17,591**

[1] See details in Note 2.11.

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

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

	30 June 2019	31 December 2018
Balance as at 1 January	**5,592**	**4,404**
Loss allowance for the period	170	1.232
Reclassification to securities at fair value through other comprehensive income	(19)	(41)
Foreign currency translation difference	5	(3)
Closing balance	**5,748**	**5,592**

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

	30 June 2019	31 December 2018
Government bonds	1,782,075	1,733,391
Corporate bonds	13,497	10,068
	1,795,572	**1,743,459**
Loss allowance on securities at amortized cost	(2,660)	(2,939)
Total	**1,792,912**	**1,740,520**

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

	30 June 2019	31 December 2018
Within one year		
With variable interest	-	-
With fixed interest	100,623	177,203
	100,623	**177,203**
Over one year		
With variable interest	-	-
With fixed interest	1,694,949	1,566,256
	1,694,949	**1,566,256**
Total	**1,795,572**	**1,743,459**

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

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

	30 June 2019	31 December 2018
Denominated in HUF (%)	93.4%	93.1%
Denominated in foreign currency (%)	6.6%	6.9%
Total	**100.0%**	**100.0%**

	30 June 2019	31 December 2018
Interest rates of securities at amortized cost with variable interest	-	-
Interest rates of securities at amortized cost with fixed interest	0.5% - 17.5%	0.5% - 18.0%

	30 June 2019	31 December 2018
Average interest rates on securities at amortized cost	3.70%	3.98%

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

	30 June 2019	31 December 2018
Balance as at 1 January	**2,939**	**716**
Effect of transition due to IFRS 9 application	-	2,014
Loss allowance for the period	316	995
Release of loss allowance	(628)	(783)
Use of loss allowance	-	(46)
Foreign currency translation difference	33	43
Closing balance	**2,660**	**2,939**

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

For the six month period ended 30 June 2019

Cost	**Intangible assets and goodwill**	**Property**	**Office equipment and vehicles**	**Construction in progress**	**Total**
Balance as at 1 January	**323,269**	**239,639**	**195,040**	**22,881**	**780,829**
Increase due to acquisition	16,715	16,412	2,755	599	**36,481**
Additions	27,430	4,092	16,029	18,480	**66,031**
Foreign currency translation differences	7,190	2,552	2,243	84	**12,069**
Disposals	(9,334)	(6,999)	(6,503)	(18,831)	**(41,667)**
Change in consolidation	683	26	264	-	**973**
Balance as at 30 June	**365,953**	**255,722**	**209,828**	**23,213**	**854,716**

Depreciation and Amortization	**Intangible assets and goodwill**	**Property**	**Office equipment and vehicles**	**Construction in progress**	**Total**
Balance as at 1 January	**156,558**	**68,251**	**135,536**	**-**	**360,345**
Charge for the period (without goodwill impairment)	16,377	3,787	9,452	-	**29,616**
Goodwill impairment	4,887	-	-	-	**4,887**
Foreign currency translation differences	(2,841)	756	1,651	-	**(434)**
Disposals	(1,813)	(3,953)	(1,441)	-	**(7,207)**
Change in consolidation scope	171	1	165	-	**337**
Impairment	-	107	36	-	**143**
Balance as at 30 June	**173,339**	**68,949**	**145,399**	**-**	**387,687**
Carrying value					
Balance as at 1 January	**166,711**	**171,388**	**59,504**	**22,881**	**420,484**
Balance as at 30 June	**192,614**	**186,773**	**64,429**	**23,213**	**467,029**

An analysis of the intangible assets for the six month period ended 30 June 2019 is as follows:

Intangible assets	**Self-developed**	**Other**	**Total**
Gross values	6,152	250,934	**257,086**
Depreciation and amortization	2,003	164,948	**166,951**
Carrying value	**4,149**	**85,986**	**90,135**

An analysis of the changes in the goodwill for the six month period ended 30 June 2019 is as follows:

	Goodwill
Gross balance as at 1 January	**97,728**
Additions	6,776
Foreign currency translation difference	4,363
Disposals	-
Balance as at 30 June	**108,867**

	Goodwill
Impairment as at 1 January	**5,962**
Additions	4,887
Foreign currency translation difference	(4,461)
Disposals	-
Balance as at 30 June	**6,388**

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

For the six month period ended 30 June 2019 [continued]

An analysis of the changes in the goodwill for the six month period ended 30 June 2019 is as follows [continued]

Carrying value	**Goodwill**
Balance as at 1 January	**91,766**
Balance as at 30 June	**102,479**

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

List of units	**HUF mn**
JSC "OTP Bank" (Russia)	42,276
DSK Bank EAD	28,541
OTP banka Hrvatska d.d.	18,782
Expressbank AD	12,755
Other[1]	125
Total	**102,479**

The Bank decided that the recoverable amount is determined based on fair value less cost of disposal. When the Bank prepares goodwill impairment tests of the subsidiaries, two methods are used based on discounted cash-flow calculation that shows the same result; however they represent different economical logics. On one hand is the free cash-flow method (FCF) that calculates the value of the subsidiaries by discounting their expected cash-flow; on the other hand the economic value added (EVA) method estimates the value of the subsidiaries from the initial invested capital and the present value of the economic profit that the companies are expected to generate in the future.

On the basis of the opinion of the Bank's Management as at 30 June 2019 impairment test was prepared where a three-year cash-flow model was applied with an explicit period between 2020-2022. The basis for the estimation was the financial actual figures for May 2019, while for the three-year explicit period the Bank applied the prognosis for year 2019 accepted by the Management Committee of the subsidiaries and on the basis of this the prepared medium-term (2020-2022) forecasts. When the Bank prepared the calculations for the period 2020-2022, it considered the actual worldwide economic situations, the expected economic growth for the following years, their possible effects on the financial sector, the plans for growing which result from these, and the expected changes of the mentioned factors.

Present value calculation with the FCF method

The Bank calculated the expected cash-flow for the given period based on the expected after tax profit of the companies. For calculating the discount factor as risk free rates in case of OTP Bank JSC (Ukraine) the local interbank interest rate in foreign currency with a period of one year was applied, while in case of the other subsidiaries the ten-year local government bonds in foreign currency or swap yields were considered as presented in the actual macro forecasts. The Bank calculated risk premiums on the basis of information from the country risk premiums that are published on damodaran.com, which were modified with CDS spread in case of OTP Banka Slovensko a.s and Crnogorska komercijalna banka a.d., since according to the Bank's assumption the risk free interest rate includes the country-dependent risks in an implicit way.

The growth rate in the explicit period is the growth rate of the profit after tax adjusted by the interest rate of the cash and subordinated loans. The supposed growth rates for the periods of residual values reflect the long-term economic expectations in case of every country.

The values of the subsidiaries in the FCF method were then calculated as the sum of the discounted cash-flows of the explicit period, the present value of the terminal values and the initial free capital assuming an effective capital structure.

Present value calculation with the EVA method

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

[1] Other category includes: Nimo 2002 Ltd., POK DSK-Rodina a.d.

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

For the six month period ended 30 June 2019 [continued]

Summary of the impairment test for the six month period ended 30 June 2019

Based on the valuations of the subsidiaries as at 30 June 2019 HUF 4,887 million goodwill impairment for OTP Bank Romania S.A. was needed to book on Group level.

For the year ended 31 December 2018

Cost	**Intangible assets and goodwill**	**Property**	**Office equipment and vehicles**	**Construction in progress**	**Total**
Balance as at 1 January	**302,057**	**226,513**	**174,585**	**20,033**	**723,188**
Additions	42,443	30,452	33,878	46,009	**152,782**
Foreign currency translation differences	(3,210)	3,403	1,200	321	**1,714**
Disposals	(18,030)	(20,733)	(14,660)	(43,483)	**(96,906)**
Change in consolidation scope	9	4	37	1	51
Balance as at 31 December	**323,269**	**239,639**	**195,040**	**22,881**	**780,829**

Depreciation and Amortization	**Intangible assets and goodwill**	**Property**	**Office equipment and vehicles**	**Construction in progress**	**Total**
Balance as at 1 January	**125,988**	**58,146**	**125,664**	**-**	**309,798**
Charge for the year (without goodwill impairment)	27,245	7,080	17,150	-	**51,475**
Goodwill impairment	5,962	-	-	-	**5,962**
Foreign currency translation differences	732	5,229	854	-	**6,815**
Disposals	(5,577)	(2,233)	(8,187)	-	**(15,997)**
Change in consolidation scope	8	1	22	-	31
Impairment	**2,200**	**28**	**33**	**-**	**2,261**
Balance as at 31 December	**156,558**	**68,251**	**135,536**	**-**	**360,345**
Carrying value					
Balance as at 1 January	**176,069**	**168,367**	**48,921**	**20,033**	**413,390**
Balance as at 31 December	**166,711**	**171,388**	**59,504**	**22,881**	**420,484**

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

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

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

	Goodwill
Gross balance as at 1 January	**101,489**
Additions	-
Foreign currency translation difference	(3,761)
Disposals	-
Balance as at 31 December	**97,728**

	Goodwill
Impairment as at 1 January	**513**
Additions	5,962
Foreign currency translation difference	-
Disposals	(513)
Balance as at 31 December	**5,962**

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

For the year ended 31 December 2018 [continued]

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

Carrying value	Goodwill
Balance as at 1 January	**100,976**
Balance as at 31 December	**91,766**

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

List of units	HUF mn
JSC "OTP Bank" (Russia)	38,048
DSK Bank EAD	28,541
OTP banka Hrvatska d.d.	18,664
OTP Bank Romania S.A.	6,388
Other[1]	125
Total	**91,766**

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

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

NOTE 12: INVESTMENT PROPERTIES (in HUF mn)

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

Gross values	30 June 2019	31 December 2018
Balance as at 1 January	**49,256**	**50,887**
Increase from purchase	2,321	553
Increase due to transfer from inventories or owner-occupied properties	2,115	11,249
Increase due to transfer from held-for-sale properties	167	649
Other additions	51	1,522
Disposal due to transfer to inventories or owner-occupied properties	-	(4,140)
Disposal due to transfer to held-for-sale properties	(690)	(440)
Disposal due to sale	(755)	(12,477)
Other disposal	(7)	(1)
Foreign currency translation difference	201	1,454
Closing balance	**52,659**	**49,256**

The applied depreciation and amortization keys were the following:

	30 June 2019	31 December 2018
Depreciation and amortization key	5% - 46.2%	1% - 50.0%

[1] Other category includes: Nimo 2002 Ltd., POK DSK-Rodina a.d.

NOTE 12: INVESTMENT PROPERTIES (in HUF mn) [continued]

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

Depreciation and amortization	30 June 2019	31 December 2018
Balance as at 1 January	**7,139**	**7,422**
Additions due to transfer from inventories or owner-occupied properties	791	-
Charge for the period	449	761
Disposal due to transfer to inventories or owner-occupied properties	-	(801)
Disposal due to sale	(435)	(422)
Other disposal for the period	(135)	(52)
Foreign currency translation difference	49	231
Closing balance	**7,858**	**7,139**

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

Impairment	30 June 2019	31 December 2018
Balance as at 1 January	**4,002**	**8,080**
Impairment for the period	209	451
Release of impairment for the period	(31)	(207)
Use of impairment	(24)	(4,593)
Foreign currency translation difference	22	271
Closing balance	**4,178**	**4,002**

Carrying values	30 June 2019	31 December 2018
Balance as at 1 January	**38,115**	**35,385**
Balance as at 31 December	**40,623**	**38,115**
Fair values	**45,967**	**44,616**

Income and expenses	30 June 2019	31 December 2018
Rental income	1,551	2,945
Direct operating expenses of investment properties – income generating	234	75
Direct operating expenses of investment properties – non income generating	4	9

NOTE 13: OTHER ASSETS[1] (in HUF mn)

	30 June 2019	31 December 2018
Inventories	54,804	59,146
Receivables from card operations	46,982	49,265
Prepayments and accrued income	44,846	34,245
Assets subject to operating lease	20,576	23,378
Current income tax receivable	12,565	14,258
Other advances	12,301	10,197
Receivables from investment services	11,060	6,985
Settlement and suspense accounts	9,847	4,953
Trade receivables	9,699	11,821
Stock exchange deals	8,148	12,092
Giro clearing accounts	8,117	4,652
Due from Hungarian Government from interest subsidies	5,451	4,380
Receivables from leasing activities	1,426	1,609
Receivable from the National Asset Management	1,171	1,487
Receivables due from pension funds and investment funds	943	989
Advances for securities and investments	685	679
Other receivables from Hungarian Government	-	76
Other	31,467	25,323
Subtotal	**280,088**	**265,535**
Loss allowance on other assets[2]	(28,248)	(27,603)
	251,840	**237,932**
Fair value of derivative financial assets designated as hedge accounting relationhip	5,952	15,201
Deferred tax assets[3]	22,693	20,769
Subtotal	**28,645**	**35,970**
Total	**280,485**	**273,902**

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

	30 June 2019	31 December 2018
CCIRS and mark-to-market CCIRS designated as fair value hedge	3,434	4,003
Interest rate swaps designated as fair value hedge	2,348	5,610
Interest rate swaps designated as cash flow hedge	-	3,751
MIRS[4] designated as cash-flow hedge	-	1,837
Other deals designated as fair value hedge	170	-
Total	**5,952**	**15,201**

[1] Other assets – except income tax receivable and fair value of derivative financial assets designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Unrealised gains/losses on derivative financial instruments are recovering in accordance with their maturity.
[2] Loss allowances mostly relates for inventories, other advances given and held-for-sale properties.
[3] See Note 27.
[4] Monetary policy interest rate swaps.

NOTE 13: OTHER ASSETS (in HUF mn) [continued]

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

	30 June 2019	31 December 2018
Balance as at 1 January	**27,603**	**28,595**
Effect of transition due to IFRS 9 application	-	(218)
Loss allowance for the period	1,920	(47)
Use of loss allowance	(1,755)	(1,107)
Reclassification	-	79
Foreign currency translation difference	480	301
Closing balance	**28,248**	**27,603**

NOTE 14: AMOUNTS DUE TO BANKS, THE NATIONAL GOVERNMENTS, DEPOSITS FROM THE NATIONAL BANKS AND OTHER BANKS (in HUF mn)

	30 June 2019	31 December 2018
Within one year		
In HUF	83,739	51,090
In foreign currency	197,882	128,467
	281,621	**179,557**
Over one year		
In HUF	140,662	124,512
In foreign currency	70,164	56,406
	210,826	**180,918**
	492,447	**360,475**
Financial liabilities at fair value through profit or loss		
Within one year in HUF	3,131	3,422
Over one year in HUF	26,793	28,809
	29,924	**32,231**
Total	**522,371**	**392,706**

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

	30 June 2019	31 December 2018
Contractual amount	29,172	30,911
Fair value adjustment due to market risk	752	1,320
Carrying amount	**29,924**	**32,231**

NOTE 14: AMOUNTS DUE TO BANKS, THE NATIONAL GOVERNMENTS, DEPOSITS FROM THE NATIONAL BANKS AND OTHER BANKS (in HUF mn) [continued]

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

	30 June 2019	31 December 2018
Within one year		
In HUF	(0.3)% - 2.69%	(15.0)% - 2.67%
In foreign currency	(0.5)% - 19.6%	(0.8)% - 21.5%
Over one year		
In HUF	0.0% - 3.84%	0.0% - 2.67%
In foreign currency	(0.39)% - 21.5%	0.0% - 21.5%

	30 June 2019	31 December 2018
Average interest rates on amounts due to banks, the National Governments, deposits from the National Banks and other banks denominated in HUF	1.45%	2.21%
Average interest rates on amounts due to banks, the National Governments, deposits from the National Banks and other banks denominated in foreign currency	3.11%	1.71%

NOTE 15: DEPOSITS FROM CUSTOMERS (in HUF mn)

	30 June 2019	31 December 2018
Within one year		
In HUF	4,895,021	4,893,454
In foreign currency	7,120,865	6,100,941
	12,015,886	**10,994,395**
Over one year		
In HUF	402,092	251,723
In foreign currency	281,848	38,967
	683,940	**290,690**
Total	**12,699,826**	**11,285,085**

Interest rates on deposits from customers are as follows:

	30 June 2019	31 December 2018
Within one year		
In HUF	(4.94)% - 9.69%	(5.11)% - 9.69%
In foreign currency	(0.5)% - 21.0%	(0.42)% - 23.0%
Over one year		
In HUF	0.0% - 3.10%	0.0% - 9.96%
In foreign currency	0.0% - 15.0%	0.0% - 17.57%

NOTE 15: DEPOSITS FROM CUSTOMERS (in HUF mn) [continued]

	30 June 2019	31 December 2018
Average interest rates on deposits from customers denominated in HUF	0.09%	0.11%
Average interest rates on deposits from customers denominated in foreign currency	0.76%	0.75%

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

	30 June 2019		31 December 2018	
Retail deposits	7,831,499	62%	6,840,516	61%
Corporate deposits	4,319,255	34%	3,863,176	34%
Municipality deposits	549,072	4%	581,393	5%
Total	**12,699,826**	**100%**	**11,285,085**	**100%**

NOTE 16: LIABILITIES FROM ISSUED SECURITIES (in HUF mn)

	30 June 2019	31 December 2018
With original maturity		
Within one year		
In HUF	11,588	49,931
In foreign currency	3,502	5,091
	15,090	**55,022**
Over one year		
In HUF	370,257	362,856
In foreign currency	50	88
	370,307	**362,944**
Total	**385,397**	**417,966**

Interest rates on liabilities from issued securities are as follows:

	30 June 2019	31 December 2018
Issued securities denominated in HUF	0.01% - 9.0%	0.2% - 9.48%
Issued securities denominated in foreign currency	0.74% - 7.33%	0.6% - 7.0%

	30 June 2019	31 December 2018
Average interest rates on issued securities denominated in HUF	2.61%	2.33%
Average interest rates on issued securities denominated in foreign currency	0.09%	1.66%

NOTE 16: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

Issued securities denominated in HUF as at 30 June 2019 (in HUF mn)

	Name	Date of issue	Maturity	Nominal value (in HUF mn)	Amortized cost (in HUF mn)	Interest conditions (actual interest rate in % p.a.)		Hedged
1	OTP 2019/Ax	25/06/2009	01/07/2019	211	185	indexed	54	hedged
2	OTP 2019/Bx	05/10/2009	14/10/2019	286	314	indexed	NaN	hedged
3	OTP 2019/Cx	14/12/2009	20/12/2019	228	390	indexed	NaN	hedged
4	OTP 2020/Ax	25/03/2010	30/03/2020	251	340	indexed	NaN	hedged
5	OTP 2020/Bx	28/06/2010	09/07/2020	267	291	indexed	NaN	hedged
6	OTP 2020/Cx	11/11/2010	05/11/2020	176	227	indexed	NaN	hedged
7	OTP 2020/Dx	16/12/2010	18/12/2020	177	213	indexed	NaN	hedged
8	OTP 2020/Ex	18/06/2014	22/06/2020	3,137	3,111	indexed	0.70	hedged
9	OTP 2020/Fx	10/10/2014	16/10/2020	2,803	2,731	indexed	0.20	hedged
10	OTP 2020/Gx	15/12/2014	21/12/2020	2,444	2,370	indexed	0.30	hedged
11	OTP 2021/Ax	01/04/2011	01/04/2021	225	293	indexed	NaN	hedged
12	OTP 2021/Bx	17/06/2011	21/06/2021	264	336	indexed	NaN	hedged
13	OTP 2021/Cx	19/09/2011	24/09/2021	241	312	indexed	NaN	hedged
14	OTP 2021/Dx	21/12/2011	27/12/2021	285	325	indexed	NaN	hedged
15	OTP 2022/Ax	22/03/2012	23/03/2022	229	243	indexed	NaN	hedged
16	OTP 2022/Bx	18/07/2012	18/07/2022	201	337	indexed	1.70	hedged
17	OTP 2022/Cx	29/10/2012	28/10/2022	227	279	indexed	1.70	hedged
18	OTP 2022/Dx	28/12/2012	27/12/2022	280	382	indexed	1.70	hedged
19	OTP 2023/Ax	22/03/2013	24/03/2023	353	381	indexed	1.70	hedged
20	OTP 2023/Bx	28/06/2013	26/06/2023	240	275	indexed	0.60	hedged
21	OTP 2024/Ax	18/06/2014	21/06/2024	241	249	indexed	1.30	hedged
22	OTP 2024/Bx	10/10/2014	16/10/2024	324	318	indexed	0.70	hedged
23	OTP 2024/Cx	15/12/2014	20/12/2024	272	264	indexed	0.60	hedged
24	OTP 2020/RF/A	12/07/2010	20/07/2020	2,141	2,260	indexed	NaN	hedged
25	OTP 2020/RF/B	12/07/2010	20/07/2020	1,249	1,400	indexed	NaN	hedged
26	OTP 2020/RF/C	11/11/2010	05/11/2020	2,561	2,611	indexed	NaN	hedged
27	OTP 2021/RF/A	05/07/2011	13/07/2021	2,368	2,741	indexed	NaN	hedged
28	OTP 2021/RF/B	20/10/2011	25/10/2021	2,580	2,748	indexed	NaN	hedged
29	OTP 2021/RF/C	21/12/2011	30/12/2021	485	528	indexed	NaN	hedged
30	OTP 2021/RF/D	21/12/2011	30/12/2021	333	354	indexed	NaN	hedged
31	OTP 2021/RF/E	21/12/2011	30/12/2021	62	63	indexed	NaN	hedged
32	OTP 2022/RF/A	22/03/2012	23/03/2022	1,825	1,793	indexed	1.70	hedged
33	OTP 2022/RF/B	22/03/2012	23/03/2022	676	663	indexed	1.70	hedged
34	OTP 2022/RF/C	28/06/2012	28/06/2022	176	213	indexed	1.70	hedged
35	OTP 2022/RF/D	28/06/2012	28/06/2022	236	266	indexed	1.70	hedged
36	OTP 2022/RF/E	29/10/2012	31/10/2022	627	630	indexed	1.70	hedged
37	OTP 2022/RF/F	28/12/2012	28/12/2022	496	504	indexed	1.70	hedged
38	OTP 2023/RF/A	22/03/2013	24/03/2023	698	702	indexed	1.70	hedged
39	OJB 2020/I	19/11/2004	12/11/2020	5,502	5,860	9.0	fixed	
40	OJB 2020/II	31/05/2011	12/11/2020	1,487	1,582	9.0	fixed	
41	OJB 2021/I	15/02/2017	27/10/2021	114,000	114,598	2.0	fixed	
42	OJB 2023/I	05/04/2018	24/11/2023	43,600	43,723	1.75	fixed	
43	OJB 2024/A	17/09/2018	20/05/2024	53,048	53,064	0.84	floating	
44	OJB 2024/B	18/09/2018	24/05/2024	39,106	39,119	0.89	floating	
45	OJB 2024/II	10/10/2018	24/10/2024	92,000	92,031	2.50	fix	
46	Other			226	226			
	Total issued securities in HUF			**378,844**	**381,845**			

NOTE 16: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

Issued securities denominated in foreign currency as at 30 June 2019 (in HUF mn)

	Name	Date of issue	Maturity	Type of FX	Nominal value (FX mn)	Nominal value (HUF mn)	Amortized cost (FX mn)	Amortized cost (HUF mn)	Interest conditions (actual interest rate in % p.a.)	
1	OTP_VK_USD_1_2019/V	06/08/2018	06/08/2019	USD	0.82	233	0.83	235	2.20	floating
2	OTP_VK_USD_1_2019/VI	04/10/2018	04/10/2019	USD	2.07	587	2.08	590	2.05	floating
3	OTP_VK_USD_1_2019/VII	15/11/2018	15/11/2019	USD	0.87	247	0.87	247	1.99	floating
4	OTP_VK_USD_1_2019/VIII	20/12/2018	20/12/2019	USD	1.50	425	1.50	425	1.70	floating
5	OTP_VK_USD_1_2020/I	21/02/2019	21/02/2020	USD	1.53	435	1.54	437	1.20	floating
6	OTP_VK_USD_1_2020/II	04/04/2019	04/04/2020	USD	2.48	704	2.49	707	1.20	floating
7	OTP_VK_USD_1_2020/III	16/05/2019	16/05/2020	USD	0.89	254	0.89	254	1.20	floating
8	OTP_VK_USD_1_2020/IV	27/06/2019	27/06/2020	USD	1.92	544	1.92	544	1.20	floating
9	Other[1]				23	103	25	113		
	Total issued securities in FX				**35.08**	**3,532**	**37.12**	**3,552**		
	Total issued securities							**385,397**		

Hedge accounting

Certain structured bonds are hedged by interest rate swaps ("IRS") which may transfer to a transferee a fixed rate and enter into an interest rate swap with the counterparty to receive a fixed interest rate and pay a variable interest rate and additional amount of the structure considered. The amount of the structure is calculated based on a notional amount which is equal to the notional amount of the hedged bond. In certain cases the amount of the structure is hedged by options which give the owner the right to get amount of the structure which is equal to the structure of the hedged bond. The hedge is highly effective if changes in fair value or cash-flows attributable to the hedged risk during the period for which the hedge is designated are within a range of 80-125 per cent.

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

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

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

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

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

[1] Other category includes promissory notes issued by JSC "OTP Bank" (Russia) in the amount of HUF 113 million.

NOTE 17: DERIVATIVE FINANCIAL LIABILITIES HELD-FOR-TRADING (in HUF mn)

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

	30 June 2019	31 December 2018
Held-for-trading interest rate swaps	38,859	27,956
Held-for-trading foreign exchange swaps	24,153	27,120
Held-for-trading foreign exchange forward contracts	4,064	2,982
Held-for-trading option contracts	3,723	3,631
Held-for-trading CCIRS and mark-to-market CCIRS	1,311	9,165
Held-for-trading forward rate agreements (FRA)	108	57
Held-for-trading forward security agreements	-	9
Held-for-trading other transactions	1,358	2,396
Total	**73,576**	**73,316**

NOTE 18: OTHER LIABILITIES[1] (in HUF mn)

	30 June 2019	31 December 2018
Liabilities from investment services	127,477	67,976
Provision on off-balance sheet commitments and contingent liabilities	86,148	83,014
Liabilities connected to Cafeteria benefits	80,124	37,187
Leasing liabilities	50,093	50
Accrued expenses	47,293	39,125
Clearing, settlement and suspense accounts	45,461	38,797
Liabilities from card transactions	39,273	46,430
Current income tax payable	31,355	21,402
Salaries and social security payable	29,397	25,741
Liabilities due to short positions	21,281	13,784
Accounts payable	15,220	35,562
Giro clearing accounts	15,116	6,888
Advances received from customers	12,472	12,246
Liabilities due to refunding assets	9,307	9,417
Insurance technical reserve	4,433	4,312
Liabilities related to housing loans	3,379	8,037
Provision for losses due to CHF loans conversion at foreign subsidiaries	1,992	2,415
Loans from government	827	878
Liabilities connected to loans for collection	687	806
Dividend payable	86	48
Other	59,149	44,742
Subtotal	**680,570**	**498,857**

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

NOTE 18: OTHER LIABILITIES (in HUF mn) [continued]

	30 June 2019	31 December 2018
Fair value of derivative financial liabilities designated as hedge accounting	11,425	7,407
Deferred tax liabilities[1]	10,837	6,865
Subtotal	**22,262**	**14,272**
Total	**702,832**	**513,129**

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

	30 June 2019	31 December 2018
Commitments and guarantees given	33,115	28,144
Pending legal issues and tax litigation	26,110	25,930
Pensions and other post employment defined benefit obligations	11,318	12,236
Provision for losses due to CHF loans conversion at foreign subsidiaries	1,992	2,415
Other long-term employee benefits	1,163	1,690
Restructuring	660	799
Other provision	13,782	14,215
Total	**88,140**	**85,429**

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

	30 June 2019	31 December 2018
Balance as at 1 January	**85,429**	**81,857**
Effect of transition due to IFRS 9 application	-	4,989
Provision for the period	21,221	49,032
Release of provision for the period	(21,280)	(50,873)
Use of provision	(1,993)	(1,457)
Change due to acquisition	3,369	-
Foreign currency translation differences	1,394	1,881
Closing balance	**88,140**	**85,429**

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

	30 June 2019	31 December 2018
Interest rate swaps designated as fair value hedge	9,075	6,458
CCIRS and mark-to-market CCIRS designated as fair value hedge	740	352
Interest rate swaps designated as cash-flow hedge	-	523
MIRS designated as cash-flow hedge	-	74
Other deals designated as fair value hedge	1,610	-
Total	**11,425**	**7,407**

[1] See Note 27.

NOTE 19: SUBORDINATED BONDS AND LOANS (in HUF mn)

	30 June 2019	31 December 2018
Over one year:		
In foreign currency	81,532	81,429
Total	**81,532**	**81,429**

Types of subordinated bonds and loans	**30 June 2019**	**31 December 2018**
Debt securities issued	76,696	76,627
Deposits	4,836	4,802
Total	**81,532**	**81,429**

Interest rates on subordinated bonds and loans are as follows:

	30 June 2019	31 December 2018
Denominated in foreign currency	2.69% - 5.00%	2.68% - 5.00%

	30 June 2019	31 December 2018
Average interest rates on subordinated bonds and loans	3.02%	2.76%

Subordinated bonds and loans can be detailed as follows:

Type	Nominal value	Date of issuance	Date of maturity	Issue price	Interest conditions	Interest rate as at 30 June 2019
Subordinated bond	EUR 235 million	07/11/2006	Perpetual	99.375%	Three-month EURIBOR + 3%, variable after year 10 (payable quarterly)	2.692%
Subordinated loan	USD 17.0 million	05/06/2018	05/06/2025	100.00%	Bullet repayment, once at the end of the loan agreement	5.00%

NOTE 20: SHARE CAPITAL (in HUF mn)

	30 June 2019	31 December 2018
Authorized, issued and fully paid:		
Ordinary shares	28,000	28,000

NOTE 21: RETAINED EARNINGS AND RESERVES[1] (in HUF mn)

In 2019 the Bank paid dividends of HUF 61,320 million from the profit of the year 2018, which meant HUF 219 dividend per share payable to the shareholders.

The retained earnings and reserves according to IFRS contains the retained earnings (HUF 643,349 million and HUF 592,917 million) and reserves (HUF 1,383,529 million and HUF 1,271,287 million) as at 30 June 2019 and 31 December 2018 respectively. The reserves include mainly the option reserve, other reserves, the fair value adjustment of financial instruments at fair value through other comprehensive income, fair value of hedge transactions, additional reserves of Income Certificates Exchangeable for Shares ("ICES"), changes in equity accumulated in the previous years at the subsidiaries and due to consolidation as well as translation of foreign exchange differences.
In the Consolidated Financial Statement the Group recognizes the non-monetary items at historical cost. The difference between the historical cost of the non-monetary items in forint amount and the translated foreign currencies into the presentation currency using the exchange rate at the balance sheet date, is presented in the shareholders' equity as a translation difference. The accumulated amounts of exchange differences were HUF (119,578) million and HUF (151,439) million as at 30 June 2019 and 31 December 2018 respectively.

	30 June 2019	**31 December 2018**
Retained earnings	643,349	592,917
Capital reserve	52	52
Option reserve	(55,468)	(55,468)
Other reserves	78,503	79,829
Fair value of financial instruments measured at fair value through other comprehensive income	56,747	39,670
Share-based payment reserve	37,235	35,632
Fair value of derivative financial instruments designated as cash-flow hedge	5	(9)
Net investment hedge in foreign operations	(16,860)	(16,288)
Extra reserves	89,935	89,935
Net profit for the period	177,786	318,233
Changes in equity accumulated in the previous years at the subsidiaries and due to consolidation	1,135,172	931,140
Foreign currency translation differences	(119,578)	(151,439)
Retained earnings and other reserves	**2,026,878**	**1,864,204**

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

Due to the conditions described above, ICES was accounted as an equity instrument and therefore any payment was accounted as equity distribution paid to ICES holders.

NOTE 22: TREASURY SHARES (in HUF mn)

	30 June 2019	**31 December 2018**
Nominal value (Ordinary shares)	1,830	1,848
Carrying value at acquisition cost	65,715	67,999

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

NOTE 22: TREASURY SHARES (in HUF mn) [continued]

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

Change in number of shares:

	30 June 2019	31 December 2018
Number of shares as at 1 January	**18,475,833**	**18,274,010**
Additions	822,954	1,358,018
Disposals	(996,907)	(1,156,195)
Closing number of shares	**18,301,880**	**18,475,833**

Change in carrying value:

	30 June 2019	31 December 2018
Balance as at 1 January	**67,999**	**63,289**
Additions	7,869	14,238
Disposals	(10,153)	(9,528)
Closing balance	**65,715**	**67,999**

NOTE 23: NON-CONTROLLING INTEREST (in HUF mn)

	30 June 2019	31 December 2018
Balance as at 1 January	**2,452**	**3,465**
Increase due to business combination	810	-
Non-controlling interest included in net profit for the period	173	89
Changes due to ownership structure	(11)	(11)
Effect of transition due to IFRS 9 application	-	(127)
Purchase of non-controlling interest	-	(752)
Foreign currency translation difference	257	(212)
Closing balance	**3,681**	**2,452**

NOTE 24: LOSS ALLOWANCES ON LOANS AND PLACEMENTS (in HUF mn)

	30 June 2019	30 June 2018
Loss allowance on loans		
Loss allowance for the period	193,230	151,243
Release of loss allowance	(142,591)	(127,039)
Loan losses / (gains) due to write-off and sale	1,904	(14,214)
Incomes from loan recoveries	(26,211)	-
Impairment gain	(7,279)	-
Modification gains on loans measured at amortized cost	(475)	(1,461)
	18,578	**8,529**

NOTE 24: LOSS ALLOWANCES ON LOANS AND PLACEMENTS (in HUF mn) [continued]

	30 June 2019	30 June 2018
Loss allowance on placements		
Allowance for the period	1,981	1,391
Release of allowance	(1,924)	(1,202)
Gains on placements due to write-off and sale	(16)	(64)
	41	**125**
Loss allowance on loans and placements	**18,619**	**8,654**

NOTE 25: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn)

Income from fees and commissions	30 June 2019	30 June 2018
Fees and commissions related to lending[1]	**12,231**	**10,920**
Deposit and account maintenance fees and commissions	78,761	68,836
Fees and commissions related to the issued bank cards	32,966	28,488
Fees related to cash withdrawal	18,608	16,137
Fees and commissions related to fund management	10,370	9,117
Fees and commissions related to security trading	9,564	10,202
Insurance fee income	7,180	6,420
Other	15,851	10,321
Fees and commissions from contracts with customers	**173,300**	**149,521**
Total	**185,531**	**160,441**

Fee type	Nature and timing of obligation settlement, and the significant payment terms	Revenue recognition under IFRS 15
Deposit and account maintenance fees and commissions and fees related to cash withdrawal	The Group provides a number of account management services for both retail and corporate customers in which they charge a fee. Fees related to these services can be typically account transaction fees (money transfer fees, direct debit fees, money standing order fees, etc.), internet banking fees, account control fees (e.g. sms fee), or other fees for occasional services (account statement fees, other administration fees, etc.). Fees for ongoing account management services are charged to the customer's account on a monthly basis. The fees are commonly fix amounts that can be vary per account package and customer category. In the case of the transaction based fees where the services include money transfer the fee is charged when the transaction takes place. The rate of the fee is typically determined in a certain % of the transaction amount. In case of other transaction-based fees (e.g. SMS fee), the fee is settled monthly. In case of occasional services the Group basically charges the fees when the services are used by the customer. The fees can be fixed fees or they can be set in %. The rates are reviewed by the Group regularly.	Fees for ongoing account management services are charged on a monthly basis during the period when they are provided. Transaction-based fees are charged when the transaction takes place or charged monthly at the end of the month.

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

NOTE 25: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn) [continued]

Fee type	Nature and timing of obligation settlement, and the significant payment terms	Revenue recognition under IFRS 15
Fees and commission related to the issued bank cards	The Group provides a variety of bank cards to its customers, for which different fees are charged. The fees are basically charged in connection with the issuance of cards and the related card transactions. The annual fees of the cards are charged in advance in a fixed amount for those cards which are in use by the clients. The amount of the annual card fee depends on the type of card. In case of transaction-based fees (e.g. cash withdrawal/payment fee, merchant fee, interchange fee, etc.), the settlement of the fees will take place immediately after the transaction or on a monthly basis. The fee is typically determined in % of the transaction with a fixed minimum amount. For all other cases where the Group provides a continuous service to the customers (e.g. card closing fee), the fees are charged monthly. The fee is calculated in a fix amount. The rates are reviewed by the Group regularly.	Fees for ongoing services are charged on a monthly basis during the period when they are provided. Transaction-based fees are charged when the transaction takes place or charged monthly at the end of the month.
Fees and commissions related to security trading	The Group provides its clients security account management services. Fees will be charged for account management and transactions on accounts. Account management fees are typically charged quarterly or annually. The amount is determined in %, based on the stocks of securities managed by the clients on the account in a given period. Fees for transactions on the securities account are charged immediately after the transaction. They are determined in %, based on the transaction amount. Fees for complex services provided to clients (e.g. portfolio management or custody) are typically charged monthly or annually. The fees are fixed monthly amounts and in some cases a bonus fee are charged.	Fees for ongoing services are charged quarterly or annually during the period when they are provided. The fees are accrued monthly. Transaction-based fees are charged when the transaction takes place.
Fees and commissions related to fund management	Fees from fund management services provided to investment funds and from portfolio management provided to insurance companies, funds. The fee incomes are calculated on the basis of market value of the portfolio and by the fee rates determined in the contracts about portfolio management.	
Net insurance fee income	Due to the fact that the Group rarely provides insurance services to its clients, only acts as an agent, the fee income charged to the customers and fees payable to the insurance company are presented net in the fee income. In addition, agency fee charged for the sale of insurance contracts is also recorded in this line. The fee is charged on a monthly basis and determined in %.	

NOTE 25: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn) [continued]

Fee type	Nature and timing of obligation settlement, and the significant payment terms	Revenue recognition under IFRS 15
Other	Fees that are not significant in the Group total income are included in Other fees category. Such fees are safe lease, special procedure fee, account rent fee, fee of a copy of document, etc. Other fees may include charges for continuous services or for ad hoc administration services. Continuous fees are charged monthly (e.g., safe lease fees) at the beginning of the period, typically at a fixed rate. Fees for ad hoc services are charged immediately after the service obligation were met, usually in a fixed amount.	Fees for ongoing services are charged on a monthly basis during the period when they are provided. Fees for ad hoc services are charged when the transaction takes place.

Expense from fees and commissions	30 June 2019	30 June 2018
Fees and commissions related to issued bank cards	11,464	9,199
Interchange fees	7,139	5,015
Fees and commissions related to deposits	2,461	2,124
Cash withdrawal transaction fees	1,591	883
Fees and commissions related to security trading	1,471	1,539
Fees and commissions paid on loans	1,460	1,760
Insurance fees	543	1,724
Postal fees	494	447
Fees and commissions related to collection of loans	247	428
Money market transaction fees and commissions	37	85
Other	4,066	3,056
Total	**30,973**	**26,260**
Net profit from fees and commissions	**154,558**	**134,181**

NOTE 26: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn)

Other operating income	30 June 2019	30 June 2018
Negative goodwill due to acquisition	10,619	-
Gains on transactions related to property activities	5,632	1,287
Rental income	627	-
Gains on transactions related to insurance activity	428	409
Non-repayable assets received	287	146
Income from loss allowance on loans before acquisition	-	6,832
Gains on sale of receivables	-	2,776
Loss from discontinued operations	(363)	-
Other income from non-financial activities	9,025	7,070
Total	**26,255**	**18,520**

NOTE 26: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn) [continued]

Other operating expenses	**30 June 2019**	**30 June 2018**
Financial support for sport association and organization of public utility	5,749	5,011
Non-repayable assets contributed	2,369	343
Loss allowance on other assets	2,340	699
Impairment on tangible and intangible assets	421	-
Impairment / (Release of impairment) on investment properties[1]	178	(51)
Loss allowance on investments[2]	170	557
Expenses from losses due to foreign currency loan conversion at foreign subsidiaries	157	247
Provision / (Release of provision) for off-balance sheet commitments and contingent liabilities	80	(856)
Fine imposed by Competition Authority	45	4
(Release of impairment) / Impairment for assets subject to operating lease	(62)	23
Release of provision due to foreign currency loan conversion at foreign subsidiaries	(139)	(258)
Other	4,776	3,305
Total	**16,084**	**9,024**

Other administrative expenses	**30 June 2019**	**30 June 2018**
Personnel expenses		
Wages	100,517	90,071
Taxes related to personnel expenses	20,664	19,220
Other personnel expenses	10,262	9,339
Subtotal	**131,443**	**118,630**
Depreciation and impairment of tangible, intangible assets and goodwill impairment	**41.064**	**25.441**

	30 June 2019	**30 June 2018**
Other administrative expenses		
Taxes, other than income tax [3]	52,982	48,025
Services	42,237	29,528
Professional fees	20,556	17,164
Administration expenses	15,028	17,523
Rental fees	4,078	10,466
Advertising	7,243	7,535
Subtotal	**142,124**	**130,241**
Total	**314,631**	**274,312**

[1] See details in Note 12.

[2] See details in Note 9.

[3] Special tax of financial institutions was paid by the Group in the amount of HUF 11,201 million and HUF 11,514 million for the first half-year of 2019 and for the year 2018 respectively, recognized as an expense thus decreased the corporate tax base. In the first half-year ended 30 June 2019 financial transaction duty was paid by the Bank in the amount of HUF 30.5 billion.

NOTE 27: INCOME TAXES (in HUF mn)

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

Deferred tax is calculated at the income tax rate of 9% in Hungary and Montenegro, 10% in Bulgaria, 12.5% in Cyprus, 15% in Serbia and Albania, 16% in Romania, 18% in Ukraine and Croatia, 20% in Russia, 21% in Slovakia, 25% in the Netherlands and 35% in Malta.

The breakdown of the income tax expense is:

	30 June 2019	31 December 2018
Current tax expense	19,881	22,480
Deferred tax (income) / expense	(1,275)	11,357
Total	**18,606**	**33,837**

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

	30 June 2019	31 December 2018
Balance as at 1 January	**13,904**	**20,148**
Effect of transition due to IFRS 9 application	-	2,678
Deferred tax expense in profit or loss	1,275	(11,357)
Deferred tax related to items recognized directly in equity and in Comprehensive Income	(1,220)	2,780
Due to acquisition of subsidiary	(3,027)	-
Foreign currency translation difference	924	(345)
Closing balance	**11,856**	**13,904**

A breakdown of the deferred tax assets are as follows:

	30 June 2019	31 December 2018
Difference due to transition to IFRS	5,526	4,748
Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments	3,955	3,714
Unused tax allowance	2,850	5,348
Premium and discount amortization on bonds	2,838	2,838
Fair value adjustment of securities at fair value through profit or loss and through other comprehensive income	2,697	2,335
Tax accrual caused by negative taxable income	2,105	2,319
Difference due to IFRS 9	770	505
Adjustment from effective interest rate method	357	465
Difference in depreciation and amortization	342	925
Fair value adjustment of derivative financial instruments	114	19
Difference in accounting for leases	92	32
Refundable tax in accordance with Acts on Customer Loans	-	245
Amounts unenforceable by tax law	-	13
Other	11,922	8,639
Deferred tax asset	**33,568**	**32,145**

NOTE 27: INCOME TAXES (in HUF mn) [continued]

A breakdown of the deferred tax liabilities are as follows:

	30 June 2019	31 December 2018
Fair value adjustment of securities at fair value through profit or loss and through other comprehensive income	(10,119)	(7,435)
Difference in depreciation and amortization	(5,136)	(3,127)
Fair value adjustment of derivative financial instruments	(946)	(850)
Difference due to transition to IFRS	(487)	(264)
Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments	(407)	(408)
Difference due to IFRS 9	(83)	-
Amounts unenforceable by tax law	(45)	-
Temporary differences arising on consolidation	(25)	(25)
Adjustment from effective interest rate method	(19)	-
Deferred tax due to acquisition	(1,593)	(4,461)
Difference in accounting for leases	-	(631)
Premium and discount amortization on bonds	-	(1)
Other	(2,852)	(1,039)
Deferred tax liabilities	**(21,712)**	**(18,241)**
Net deferred tax asset (net amount presented in the statement of financial positions)	**11,856**	**13,904**
Deferred tax assets	22,693	20,769
Deferred tax liabilities	10,837	6,865

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

	30 June 2019	31 December 2018
Profit before income tax	196,565	352,159
Income tax expense at statutory tax rates	25,996	42,961
Income tax adjustments due to permanent differences are as follows:		
Deferred use of tax allowance	2,497	6,122
Share-based payment	144	342
Amounts unenforceable by tax law	57	(17)
Permanent differences from unused tax losses	-	118
Difference due to transition to IFRS	-	(422)
Transfer of statutory general provision to retained earnings	(47)	-
Use of tax allowance in the current year	(1,206)	(4,835)
Other	(8,835)	(10,432)
Income tax	**18,606**	**33,837**
Effective tax rate	**9.47%**	**9.61%**

NOTE 28: LEASE (in HUF mn)

The Group as a lessee:

At initial application of IFRS 16 the Group as lessee chose the modified retrospective approach (see Note 2.16.), so there are no comparative figures for 31 December 2019.

Amounts recognised at initial application	**1 January 2019**
Right-of-use asset	46,975
Lease liability	46,677
Cumulative impact recognized as an adjustment to the equity at the date of initial application	-

Amounts recognised in profit and loss	**30 June 2019**
Interest expense on lease liabilities	892
Expense relating to short-term leases	2,715
Expense relating to leases of low value assets	136
Expense relating to variable lease payments not included in the measurement of lease liabilities	558
Income from subleasing right-of-use assets	-
Gains or losses arising from sale and leaseback transactions	-

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

	Property	**Office equipment and vehicles**	**Total**
Depreciation expense of right-of-use assets	6,112	449	**6,561**
Additions to right-of-use assets	2,917	380	**3,297**
Carrying amount of right-of-use assets at the end of the reporting period	45,496	4,335	**49,831**

Leasing liabilities by maturities:

Within one year	11,069
Over one year	39,024
Total	**50,093**

NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF mn)

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
Financial instruments may result in certain risks to the Group. The most significant risks the Group faces include:

29.1. Credit risk

The Group takes on exposure to credit risk which is the risk that a counter-party will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or banks of borrowers, and to geographical areas and loan types. Such risks are monitored on a periodical basis and subject to an annual or more frequent review. The exposure to any borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.
Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is managed by obtaining collateral, corporate and personal guarantees.

NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

29.1. Credit risk [continued]

29.1.1. Analysis by loan types

Classification into risk classes

According to the requirements of the IFRS9 standard Group classifies the financial assets measured at amortized cost, at fair value through other comprehensive income and loan commitments and financial guarantees into the following stages:

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

In the case of trade receivables, contract assets and lease receivables the Group applies the simplified approach and calculates only lifetime expected credit loss.
Performing (Stage 1) financial instruments include all financial instruments in the case of which the events and conditions specified in respect of stage 2 and stage 3 do not exist on the reporting date.

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

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

The subject of default qualification is that exposure (on-balance and off-balance) which originates credit risk (so originated from loan commitments, risk-taking contracts).

A financial instruments shows significant increase in credit risk, and is allocated to stage 2, if in respect of which any of the following triggers exist on the reporting date, without fulfilling any of the conditions for the allocation to the non-performing stage (stage 3):

- the payment delay exceeds 30 days,
- it is classified as performing forborne,
- based on individual decision, its currency suffered a significant "shock" since the disbursement of the loan and no hedge position exists in respect thereof,
- the transaction/client rating exceeds a predefined value or falls into a determined range, or compared to the historic value it deteriorates to a predefined degree,
- in the case retail mortgage loans, the loan-to-value ratio exceeds a predefined rate,
- default on another loan of the retail client, if no cross-default exists,
- monitoring classification of corporate and municipal clients above different thresholds defined on group level (without aiming to give an exhaustive list):
  - financial difficulties at the debtor (capital adequacy, liquidity, deterioration of the instrument quality),
  - significant decrease of the liquidity or the activity on the active market of the financial instrument can be observed,
  - the rating of the client reflects high risk but it is better than the default one,
  - significantly decrease in the value of the recovery from which the debtor would disburse the loan,
  - clients under liquidation.

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

- defaulted (based on the group level default definition),
- it is classified as non-performing forborne (based on the group level forborne definition),

NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

29.1. Credit risk [continued]

29.1.1. Analysis by loan types [continued]

Classification into risk classes [continued]

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

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

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

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

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes
- the time value of money and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Defining the expected credit loss on individual and collective basis

On individual basis:

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

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

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

NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

29.1. Credit risk [continued]

29.1.1. Analysis by loan types [continued]

Defining the expected credit loss on individual and collective basis

On individual basis [continued]

The expected credit loss of the exposure equals the difference of the receivable's AC (gross book value) on the valuation date and the present value of the receivable's expected cash flows discounted to the valuation date by the exposure's original effective interest rate (EIR) (calculated at the initial recognition, or in the case of variable rate, recalculated due to the last interest rate change). The estimation of the expected future cash flows should be forward looking, it must also contain the effects of the possible change of macroeconomic outlook.

At least two scenarios must be used for the estimation of the expected cash flow. It should be at least one scenario in which the entity anticipates that realised cash flows will be significantly different from the contractual cash flows. Probability weights must be allocated to the individual scenarios. The estimation must reflect the probability of the occurrence and non-occurrence of the credit loss, even if the most probable result is the non-occurrence of the loss.

On collective basis:

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

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

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

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

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

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

NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

29.1. Credit risk [continued]

29.1.1. Analysis by loan types [continued]

Gross carrying amount and accumulated loss allowance of financial assets at amortized cost and of interest bearing securities at fair value through other comprehensive income and financial commitments and provision on them by stages as at 30 June 2019:

	Carrying amount / Exposure	Gross carrying amount / Notional value				Accumulated loss allowance / Provision			
		Stage 1	Stage 2	Stage 3[1]	Total	Stage 1	Stage 2	Stage 3[1]	Total
Placements with other banks	**494,745**	495,288	2	28	**495,318**	550	2	21	**573**
Mortgage loans	**2,618,999**	2,366,238	164,561	266,631	**2,797,430**	7,582	6,611	164,238	**178,431**
Loans to medium and large corporates	**3,319,718**	3,093,549	163,598	228,041	**3,485,188**	29,692	13,201	122,577	**165,470**
Consumer loans	**2,160,912**	2,064,521	142,126	262,917	**2,469,564**	64,741	28,987	214,924	**308,652**
Loans to micro and small enterprises	**731,450**	649,539	69,355	62,775	**781,669**	6,004	5,528	38,687	**50,219**
Car-finance loans	**332,443**	322,944	8,708	14,522	**346,174**	2,012	582	11,137	**13,731**
Municipal loans	**278,835**	277,069	2,127	432	**279,628**	545	39	209	**793**
Loans at amortized cost	**9,442,357**	8,773,860	550,475	835,318	**10,159,653**	110,576	54,948	551,772	**717,296**
Interest bearing securities at fair value through other comprehensive income[2]	**2,107,897**	2,107,897	-	-	**2,107,897**	3,202	-	-	**3,202**
Securities at amortized cost	**1,792,912**	1,791,757	-	3,815	**1,795,572**	1,951	-	709	**2,660**
Financial assets total	**13,837,911**	**13,168,802**	**550,477**	**839,161**	**14,558,440**	**116,279**	**54,950**	**552,502**	**723,731**
Loan commitments given	2,331,017	2,288,444	59,573	3,463	**2,351,480**	17,646	1,893	924	**20,463**
Financial guarantees given	423,626	415,769	10,825	5,669	**432,263**	5,442	651	2,544	**8,637**
Other commitments given	519,745	513,329	4,151	6,169	**523,649**	2,424	283	1,197	**3,904**
Financial liabilities total	**3,274,388**	**3,217,542**	**74,549**	**15,301**	**3,307,392**	**25,512**	**2,827**	**4,665**	**33,004**

[1] Stage 3 includes POCI category too.
[2] Interest bearing securities at fair value through other comprehensive income is recognized in the Consolidated statement of financial position as at fair value (see in Note 7). Loss allowances for securities at fair value through other comprehensive income is recognized in the Other comprehensive income which is included in the accumulated loss allowance of this table.

NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

29.1. Credit risk [continued]

29.1.1. Analysis by loan types [continued]

Gross carrying amount and accumulated loss allowance of financial assets at amortized cost and of interest bearing securities at fair value through other comprehensive income and financial commitments and provision on them by stages as at 31 December 2018:

	Carrying amount / Exposure	Gross carrying amount / Notional value				Accumulated loss allowance / Provision			
		Stage 1	Stage 2	Stage 3[1]	Total	Stage 1	Stage 2	Stage 3[1]	Total
Placements with other banks	**420,606**	419,468	1,606	29	**421,103**	463	12	22	**497**
Mortgage loans	**2,399,184**	2,121,746	184,617	275,484	**2,581,847**	3,415	8,478	170,770	**182,663**
Loans to medium and large corporates	**2,651,852**	2,432,280	182,051	194,608	**2,808,939**	23,083	16,719	117,285	**157,087**
Consumer loans	**1,833,060**	1,744,664	127,858	235,098	**2,107,620**	56,524	25,503	192,533	**274,560**
Loans to micro and small enterprises	**582,012**	494,635	78,411	63,866	**636,912**	5,379	7,152	42,369	**54,900**
Car-finance loans	**296,684**	277,750	17,122	16,108	**310,980**	1,344	818	12,134	**14,296**
Municipal loans	**269,276**	269,034	1,655	445	**271,134**	1,634	35	189	**1,858**
Loans at amortized cost	**8,032,068**	7,340,109	591,714	785,609	**8,717,432**	91,379	58,705	535,280	**685,364**
Interest bearing securities at fair value through other comprehensive income[2]	**1,853,186**	1,853,186	-	-	**1,853,186**	3,098	-	-	**3,098**
Securities at amortized cost	**1,740,520**	1,742,754	-	705	**1,743,459**	2,234	-	705	**2,939**
Financial assets total	**12,046,380**	**11,355,517**	**593,320**	**786,343**	**12,735,180**	**97,174**	**58,717**	**536,007**	**691,898**
Loan commitments given	2,008,387	1,988,798	33,881	3,551	**2,026,230**	14,941	2,082	820	**17,843**
Financial guarantees given	427,093	418,032	10,868	6,639	**435,539**	5,009	572	2,865	**8,446**
Other commitments given	531,766	521,045	11,974	511	**533,530**	1,507	167	90	**1,764**
Financial liabilities total	**2,967,246**	**2,927,875**	**56,723**	**10,701**	**2,995,299**	**21,457**	**2,821**	**3,775**	**28,053**

[1] Stage 3 includes POCI category too.
[2] Interest bearing securities at fair value through other comprehensive income is recognized in the Consolidated statement of financial position as at fair value (see in Note 7). Loss allowances for securities at fair value through other comprehensive income is recognized in the Other comprehensive income which is included in the accumulated loss allowance of this table.

NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

29.1. Credit risk [continued]

29.1.1. Analysis by loan types [continued]

Movement of loss allowance on financial assets at amortized cost and on interest bearing securities at fair value through other comprehensive income and of provision of financial commitments as at 30 June 2019:

	Opening balance	Increases due to origination and acquisition	Decreases due to derecognition	Transfers between stages (net)	Changes due to change in credit risk (net)	Changes due to modifications without derecognition (net)	Decrease in loss allowance account due to write-offs	Other adjustments	Closing balance
Stage 1	**97,174**	**46,422**	**(11,945)**	**(310,548)**	**299,213**	**(3,107)**	**(638)**	**(292)**	**116,279**
Placements with other banks	463	1,483	-	(5)	(1,416)	8	-	17	550
Loans at amortized cost	91,379	43,975	(11,400)	(310,536)	301,328	(3,115)	(638)	(417)	110,576
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	5,332	964	(545)	(7)	(699)	-	-	108	5,153
Stage 2	**58,717**	**9,979**	**(7,504)**	**95,787**	**(99,791)**	**233**	**(279)**	**(2,192)**	**54,950**
Placements with other banks	12	2	-	5	(17)	-	-	-	2
Loans at amortized cost	58,705	9,977	(7,504)	95,775	(99,767)	233	(279)	(2,192)	54,948
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	-	-	-	7	(7)	-	-	-	-
Stage 3[1]	**536,007**	**13,599**	**(29,916)**	**214,761**	**(160,532)**	**2,784**	**(32,294)**	**8,093**	**552,502**
Placements with other banks	22	-	-	-	-	-	-	(1)	21
Loans at amortized cost	535,280	12,890	(29,146)	214,761	(160,572)	2,784	(32,294)	8,069	551,772
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	705	709	(770)	-	40	-	-	25	709
Loss allowance on financial assets total	**691,898**	**70,000**	**(49,365)**	**-**	**38,890**	**(90)**	**(33,211)**	**5,609**	**723,731**
Loan commitments and financial guarantees given - stage 1	21,457	9,148	(3,190)	(14,520)	13,524	359	(1)	(1,265)	25,512
Loan commitments and financial guarantees given - stage 2	2,821	461	(21)	14,478	(14,984)	80	(1)	(7)	2,827
Loan commitments and financial guarantees given - stage 3	3,775	2,787	(4,471)	42	1,830	135	(97)	664	4,665
Financial liabilities total	**28,053**	**12,396**	**(7,682)**	**-**	**370**	**574**	**(99)**	**(608)**	**33,004**

[1] Stage 3 includes POCI category too.

NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

29.1. Credit risk [continued]

29.1.1. Analysis by loan types [continued]

Movement of loss allowance on financial assets at amortized cost and on interest bearing securities at fair value through other comprehensive income and of provision of financial commitments as at 31 December 2018:

	Opening balance	Increases due to origination and acquisition	Decreases due to derecognition	Transfers between stages	Changes due to change in credit risk (net)	Changes due to modifications without derecognition (net)	Decrease in loss allowance account due to write-offs	Other adjustments	Closing balance
Stage 1	**92,280**	**72,512**	**(17,906)**	**(196,638)**	**143,939**	**(2,247)**	**(45)**	**5,279**	**97,174**
Placements with other banks	312	1,204	(9)	-	(1,037)	-	-	(7)	463
Loans at amortized cost	86,748	69,669	(17,670)	(196,638)	146,458	(2,247)	(45)	5,104	91,379
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	5,220	1,639	(227)	-	(1,482)	-	-	182	5,332
Stage 2	**40,244**	**7,773**	**(3,602)**	**78,714**	**(54,101)**	**(940)**	**(132)**	**(9,239)**	**58,717**
Placements with other banks	1	-	-	-	13	(1)	-	(1)	12
Loans at amortized cost	40,163	7,773	(3,602)	78,714	(54,034)	(939)	(132)	(9,238)	58,705
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	80	-	-	-	(80)	-	-	-	-
Stage 3[1]	**653,886**	**46,631**	**(72,208)**	**117,924**	**(185,877)**	**6,507**	**(51,530)**	**20,674**	**536,007**
Placements with other banks	24	-	(2)	-	-	-	-	-	22
Loans at amortized cost	653,177	45,926	(72,206)	117,924	(184,904)	6,507	(51,530)	20,386	535,280
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	685	705	-	-	(973)	-	-	288	705
Loss allowance on financial assets total	**786,410**	**126,916**	**-93,716**	**-**	**(96,039)**	**3,320**	**(51,707)**	**16,714**	**691,898**
Loan commitments and financial guarantees given - stage 1	14,198	4,908	(2,018)	913	1,846	171	-	1,439	21,457
Loan commitments and financial guarantees given - stage 2	1,689	1,447	(33)	(1,030)	813	(4)	-	(61)	2,821
Loan commitments and financial guarantees given - stage 3	4,433	2,631	(388)	117	(2,932)	(121)	-	35	3,775
Financial liabilities total	**20,320**	**8,986**	**(2,439)**	**-**	**(273)**	**46**	**-**	**1,413**	**28,053**

[1] Stage 3 includes POCI category too.

NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

29.1. Credit risk [continued]

29.1.1. Analysis by loan types [continued]

Loan portfolio by countries

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

	30 June 2019		31 December 2018	
Country	**Carrying amount of gross loan at amortized cost and placement with other banks portfolio**	**Loss allowance**	**Carrying amount of gross loan at amortized cost and placement with other banks portfolio**	**Loss allowance**
Hungary	3,751,113	155,502	3,369,319	154,995
Bulgaria	2,281,153	139,522	1,435,621	126,059
Croatia	1,323,196	66,195	1,282,367	72,827
Russia	812,623	153,388	658,205	131,619
Romania	563,964	40,430	622,602	37,917
Slovakia	463,332	30,849	519,264	32,155
Serbia	461,991	19,220	367,995	18,506
Ukraine	414,014	76,206	360,652	77,470
Montenegro	180,943	29,123	169,368	30,153
Albania	139,999	2,571	-	-
France	74,467	189	55,888	30
United Kingdom	38,052	1,191	46,183	1,163
Germany	35,170	563	38,102	214
Belgium	26,347	120	31,092	123
Switzerland	23,220	551	51,744	292
United States of America	19,126	41	23,901	42
Cyprus	18,379	618	19,310	635
Italy	4,263	226	11,877	129
The Netherlands	4,216	105	19,334	234
Czech Republic	3,788	60	6,175	104
Greece	2,748	117	870	104
Austria	2,652	20	10,804	21
Slovenia	1,230	17	1,291	10
Poland	950	21	4,300	41
Spain	877	25	629	12
Bosnia and Herzegovina	649	244	637	202
Ireland	606	113	1,006	130
Denmark	562	6	354	1
Norway	511	28	2,170	38
Sweden	476	46	440	43
Turkey	321	41	13,148	71
Israel	315	5	247	1
Luxembourg	285	1	122	1
Australia	246	-	6,811	-
Canada	214	1	3,306	1
Egypt	94	56	90	29
Japan	71	7	61	-
Kazakhstan	67	20	107	52
Iceland	50	49	49	48
Latvia	27	15	28	15
United Arab Emirates	24	24	64	55
Other[1]	2,640	343	3,002	319
Total	**10,654,971**	**717,869**	**9,138,535**	**685,861**

[1] Other category as at 30 June 2019 includes e.g.: Macedonia, Belorussia, Algeria, Finland, Saint Vincent, Iran, China, Hong Kong, Republic of South-Africa, Moldova, Armenia, Syria, Tunisia, Portugal, Estonia, India, Morocco, Georgia, Brazil, Malta, South-Korea, Nigeria, Lithuania.

NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

29.1. Credit risk [continued]

29.1.1. Analysis by loan type [continued]

Loan portfolio by countries [continued]

	Loans at fair value	
Country	**30 June 2019**	**31 December 2018**
Hungary	30,463	32,745
Croatia	1,480	1,780
Total	**31,943**	**34,525**

The loan portfolio increased mostly in Bulgaria, Serbia, Russia and Ukraine however there were only slightly decreases in Slovakia and Romania. Their stock of loss allowances increased mostly in Russia, Bulgaria and Romania, while the decreasing tendency was the highest in Croatia and Slovakia among the countries of the Group members.

29.1.2. Collateral

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

Types of collateral	30 June 2019	31 December 2018
Mortgages	9,890,121	8,650,498
Assignments (revenue or other receivables)	456,715	432,671
Guarantees and warranties	431,003	399,206
Guarantees of state or organizations owned by state	205,710	118,495
Cash deposits	108,972	94,593
Securities	95,056	94,724
Other	1,586,477	1,149,140
Total	**12,774,054**	**10,939,327**

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

Types of collateral	30 June 2019	31 December 2018
Mortgages	4,214,731	3,873,185
Assignments (revenue or other receivables)	330,992	374,541
Guarantees and warranties	306,019	270,773
Guarantees of state or organizations owned by state	172,135	103,148
Securities	89,996	61,287
Cash deposits	63,038	51,485
Other	712,072	657,228
Total	**5,888,983**	**5,391,647**

The coverage level of the loan portfolio (total collateral) increased by 1.41%, while the coverage level to the extent of the exposures decreased by 2.38% as at 30 June 2019.

NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

29.1. Credit risk [continued]

29.1.3. Restructured loans

	30 June 2019		**31 December 2018**	
	Gross portfolio	**Loss allowance**	**Gross portfolio**	**Loss allowance**
Loans to medium and large corporations	26,047	6,415	33,218	7,863
Retail mortgage loans	17,357	2,248	23,579	3,632
Retail consumer loans	12,873	4,171	11,976	3,823
Loans to micro and small enterprises	7,953	1,390	5,356	1,171
Other loans	386	54	299	64
Total	**64,616**	**14,278**	**74,428**	**16,553**

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

NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

29.1. Credit risk [continued]

29.1.4. Financial instruments by rating categories[1]

Securities held for trading as at fair value through profit or loss as at 30 June 2019

	Aaa	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Ba2	Ba3	Not rated	Total
Government bonds	434	-	-	-	-	5,645	15,907	11,166	6,820	323	2,157	**42,452**
Equity instruments and fund units	-	30	53	51	7	24	6	217	7	-	13,137	**13,532**
Discounted Treasury bills	-	-	-	-	-	-	-	3,123	-	-	-	**3,123**
Other securities	24	-	-	-	504	-	4,402	2,859	-	-	481	**8,270**
Total	**458**	**30**	**53**	**51**	**511**	**5,669**	**20,315**	**17,365**	**6,827**	**323**	**15,775**	**67,377**

Non-trading securities mandatorily at fair value through profit or loss as at 30 June 2019

	Baa3	Not rated	Total
Non-trading equity instruments mandatorily at fair value through profit or loss	-	30,777	**30,777**
Non-trading debt instruments mandatorily at fair value through profit or loss	826	25	**851**
Total	**826**	**30,802**	**31,628**

[1] Moody's ratings

NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

29.1. Credit risk [continued]

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

Securities at fair value through other comprehensive income as at 30 June 2019

	Aaa	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3	B1	Caa1	Not rated	Total
Government bonds	26,515	-	-	37,963	6,355	57,796	165,217	937,054	26,874	131,547	6,688	54,691	21,238	-	**1,471,938**
Discounted Treasury bills	-	-	-	-	-	-	-	384,297	-	82,685	-	-	-	-	**466,982**
Mortgage bonds	-	-	-	-	-	64,869	-	10,969	-	-	-	-	-	23,842	**99,680**
Corporate bonds	-	-	-	-	3,722	-	1,457	34,064	5,692	315	-	-	-	24,047	**69,297**
Equity instruments and fund units	-	1,528	5,809	1,178	-	-	-	1,029	-	-	-	-	-	28,145	**37,689**
Total	**26,515**	**1,528**	**5,809**	**39,141**	**10,077**	**122,665**	**166,674**	**1,367,413**	**32,566**	**214,547**	**6,688**	**54,691**	**21,238**	**76,034**	**2,145,586**

Securities at amortized cost as at 30 June 2019

	A2	Ba2	Ba3	Baa2	Baa3	B1	Caa1	Not rated	Total
Government bonds	23,329	119	-	3,393	1,709,363	25,559	19,586	726	**1,782,075**
Corporate bonds	-	9,956	437	-	-	-	-	3,104	**13,497**
Total	**23,329**	**10,075**	**437**	**3,393**	**1,709,363**	**25,559**	**19,586**	**3,830**	**1,795,572**
Provision									(2,660)
Total									**1,792,912**

[1] Moody's ratings

NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

29. 2. Maturity analysis of assets, liabilities and liquidity risk

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

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

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

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

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

Due to the balance sheet adjustment process (deleveraging) experienced in the last few years, the liquidity reserves of the Group increased significantly while the liquidity risk exposure has decreased considerably. Currently the (over)coverage of potential liquidity risk exposure by high quality liquid assets is high. In the first half-year ended 30 June 2019 there were no material changes in the liquidity risk management process.

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

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

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

NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

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

As at 30 June 2019	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Banks	1,504,827	114	-	-	-	1,504,941
Placements with other banks, net of loss allowance for placements	193,197	21,000	204,064	79,446	396	498,103
Trading securities at fair value through profit or loss	12,103	10,670	19,950	16,018	3,217	61,958
Non-trading instruments mandatorily at fair value through profit or loss	681	-	-	5,324	21,540	27,545
Securities at fair value through other comprehensive income	145,203	821,129	770,877	336,805	32,055	2,106,069
Loans at amortized cost	1,571,746	1,852,899	4,017,581	3,438,365	14,863	10,895,454
Loans measured at fair value through profit or loss	1,344	2,756	11,946	17,541	-	33,587
Associates and other investments	-	-	-	-	23,170	23,170
Securities at amortized cost	49,306	59,589	932,755	670,785	-	1,712,435
Other financial assets[1]	65,326	3,001	5,923	636	11,263	86,149
TOTAL ASSETS	**3,543,733**	**2,771,158**	**5,963,096**	**4,564,920**	**106,504**	**16,949,411**
Amounts due to the National Governments, to the National Banks and other banks	243,578	29,518	114,299	101,659	-	489,054
Financial liabilities designated at fair value through profit or loss	882	2,164	9,356	17,522	-	29,924
Deposits from customers	10,981,383	937,141	463,903	170,874	165,382	12,718,683
Liabilities from issued securities	4,664	7,181	282,142	92,699	-	386,686
Leasing liabilities	3,078	4,514	25,775	16,784	-	50,151
Other financial liabilities[2]	174,485	17,772	2,565	1,788	5,955	202,565
Subordinated bonds and loans	480	1,937	10,227	82,898	-	95,542
TOTAL LIABILITIES	**11,408,550**	**1,000,227**	**908,267**	**484,224**	**171,337**	**13,972,605**
NET POSITION	**(7,864,817)**	**1,770,931**	**5,054,829**	**4,080,696**	**(64,833)**	**2,976,806**
Receivables from derivative financial instruments held for trading	1,580,463	1,443,830	757,383	410,720	-	4,192,396
Liabilities from derivative financial instruments held for trading	(2,170,928)	(1,436,513)	(411,207)	(305,808)	-	(4,324,456)
Net position of financial instruments held for trading	**(590,465)**	**7,317**	**346,176**	**104,912**	**-**	**(132,060)**
Receivables from derivative financial instruments designated as hedge accounting	20,235	15,615	235,097	74,967	-	345,914
Liabilities from derivative financial instruments designated as hedge accounting	(88,472)	(331,766)	(236,537)	(75,191)	-	(731,966)
Net position of financial instruments designated as hedge accounting	**(68,237)**	**(316,151)**	**(1,440)**	**(224)**	**-**	**(386,052)**
Net position of derivative financial instruments total	**(658,702)**	**(308,834)**	**344,736**	**104,688**	**-**	**(518,112)**
Commitments to extend credit	1,947,079	285,091	125,248	17,980	6,777	2,382,175
Bank guarantees	144,380	271,342	163,030	105,671	-	684,423
Factoring loan commitment	204,539	-	-	-	-	204,539
Off-balance sheet commitments	**2,295,998**	**556,433**	**288,278**	**123,651**	**6,777**	**3,271,137**

[1] Without derivative financial instruments., it includes account receivables, advances to investments and securities, other advances given, subsidies paid on behalf of the government, receivable from investment services, receivable from leasing, and prepayments and accrued income.

[2] Without derivative financial instruments, it includes account payables, liabilities from dividend payable, deferrals, liabilities of deals stock brokerage and advances received from customers.

NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

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

As at 31 December 2018	**Within 3 months**	**Within one year and over 3 months**	**Within 5 years and over one year**	**Over 5 years**	**Without maturity**	**Total**
Cash, amounts due from banks and balances with the National Banks	1,545,507	1,765	-	-	-	1,547,272
Placements with other banks, net of loss allowance for placements	217,202	75,097	108,908	23,542	388	425,137
Trading securities at fair value through profit or loss	19,043	4,922	11,855	7,079	20,852	63,751
Non-trading instruments mandatorily at fair value through profit or loss	1,184	-	-	3	5,132	6,319
Securities at fair value through other comprehensive income	257,993	412,482	875,882	276,358	25,681	1,848,396
Loans at amortized cost	1,518,590	1,770,975	3,138,170	2,729,337	3,364	9,160,436
Loans measured at fair value through profit or loss	1,071	3,178	12,770	17,506	-	34,525
Associates and other investments	-	-	-	-	23,183	23,183
Securities at amortized cost	61,327	119,857	872,222	610,931	-	1,664,337
Other financial assets[1]	57,084	2,254	2,350	64	8,842	70,594
TOTAL ASSETS	**3,679,001**	**2,390,530**	**5,022,157**	**3,664,820**	**87,442**	**14,843,950**
Amounts due to the National Governments, to the National Banks and other banks	102,257	43,600	145,367	69,261	-	360,485
Financial liabilities designated at fair value through profit or loss	576	2,757	10,418	18,480		32,231
Deposits from customers	9,995,997	943,409	211,109	141,113	-	11,291,628
Liabilities from issued securities	41,642	6,722	192,865	177,569	-	418,798
Other financial liabilities[2]	136,526	10,366	3,117	31	4,917	154,957
Subordinated bonds and loans	719	1,693	9,060	69,961	-	81,433
TOTAL LIABILITIES	**10,277,717**	**1,008,547**	**571,936**	**476,415**	**4,917**	**12,339,532**
NET POSITION	**(6,598,716)**	**1,381,983**	**4,450,221**	**3,188,405**	**82,525**	**2,504,418**
Receivables from derivative financial instruments held for trading	1,330,293	396,708	340,219	257,349	-	2,324,569
Liabilities from derivative financial instruments held for trading	(1,631,984)	(691,221)	(424,756)	(513,369)	-	(3,261,330)
Net position of financial instruments held for trading	**(301,691)**	**(294,513)**	**(84,537)**	**(256,020)**	**-**	**(936,761)**
Receivables from derivative financial instruments designated as hedge accounting	27,095	91,548	241,913	45,726	-	406,282
Liabilities from derivative financial instruments designated as hedge accounting	(26,821)	(76,655)	(438,482)	(60,192)	-	(602,150)
Net position of financial instruments designated as hedge accounting	**274**	**14,893**	**(196,569)**	**(14,466)**	**-**	**(195,868)**
Net position of derivative financial instruments total	**(301,417)**	**(279,620)**	**(281,106)**	**(270,486)**	**-**	**(1,132,629)**
Commitments to extend credit	1,760,909	281,936	107,903	36,871	-	2,187,619
Bank guarantees	195,512	173,734	132,467	96,381	2,184	600,278
Factoring loan commitment	179,447	-	-	-	-	179,447
Off-balance sheet commitments	**2,135,868**	**455,670**	**240,370**	**133,252**	**2,184**	**2,967,344**

[1] Without derivative financial instruments, it includes account receivables, advances to investments and securities, other advances given, subsidies paid on behalf of the government, receivable from investment services, receivable from leasing, and prepayments and accrued income.

[2] Without derivative financial instruments, it includes account payables, liabilities from dividend payable, deferrals, liabilities of deals stock brokerage and advances received from customers.

NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

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

As at 30 June 2019

	USD	EUR	CHF	Others	Total
Assets	576,359	4,049,093	75,235	4,999,286	9,699,973
Liabilities	(723,750)	(3,270,711)	(58,351)	(3,856,991)	(7,909,803)
Derivative financial instruments	85,729	(189,672)	(20,754)	381	(124,316)
Net position	**(61,662)**	**588,710**	**(3,870)**	**1,142,676**	**1,665,854**

As at 31 December 2018

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

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

29.4. Interest rate risk management

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument, therefore, indicates to what extent it is exposed to interest rate risk.

The majority of the interest bearing assets and liabilities of the Group are structured to match either short-term assets and short-term liabilities, or long-term assets and liabilities with repricing opportunities within one year, or long-term assets and corresponding liabilities where repricing is performed simultaneously.

In addition, the significant spread existing between the different types of interest bearing assets and liabilities enables the Group to benefit from a high level of flexibility in adjusting for its interest rate matching and interest rate risk exposure.

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

NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

29.4. Interest rate risk management [continued]

As at 30 June 2019

ASSETS	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
Cash, amounts due from banks and balances with the National Banks	**85,952**	**450,708**	**1,122**	**9**	**-**	**113**	**-**	**-**	**-**	**-**	**171,069**	**795,968**	**258,143**	**1,246,798**	**1,504,941**
fixed rate	85,283	448,090	1,118	2	-	113	-	-	-	-	-	-	86,401	448,205	534,606
variable rate	669	2,618	4	7	-	-	-	-	-	-	-	-	673	2,625	3,298
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	171,069	795,968	171,069	795,968	967,037
Placements with other banks, net of allowance for placements losses	**140,697**	**229,480**	**5,153**	**9,425**	**24**	**14,867**	**108**	**-**	**-**	**25,329**	**33,663**	**35,999**	**179,645**	**315,100**	**494,745**
fixed rate	15,047	165,866	2,893	9,348	-	-	108	-	-	24,283	-	-	18,048	199,497	217,545
variable rate	125,650	63,614	2,260	77	24	14,867	-	-	-	1,046	-	-	127,934	79,604	207,538
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	33,663	35,999	33,663	35,999	69,662
Trading securities at fair value through profit or loss	**2,628**	**7,239**	**335**	**1,598**	**1,809**	**6,131**	**176**	**10,318**	**6,540**	**17,516**	**7,826**	**5,261**	**19,314**	**48,063**	**67,377**
fixed rate	1,031	6,142	335	1,598	1,809	6,131	176	10,318	6,540	17,516	-	-	9,891	41,705	51,596
variable rate	1,597	1,097	-	-	-	-	-	-	-	-	-	-	1,597	1,097	2,694
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	7,826	5,261	7,826	5,261	13,087
Non-trading instruments mandatorily at fair value through profit or loss	**2,305**	**153**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**24,635**	**4,535**	**26,940**	**4,688**	**31,628**
fixed rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
variable rate	2,305	153	-	-	-	-	-	-	-	-	-	-	2,305	153	2,458
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	24,635	4,535	24,635	4,535	29,170
Securities at fair value through other comprehensive income	**3,696**	**11,400**	**51,566**	**29,643**	**648,657**	**186,092**	**26,690**	**111,450**	**475,571**	**557,465**	**1,156**	**42,200**	**1,207,336**	**938,250**	**2,145,586**
fixed rate	3,696	11,400	51,566	29,643	646,105	185,960	19,677	111,450	380,000	557,465	-	-	1,101,044	895,918	1,996,962
variable rate	-	-	-	-	2,552	132	7,013	-	95,571	-	-	-	105,136	132	105,268
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	1,156	42,200	1,156	42,200	43,356
Loans at amortized cost	**692,543**	**3,043,772**	**611,074**	**944,784**	**395,155**	**965,707**	**114,701**	**294,311**	**1,065,113**	**1,137,817**	**125,817**	**51,563**	**3,004,403**	**6,437,954**	**9,442,357**
fixed rate	10,870	809,762	4,212	134,110	20,323	371,692	37,982	223,006	533,237	594,136	-	-	606,624	2,132,706	2,739,330
variable rate	681,673	2,234,010	606,862	810,674	374,832	594,015	76,719	71,305	531,876	543,681	-	-	2,271,962	4,253,685	6,525,647
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	125,817	51,563	125,817	51,563	177,380
Loans measured at fair value through profit or loss	**-**	**1,481**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**30,462**	**-**	**30,462**	**1,481**	**31,943**
fixed rate	-	501	-	-	-	-	-	-	-	-	-	-	-	501	501
variable rate	-	980	-	-	-	-	-	-	-	-	-	-	-	980	980
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	30,462	-	30,462	-	30,462
Securities at amortized cost	**1**	**19,548**	**-**	**349**	**47,028**	**11,353**	**77,610**	**5,978**	**1,544,279**	**81,172**	**5,217**	**377**	**1,674,135**	**118,777**	**1,792,912**
fixed rate	1	19,548	-	78	47,028	11,353	77,610	5,551	1,544,279	68,580	-	-	1,668,918	105,110	1,774,028
variable rate	-	-	-	271	-	-	-	427	-	12,592	-	-	-	13,290	13,290
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	5,217	377	5,217	377	5,594
Fair value adjustment of derivative financial instruments	**1,027,638**	**384,840**	**753,350**	**370,696**	**725,191**	**394,161**	**24,636**	**267,198**	**22,438**	**87,336**	**31,027**	**375,285**	**2,584,280**	**1,879,516**	**4,463,796**
fixed rate	991,575	374,440	610,709	342,648	725,579	360,296	24,636	267,189	22,438	87,336	-	-	2,374,937	1,431,909	3,806,846
variable rate	36,063	10,400	142,641	28,048	(388)	33,865	-	9	-	-	-	-	178,316	72,322	250,638
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	31,027	375,285	31,027	375,285	406,312
Other financial assets	**2,737**	**4,248**	**143**	**85**	**-**	**211**	**-**	**127**	**-**	**-**	**45,838**	**32,736**	**48,718**	**37,407**	**86,125**
fixed rate	2,013	4,238	-	67	-	211	-	127	-	-	-	-	2,013	4,643	6,656
variable rate	724	10	143	18	-	-	-	-	-	-	-	-	867	28	895
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	45,838	32,736	45,838	32,736	78,574

NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

29.4. Interest rate risk management [continued]

As at 30 June 2019 [continued]

LIABILITIES	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
Amounts due to the Hungarian Government, to the National Banks and other banks	**40,139**	**232,716**	**3,861**	**31,710**	**7,721**	**18,947**	**1,315**	**2,696**	**138,661**	**5,014**	**2,532**	**7,231**	**194,229**	**298,314**	**492,543**
fixed rate	19,953	209,786	3,858	31,465	7,720	12,281	1,315	1,173	138,661	5,004	-	-	171,507	259,709	431,216
variable rate	20,186	22,930	3	245	1	6,666	-	1,523	-	10	-	-	20,190	31,374	51,564
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	2,532	7,231	2,532	7,231	9,763
Financial liabilities designated at fair value through profit or loss	**29,828**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**29,828**	**-**	**29,828**
fixed rate	118	-	-	-	-	-	-	-	-	-	-	-	118	-	118
variable rate	29,710	-	-	-	-	-	-	-	-	-	-	-	29,710	-	29,710
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deposits from customers	**4,777,087**	**5,602,144**	**171,964**	**484,233**	**90,627**	**712,787**	**40,236**	**242,350**	**215,446**	**136,640**	**1,714**	**224,598**	**5,297,074**	**7,402,752**	**12,699,826**
fixed rate	567,581	2,312,314	171,964	482,438	90,604	712,783	40,236	242,350	215,446	136,640	-	-	1,085,831	3,886,525	4,972,356
variable rate	4,209,506	3,289,830	-	1,795	23	4	-	-	-	-	-	-	4,209,529	3,291,629	7,501,158
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	1,714	224,598	1,714	224,598	226,312
Liabilities from issued securities	**14,483**	**-**	**104,580**	**-**	**4,687**	**51**	**10,080**	**3,427**	**243,794**	**62**	**4,221**	**12**	**381,845**	**3,552**	**385,397**
fixed rate	-	-	-	-	-	51	10,080	3,427	243,794	62	-	-	253,874	3,540	257,414
variable rate	14,483	-	104,580	-	4,687	-	-	-	-	-	-	-	123,750	-	123,750
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	4,221	12	4,221	12	4,233
Fair value adjustment of derivative financial instruments	**1,019,371**	**404,497**	**832,303**	**280,471**	**749,825**	**359,476**	**276,193**	**16,981**	**40,662**	**66,699**	**211,093**	**193,774**	**3,129,447**	**1,321,898**	**4,451,345**
fixed rate	973,434	397,055	697,011	261,886	749,929	334,022	276,193	16,981	40,662	66,699	-	-	2,737,229	1,076,643	3,813,872
variable rate	45,937	7,442	135,292	18,585	(104)	25,454	-	-	-	-	-	-	181,125	51,481	232,606
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	211,093	193,774	211,093	193,774	404,867
Leasing liabilities	**1,283**	**4,947**	**1**	**858**	**12**	**3,414**	**8**	**4,102**	**2,362**	**25,800**	**99**	**7,207**	**3,765**	**46,328**	**50,093**
fixed rate	1,283	850	1	848	10	3,374	8	3,935	2,360	25,758	-	-	3,662	34,765	38,427
variable rate	-	4,097	-	10	2	40	-	167	2	42	-	-	4	4,356	4,360
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	99	7,207	99	7,207	7,306
Other financial liabilities	**1,600**	**4,593**	**651**	**1,086**	**-**	**135**	**-**	**-**	**-**	**156**	**151,627**	**42,700**	**153,878**	**48,670**	**202,548**
fixed rate	1,231	4,545	-	426	-	135	-	-	-	156	-	-	1,231	5,262	6,493
variable rate	369	48	651	660	-	-	-	-	-	-	-	-	1,020	708	1,728
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	151,627	42,700	151,627	42,700	194,327
Subordinated bonds and loans	**-**	**-**	**-**	**76,443**	**-**	**-**	**-**	**-**	**-**	**5,084**	**-**	**5**	**-**	**81,532**	**81,532**
fixed rate	-	-	-	-	-	-	-	-	-	5,084	-	-	-	5,084	5,084
variable rate	-	-	-	76,443	-	-	-	-	-	-	-	-	-	76,443	76,443
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	5	-	5	5
Net position	(3,925,594)	(2,096,028)	309,383	481,788	964,992	483,825	(83,911)	419,826	2,473,016	1,667,180	105,424	868,397	(156,690)	1,824,988	1,668,298

NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

29.4. Interest rate risk management [continued]

As at 31 December 2018

ASSETS	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
Cash, amounts due from banks and balances with the National Banks	**29,189**	**344,793**	**4**	**88**	**-**	**18**	**-**	**-**	**-**	**-**	**202,807**	**970,373**	**232,000**	**1,315,272**	**1,547,272**
fixed rate	27,852	342,282	-	88	-	17	-	-	-	-	-	-	27,852	342,387	370,239
variable rate	1,337	2,511	4	-	-	1	-	-	-	-	-	-	1,341	2,512	3,853
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	202,807	970,373	202,807	970,373	1,173,180
Placements with other banks, net of allowance for placements losses	**104,946**	**139,379**	**8,870**	**56,902**	**29,379**	**30,111**	**861**	**-**	**-**	**826**	**31,233**	**18,099**	**175,289**	**245,317**	**420,606**
fixed rate	5,536	98,584	8,870	50,537	58	28,518	861	-	-	826	-	-	15,325	178,465	193,790
variable rate	99,410	40,795	-	6,365	29,321	1,593	-	-	-	-	-	-	128,731	48,753	177,484
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	31,233	18,099	31,233	18,099	49,332
Trading securities at fair value through profit or loss	**1,073**	**4,328**	**1,510**	**441**	**6,086**	**6,044**	**-**	**1,459**	**-**	**18,496**	**6,440**	**4,562**	**15,109**	**35,330**	**50,439**
fixed rate	2	2,583	67	441	5,095	6,044	-	1,459	-	18,496	-	-	5,164	29,023	34,187
variable rate	1,071	1,745	1,443	-	991	-	-	-	-	-	-	-	3,505	1,745	5,250
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	6,440	4,562	6,440	4,562	11,002
Non-trading instruments mandatorily at fair value through profit or loss	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**22,403**	**5,109**	**22,403**	**5,109**	**27,512**
fixed rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
variable rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	22,403	5,109	22,403	5,109	27,512
Securities at fair value through other comprehensive income	**68,525**	**42,076**	**142,135**	**81,260**	**408,288**	**52,665**	**119,081**	**64,060**	**349,897**	**523,535**	**1,965**	**30,362**	**1,089,891**	**793,958**	**1,883,849**
fixed rate	48,869	42,076	60,922	81,260	351,691	52,665	119,081	59,750	348,910	523,535	-	-	929,473	759,286	1,688,759
variable rate	19,656	-	81,213	-	56,597	-	-	4,310	987	-	-	-	158,453	4,310	162,763
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	1,965	30,362	1,965	30,362	32,327
Loans at amortized cost	**441,995**	**2,749,040**	**880,215**	**659,955**	**131,993**	**623,734**	**280,605**	**205,738**	**1,137,939**	**819,655**	**61,697**	**39,501**	**2,934,444**	**5,097,623**	**8,032,067**
fixed rate	14,422	720,941	1,933	108,312	22,887	324,938	219,491	168,363	709,526	399,139	-	-	968,259	1,721,693	2,689,952
variable rate	427,573	2,028,099	878,282	551,643	109,106	298,796	61,114	37,375	428,413	420,516	-	-	1,904,488	3,336,429	5,240,917
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	61,697	39,501	61,697	39,501	101,198
Loans measured at fair value through profit or loss	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**32,745**	**1,780**	**32,745**	**1,780**	**34,525**
fixed rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
variable rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	32,745	1,780	32,745	1,780	34,525
Securities at amortized cost	**-**	**37,214**	**5,062**	**571**	**122,161**	**8,780**	**107,518**	**16,740**	**1,383,536**	**56,328**	**2,535**	**75**	**1,620,812**	**119,708**	**1,740,520**
fixed rate	-	37,214	5,062	571	122,161	8,780	107,518	16,740	1,383,536	56,328	-	-	1,618,277	119,633	1,737,910
variable rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	2,535	75	2,535	75	2,610
Fair value adjustment of derivative financial instruments	**842,714**	**477,367**	**907,278**	**442,794**	**645,969**	**447,455**	**19,192**	**264,128**	**23,172**	**84,528**	**234,315**	**120,494**	**2,672,640**	**1,836,766**	**4,509,406**
fixed rate	814,440	475,377	756,860	408,892	643,141	409,431	19,192	264,128	23,172	84,528	-	-	2,256,805	1,642,356	3,899,161
variable rate	28,274	1,990	150,418	33,902	2,828	38,024	-	-	-	-	-	-	181,520	73,916	255,436
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	234,315	120,494	234,315	120,494	354,809
Other financial assets	**516**	**2,881**	**96**	**476**	**-**	**350**	**-**	**127**	**-**	**-**	**42,095**	**24,053**	**42,707**	**27,887**	**70,594**
fixed rate	170	2,879	-	476	-	350	-	127	-	-	-	-	170	3,832	4,002
variable rate	346	2	96	-	-	-	-	-	-	-	-	-	442	2	444
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	42,095	24,053	42,095	24,053	66,148

NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

29.4. Interest rate risk management [continued]

As at 31 December 2018 [continued]

LIABILITIES	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
Amounts due to the Hungarian Government, to the National Banks and other banks	**32,140**	**149,357**	**1,259**	**9,753**	**1,159**	**6,727**	**2,463**	**6,463**	**128,135**	**6,436**	**9,253**	**7,431**	**174,409**	**186,167**	**360,576**
fixed rate	8,655	111,126	1,254	6,929	1,152	3,907	2,463	6,463	128,135	6,436	-	-	141,659	134,861	276,520
variable rate	23,485	38,231	5	2,824	7	2,820	-	-	-	-	-	-	23,497	43,875	67,372
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	9,253	7,431	9,253	7,431	16,684
Financial liabilities designated at fair value through profit or loss	**32,130**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**32,130**	**-**	**32,130**
fixed rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
variable rate	32,130	-	-	-	-	-	-	-	-	-	-	-	32,130	-	32,130
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deposits from customers	**767,504**	**4,038,620**	**190,038**	**449,593**	**97,267**	**595,259**	**39,958**	**50,021**	**4,041,988**	**747,734**	**3,062**	**264,041**	**5,139,817**	**6,145,268**	**11,285,085**
fixed rate	437,707	1,508,239	190,026	446,960	97,266	595,017	39,958	50,017	4,041,988	747,709	-	-	4,806,945	3,347,942	8,154,887
variable rate	329,797	2,530,381	12	2,633	1	242	-	4	-	25	-	-	329,810	2,533,285	2,863,095
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	3,062	264,041	3,062	264,041	267,103
Liabilities from issued securities	**23,608**	**1,065**	**133,223**	**1,903**	**4,211**	**2,098**	**5,611**	**42**	**242,710**	**47**	**3,424**	**24**	**412,787**	**5,179**	**417,966**
fixed rate	-	227	39,265	-	2,156	4	5,611	42	242,710	47	-	-	289,742	320	290,062
variable rate	23,608	838	93,958	1,903	2,055	2,094	-	-	-	-	-	-	119,621	4,835	124,456
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	3,424	24	3,424	24	3,448
Fair value adjustment of derivative financial instruments	**1,095,148**	**227,313**	**963,041**	**363,943**	**615,257**	**464,843**	**273,251**	**14,581**	**39,995**	**60,652**	**214,445**	**139,054**	**3,201,137**	**1,270,386**	**4,471,523**
fixed rate	1,068,144	216,646	823,357	341,469	612,805	441,177	273,251	14,581	39,995	60,652	-	-	2,817,552	1,074,525	3,892,077
variable rate	27,004	10,667	139,684	22,474	2,452	23,666	-	-	-	-	-	-	169,140	56,807	225,947
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	214,445	139,054	214,445	139,054	353,499
Leasing liabilities	**-**	**10**	**-**	**9**	**-**	**27**	**-**	**4**	**-**	**-**	**-**	**-**	**-**	**50**	**50**
fixed rate	-	10	-	9	-	27	-	4	-	-	-	-	-	50	50
variable rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial liabilities	**1,542**	**4,399**	**691**	**509**	**-**	**126**	**-**	**187**	**-**	**-**	**113,501**	**34,002**	**115,734**	**39,223**	**154,957**
fixed rate	427	4,304	-	508	-	126	-	187	-	-	-	-	427	5,125	5,552
variable rate	1,115	95	691	1	-	-	-	-	-	-	-	-	1,806	96	1,902
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	113,501	34,002	113,501	34,002	147,503
Subordinated bonds and loans	**-**	**-**	**-**	**76,498**	**-**	**-**	**-**	**-**	**-**	**4,903**	**-**	**28**	**-**	**81,429**	**81,429**
fixed rate	-	-	-	-	-	-	-	-	-	4,903	-	-	-	4,903	4,903
variable rate	-	-	-	76,498	-	-	-	-	-	-	-	-	-	76,498	76,498
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	28	-	28	28
Net position	(463,114)	(623,686)	656,918	340,279	625,982	100,077	205,974	480,954	(1,558,284)	683,596	294,550	769,828	(237,974)	1,751,048	1,513,074

NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

29.5. Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group applies a 'Value-at-Risk' (VaR) methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Management Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis. (Analysis of liquidity risk, foreign currency risk and interest rate risk is detailed in Notes 29.2., 29.3. and 29.4., respectively.)

29.5.1. Market Risk sensitivity analysis

The VaR risk measure estimates the potential loss in pre-tax profit over a given holding period for a specified confidence level.

The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99% VaR number used by the Group reflects the 99% probability that the daily loss will not exceed the reported VaR.

VaR methodologies are employed to calculate daily risk numbers include the historical and variance-covariance approach. The diversification effect has not been validated among the various market risk types when capital calculation happens.
In addition to these two methodologies, Monte Carlo simulations are applied to the various portfolios on a monthly basis to determine potential future exposure.

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

Historical VaR (99%, one-day) by risk type	**Average**	
	30 June 2019	**30 June 2018**
Foreign exchange	413	470
Interest rate	122	228
Equity instruments	27	23
Diversification	-	-
Total VaR exposure	**562**	**721**

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

While VaR captures the Group's daily exposure to currency and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year. The longer time frame of sensitivity analysis complements VaR and helps the Group to assess its market risk exposures. Details of sensitivity analysis for foreign currency risk are set out in Note 29.5.2., for interest rate risk in Note 29.5.3., and for equity price sensitivity analysis in Note 29.5.4.

NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

29.5. Market risk [continued]

29.5.2. Foreign currency sensitivity analysis

The following table details the Group's sensitivity to an increase and decrease in the HUF exchange rate against the EUR and USD, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents Management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign activities.
The strategic open position related to the foreign operations was short and amounted to EUR 310 million (kept to hedge the currency risk of the expected FX-denominated net earnings of the main foreign subsidiaries) as at 30 June 2019. High portion of strategic positions is considered as effective hedge of the net investment in foreign subsidiaries – net investment hedge is applied at a Group level -, and so FX risk affects the Group's Comprehensive Income and not its earnings.

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

Probability	Effects to the Consolidated Statement of Profit or Loss in 3 months period	
	30 June 2019 In HUF billion	30 June 2018 In HUF billion
1%	(12.2)	(12.8)
5%	(8.4)	(8.8)
25%	(3.5)	(3.7)
50%	(0.3)	(0.4)
25%	2.6	2.7
5%	6.8	7.0
1%	9.7	10.0

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

The effect on equity of the foreign currency sensitivity analysis is not significant either for the half-year ended 30 June 2019 or 2018.

29.5.3. Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. The analysis is prepared assuming the amount of assets and liabilities outstanding at the balance sheet date was outstanding for the whole year. The analysis was prepared by assuming only adverse interest rate changes. The main assumptions were as follows:

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

NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

29.5 Market risk [continued]

29.5.3. Interest rate sensitivity analysis [continued]

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

(1) HUF base rate stays unchanged and BUBOR decreases gradually to 0.0% (probable scenario)
(2) BUBOR and HUF base rate decreases gradually by 50 bps over the next year (alternative scenario)

The net interest income in a one year period after 1 July 2019 would be decreased by HUF 1,794 million (probable scenario) and HUF 3,305 million (alternative scenario) as a result of these simulation. The same simulation indicated HUF 2,112 million (probable scenario) and HUF 4,521 million (alternative scenario) decrease in the Net interest income in a one year period after 30 June 2018.
This effect is counterbalanced by capital gains HUF 256 million (or probable scenario), HUF 3,082 million (for alternative scenario) as at 30 June 2019 and (HUF 269 million for probable scenario, HUF 3,440 million for alternative scenario) as at 30 June 2018 on the government bond portfolio held for hedging (economic).

Furthermore, the effects of an instant 10bps parallel shift of the HUF, EUR and USD yield-curves on net interest income over a one-year period and on the market value of the hedge government bond portfolio booked against capital was analysed. The results can be summarized as follows (in HUF million):

	30 June 2019		30 June 2018	
Description	**Effects to the net interest income (one-year period)**	**Effects to capital (Price change of government bonds at fair value through other comprehensive income)**	**Effects to the net interest income (one-year period)**	**Effects to capital (Price change of government bonds at fair value through other comprehensive income)**
HUF (0.1%) parallel shift	(1,604)	(641)	(1,718)	(675)
EUR (0.1%) parallel shift	(1,030)	-	(291)	-
USD (0.1%) parallel shift	(196)	-	(159)	-
Total	**(2,830)**	**(641)**	**(2,168)**	**(675)**

29.5.4. Equity price sensitivity analysis

The following table shows the effect of the equity price sensitivity. The Group uses VaR calculation with 1 day holding period and a 99% confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. The daily loss will not exceed the reported VaR number with 99% of probability.
The stress test assumes the largest price movement of the last year and calculates with it as the adverse direction. These scenarios show the loss of the portfolio when all prices change with the maximum amount of the last year.

Description	**30 June 2019**	**30 June 2018**
VaR (99%, one day, HUF million)	27	23
Stress test (HUF million)	(38)	(29)

NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

29.6. Capital management

Capital management

The primary objective of the capital management of the Group is to ensure the prudent operation, the entire compliance with the prescriptions of the regulator for a persistent business operation and maximising the shareholder value, accompanied by an optimal financing structure.
The capital management of the Group members includes the management and evaluation of the shareholders` equity available for hedging risks, other types of funds to be recorded in the equity and all material risks to be covered by the capital.
The basis of the capital management of the Group members in the short run is the continuous monitoring of their capital position, in the long run the strategic and the business planning, which includes the monitoring and forecast of the capital position.
The Group members maintain the capital adequacy required by the regulatory bodies and the planned risk taking mainly by means of ensuring and developing their profitability. In case the planned risk level of a Group member exceeded its Core and the previously raised Supplementary capital, it ensures the prudent operation by occasional measures. A further tool in the capital management of the Bank is the dividend policy, and the transactions performed with the treasury shares.

Capital adequacy

The Capital Requirements Directive package (CRDIV/CRR) transposes the new global standards on banking regulation (known as the Basel III agreement) into the EU legal framework. The new rules are applied from 1 January 2014. They set stronger prudential requirements for institutions, requiring them to keep sufficient capital reserves and liquidity. This new framework makes institutions in the EU more solid and strengthens their capacity to adequately manage the risks linked to their activities, and absorb any losses they may incur in doing business.
The capital adequacy of the Group is supervised based on the financial statements data prepared in accordance with IFRS applying the current directives, rulings and indicators from 1 January 2014.

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

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

For international comparison purposes, the Group calculated the Regulatory capital based on IFRS data as adopted by the EU, and the consolidated Capital adequacy ratio based on this in accordance with the regulations of Basel III. The Capital adequacy ratio of the Group (IFRS) was 17.4%, the Regulatory capital was HUF 1,906,027 million and the Total regulatory capital requirement was HUF 876,325 million as at 30 June 2019. The same ratios calculated as at 31 December 2018 were the following: 18.3%, HUF 1,731,970 million and HUF 759,113 million.

NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

29.6. Capital management [continued]

Capital adequacy [continued]

Calculation on IFRS basis	**30 June 2019**	**31 December 2018**
Core capital (Tier 1) = Common Equity Tier 1 (CET 1)	***1,739,157***	***1,565,247***
Issued capital	28,000	28,000
Reserves	1,935,039	1,805,382
Fair value corrections	39,892	23,374
Other capital components	(82,344)	(115,807)
Non-controlling interests	2,329	1,313
Treasury shares	(65,715)	(67,999)
Goodwill and other intangible assets	(192,613)	(168,911)
Other adjustments	74,569	59,895
Additional Tier 1 (AT1)	-	-
Supplementary capital (Tier 2)	***166,870***	***166,723***
Subordinated bonds and loans	76,443	76,496
Other issued capital components	89,935	89,935
Components recognized in T2 capital issued by subsidiaries	492	292
Regulatory capital[1]	**1,906,027**	**1,731,970**
Credit risk capital requirement	758,544	637,284
Market risk capital requirement	10,592	32,379
Operational risk capital requirement	107,189	89,450
Total requirement regulatory capital	**876,325**	**759,113**
Surplus capital	**1,029,702**	**972,857**
CET 1 ratio	15.9%	16.5%
Tier 1 ratio	15.9%	16.5%
Capital adequacy ratio	**17.4%**	**18.3%**

Basel III

The components of the Common Equity Tier 1 capital (CET 1) are the following: Issued capital, Reserves (Profit reserves, Other reserves, Changes in the equity of subsidiaries, Net Profit for the year, Changes due to consolidation) Fair value adjustments, Other capital components, (Revaluation reserves, Share based payments, Cash-flow hedges, Net investment hedge in foreign operations), Non-controlling interest, Treasury shares, Goodwill and other Intangible assets, other adjustments (due to prudential filters, due to deferred tax receivables, due to temporary regulations).

Supplementary capital (Tier 2): Subordinated loan capital, Supplementary loan capital, Other issued capital components, Components recognized in T2 capital issued by subsidiaries.

[1] The consolidated regulatory capital of the Group contains the profit decreased by all the foreseeable charges and dividends in accordance with RTS Article 2. Paragraph (7) both for this first half year of 2019 and for the year 2018 too.

NOTE 30: RECLASSIFICATION AND TRANSFER OF FINANCIAL INSTRUMENTS (in HUF mn)

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

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

During the year 2018, securities issued by the Hungarian Government with the nominal value of HUF 66,506 million were transferred from the trading portfolio to the securities at fair value through other comprehensive income. The Group has previously held retail government bonds in the portfolio at fair value through other comprehensive income. During 2018 the Group changed the business model of the retail government bonds to manage all on the basis of a single business model aimed at collecting the future contractual cash flows and/or selling them.

In 2018, the terms and conditions of sale of retail government bonds and the pricing environment have changed significantly, as a result of which the Group is no longer able to maintain its sole trading intent with these securities that the Group applied earlier . Due to the decrease in transaction volume and the changes in conditions, the Group has chosen to keep the securities and realises its cash-flows however also realising potential gains by making favourable buy-sell transaction on the market

Financial assets transferred but not derecognised

	30 June 2019		31 December 2018	
	Transferred assets Carrying amount	Associated liabilities Carrying amount	Transferred assets Carrying amount	Associated liabilities Carrying amount
Financial assets at fair value through profit or loss				
Debt securities	1,610	1,608	493	461
Total	**1,610**	**1,608**	**493**	**461**
Financial assets at fair value through other comprehensive income				
Debt securities	41,075	39,690	26,663	24,921
Total:	**41,075**	**39,690**	**26,663**	**24,921**
Financial assets at amortised cost				
Debt securities	192,234	196,808	1,797	1,804
Loans and advances	-	2,167	460	-
Total	**192,234**	**198,975**	**2,257**	**1,804**
Total	**234,919**	**240,273**	**29,413**	**27,186**

As at 30 June 2019 and 31 December 2018, the Group had obligation from repurchase agreements about HUF 199 billion and HUF 1.8 billion respectively. Securities sold temporarily under repurchase agreements will continue to be recognized in the Consolidated Statement of Financial Position of the Group in the appropriate securities category. The related liability is measured at amortized cost in the Consolidated Statement of Financial Position as "Amounts due to the National Governments, to the National Banks and other banks".

NOTE 31: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn)

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

NOTE 31: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn)

Contingent liabilities

	30 June 2019	31 December 2018
Commitments to extend credit	2,382,175	2,187,619
Guarantees arising from banking activities	684,423	600,278
Contingent liabilities and commitments total in accordance with IFRS 9	**3,066,598**	**2,787,897**
Legal disputes (disputed value)	26,502	30,644
Confirmed letters of credit	15,311	9,798
Other	261,236	255,271
Contingent liabilities and commitments total in accordance with IAS 37	**303,049**	**295,713**
Total	**3,369,647**	**3,083,610**

Legal disputes

At the balance sheet date the Group was involved in various claims and legal proceedings of a nature considered normal to its business. The level of these claims and legal proceedings corresponds to the level of claims and legal proceedings in previous years.

The Group believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash-flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation. Provisions due to legal disputes were HUF 26,110 million as at 30 June 2019 and HUF 25,930 million as at 30 December 2018, respectively. (See Note 18.)

Commitments to extend credit, guarantees and letters of credit

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans. The Management of the Group believes the market risk associated with guarantees, irrevocable letters of credit and undrawn loan commitments are minimal.

Guarantees, payment undertakings arising from banking activities

Payment undertaking is a promise by the Group to assume responsibility for the debt obligation of a borrower if that borrower defaults until a determined amount, until a determined date, in case of fulfilling conditions, without checking the underlying transactions. The guarantee’s liability is joint and primary with the principal, in case of payment undertaking, while the Group assumes the obligation derived from guarantee independently by the conditions established by the Group.
A guarantee is most typically required when the ability of the primary obligor or principal to perform its obligations under a contract is in question, or when there is some public or private interest which requires protection from the consequences of the principal's default or delinquency. A contract of guarantee is subject to the statute of frauds (or its equivalent local laws) and is only enforceable if recorded in writing and signed by the surety and the principal.

NOTE 31: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn) [continued]

Guarantees, payment undertakings arising from banking activities [continued]

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

Derivatives

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

NOTE 32: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn)

Previously approved option program required a modification thanks to the introduction of the Bank Group Policy on Payments accepted in resolution of Annual General Meeting regarding to the amendment of CRD III. Directives and Act on Credit Institutions and Financial Enterprises.
Key management personnel affected by the Bank Group Policy receive compensation based on performance assessment generally in the form of cash bonus and equity shares in a ratio of 50-50%. Assignment is based on OTP shares, furthermore performance based payments are deferred in accordance with the rules of Credit Institutions Act. The Bank ensures the share-based payment part for the management personnel of the Group members.
During implementation of the Remuneration Policy of the Group appeared that in case of certain foreign subsidiaries it is not possible to ensure the originally determined share-based payment because of legal reasons – incompatible with relevant EU-directives –, therefore a decision was made to cancel the share-based payment in affected countries, and virtual share based payment – cash payment fixed to share price - was made from 2017.

The quantity of usable shares for individuals calculated for settlement of share-based payment shall be determined as the ratio of the amount of share-based payment and share price determined by Supervisory Board[1]

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

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

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Post-employment benefits are employee benefits (other than termination and short-term employee benefits) that are payable after the completion of employment. Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees. Post-employment benefit plans are classified as either defined contribution plans or defined benefit plans, depending on the economic substance of the plan as derived from its principal terms and conditions.

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either: an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. Other long-term employee benefits are all employee benefits other than short-term employee benefits, postemployment benefits and termination benefits.

[1] Until the end of 2014 Board of Directors

NOTE 32: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn) [continued]

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

Year	**Share purchasing at a discounted price**		Price of remuneration exchanged to share	**Share purchasing at a discounted price**		Price of remuneration exchanged to share	**Share purchasing at a discounted price**		Price of remuneration exchanged to share
	Exercise price	Maximum earnings		Exercise price	Maximum earnings		Exercise price	Maximum earnings	
					HUF per share				
	for the year 2015				**for the year 2016**			**for the year 2017**	
2016	4,892	2,500	6,892	-	-	-	-	-	-
2017	4,892	3,000	6,892	7,200	2,500	9,200	-	-	-
2018	4,892	3,000	6,892	7,200	3,000	9,200	8,064	3,000	10,064
2019	4,892	3,000	6,892	7,200	3,500	9,200	8,064	3,500	10,064
2020	-	-	-	7,200	4,000	9,200	8,064	4,000	10,064
2021	-	-	-	-	-	-	8,064	4,000	10,064
2022	-	-	-	-	-	-	8,064	4,000	10,064

Year	**Share purchasing at a discounted price**		Price of remuneration exchanged to share
	Exercise price	Maximum earnings	
	HUF per share		
	for the year 2018		
2019	10,413	4,000	12,413
2020	10,413	4,000	12,413
2021	10,413	4,000	12,413
2022	10,913	4,000	12,413
2023	10,913	4,000	12,413
2024	10,913	4,000	12,413
2025	10,913	4,000	12,413

NOTE 32: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn) [continued]

Based on parameters accepted by Board of Directors relating to the year **2014** effective pieces are follows as at 30 June 2019:

	Approved pieces of shares	Exercised until 30 June 2019	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 30 June 2019
Share purchasing period started in 2015	176,459	176,459	5,828	-	-
Share purchasing period started in 2016	360,425	359,524	7,011	901	-
Share purchasing period started in 2017	189,778	189,778	9,362	-	-
Share purchasing period started in 2018	223,037	212,950	10,201	-	10,087

Based on parameters accepted by Supervisory Board relating to the year **2015** effective pieces are follows as at 30 June 2019:

	Approved pieces of shares	Exercised until 30 June 2019	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 30 June 2019
Share purchasing period started in 2016	152,247	152,247	7,373	-	-
Remuneration exchanged to share provided in 2016	10,947	10,947	6,509	-	-
Share purchasing period started in 2017	299,758	299,758	9,403	-	-
Remuneration exchanged to share provided in 2017	20,176	20,176	9,257	-	-
Share purchasing period started in 2018	166,047	154,462	10,053	-	11,585
Remuneration exchanged to share provided in 2018	9,229	9,229	10,098	-	-
Share purchasing period starting in 2019	199,215	63,692	11,602	-	135,523
Remuneration exchanged to share applying in 2019	9,774	9,774	11,813	-	-

Based on parameters accepted by Supervisory Board relating to the year **2016** effective pieces are follows as at 30 June 2019:

	Approved pieces of shares	Exercised until 30 June 2019	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 30 June 2019
Share purchasing period started in 2017	147,984	147,984	9,544	-	-
Remuneration exchanged to share provided in 2017	4,288	4,288	9,194	-	-
Share purchasing period started in 2018	321,528	314,919	10,284	-	6,609
Remuneration exchanged to share provided in 2018	8,241	8,241	10,098	-	-
Share purchasing period starting in 2019	161,446	31,641	11,583	-	129,805
Remuneration exchanged to share applying in 2019	4,033	4,033	11,813	-	-
Share purchasing period starting in 2020	-	-	-	-	172,356
Remuneration exchanged to share applying in 2020	-	-	-	-	4,567

NOTE 32: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn) [continued]

Based on parameters accepted by Supervisory Board relating to the year **2017** effective pieces are follows as at 30 June 2019

	Approved pieces of shares	Exercised until 30 June 2019	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 30 June 2019
Share purchasing period started in 2018	108,243	108,243	11,005	-	-
Remuneration exchanged to share provided in 2018	11,926	11,926	10,098	-	-
Share purchasing period starting in 2019	216,253	61,210	11,779	-	155,043
Remuneration exchanged to share applying in 2019	26,538	26,538	11,813	-	-
Share purchasing period starting in 2020	-	-	-	-	101,577
Remuneration exchanged to share applying in 2020	-	-	-	-	12,838
Share purchasing period starting in 2021	-	-	-	-	120,981
Remuneration exchanged to share applying in 2021	-	-	-	-	12,838
Share purchasing period starting in 2022	-	-	-	-	42,820
Remuneration exchanged to share applying in 2022	-	-	-	-	3,003

Based on parameters accepted by Supervisory Board relating to the year **2018** effective pieces are follows as at 30 June 2019

	Approved pieces of shares	Exercised until 30 June 2019	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 30 June 2019
Share purchasing period starting in 2019	83,139	951	11,759		82,188
Remuneration exchanged to share applying in 2019	17,017	15,122	11,813		1,895
Share purchasing period starting in 2020					150,230
Remuneration exchanged to share applying in 2020					33,291
Share purchasing period starting in 2021					74,529
Remuneration exchanged to share applying in 2021					16,167
Share purchasing period starting in 2022					99,341
Remuneration exchanged to share applying in 2022					17,042
Share purchasing period starting in 2023					45,155
Remuneration exchanged to share applying in 2023					4,114
Remuneration exchanged to share applying in 2024					864
Remuneration exchanged to share applying in 2025					432

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

In connection with shares given as a part of payments detailed in the *Direction of Chief Executive about the Remuneration of Work in OTP Bank* and the share-based compensation for Board of Directors and connecting compensation based on performance assessment accounted as equity-settled share based transactions, HUF 1,603 million and HUF 3,797 million was recognized as expense for the six month period ended 30 June 2019 and for the year ended 31 December 2018 respectively.

NOTE 33: RELATED PARTY TRANSACTIONS (in HUF mn)

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

Compensations	30 June 2019	31 December 2018
Short-term employee benefits	4,276	7,817
Share-based payment	1,150	2,431
Other long-term employee benefits	423	390
Post-employment benefits	25	26
Termination benefits	14	36
Total	**5,888**	**10,700**

	30 June 2019	31 December 2018
Loans provided to companies owned by the Management (normal course of business)	55,169	62,971
Commitments to extend credit and guarantees	49,037	37,809
Credit lines of the members of Board of Directors and the Supervisory Board and their close family members and Treasury credit lines of the members of Board of Directors and their close family members (at normal market conditions)	4,494	3,692

	30 June 2019		31 December 2018	
Types of transactions	Non-consolidated subsidiaries	Associated companies	Non-consolidated subsidiaries	Associated companies
Loans provided	5,673	513	5,136	22
Client deposits	7,366	-	4,753	628
Net interest income on loan provided	15	-	144	-
Net fee incomes	17	-	39	-

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

	30 June 2019	31 December 2018
Members of Board of Directors and their close family members	133.3	130.7
Executives	111	117
Members of Supervisory Board and their close family members	36.1	4.4
Total	**280.4**	**252.1**

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

	30 June 2019	31 December 2018
Members of Board of Directors and their close family members	29.5	29
Executives	1	5
Total	**30.5**	**34**

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

	30 June 2019	31 December 2018
Executives	-	2
Total	**-**	**2**

NOTE 33: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

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

	30 June 2019	31 December 2018
Members of Board of Directors and their close family members	41.8	31.5
Members of Supervisory Board and their close family members	1.4	0.3
Total	**43.2**	**31.8**

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

	30 June 2019	31 December 2018
Members of Board of Directors and their close family members	2.2	2.2

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

	30 June 2019	31 December 2018
Members of Board of Directors and their close family members	7.3	4.2
Executives	34	35
Total	**41.3**	**39.2**

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

	30 June 2019	31 December 2018
Members of Board of Directors and their close family members	20	17
Executives and their close family members	71	79
Members of Supervisory Board and their close family members	5	-
Total	**96**	**96**

The Members of Board of Directors and their close family members owned credit limit related to other – above not listed - credit card in the amount of HUF 23.8 million both as at 30 June 2019 and as at 31 December 2018.

An analysis of **Lombard loans** and **Personal loans** at the Bank is as follows:

	30 June 2019	31 December 2018
Members of Board of Directors and their close family members	29,084	29,084
Executives and their close family members	855	230
Total Lombard loans	**29,939**	**29,314**
Executives	12	12
Total Personal loans	**12**	**12**
Executives	-	2
Total loans distributed by the Bank in its capacity of employee	**-**	**2**

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

	30 June 2019	31 December 2018
Members of Board of Directors	2,124	2,262
Members of Supervisory Board	103	202
Total	**2,227**	**2,464**

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

NOTE 34: SIGNIFICANT SUBSIDIARIES AND ASSOCIATES (in HUF mn)

The control is established when the Group has the right and exposure over the variable positive yield of the investee but the same time put up with the consequences of the negative returns and the Group by its decisions is able to influence the extent of the yields.
The Group primarily considering the following factors in the process of determining the existing of the control:
- investigation of the decision making mechanism of the entity,
- authority of the Board of Directors, Supervisory Board and General meeting based on the deed of association,
- existence of investments with preferential voting rights.

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

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

Significant subsidiaries

Name	Ownership (Direct and Indirect)		Activity
	30 June 2019	**31 December 2018**	
DSK Bank EAD (Bulgaria)	100.00%	100.00%	commercial banking services
Expressbank AD (Bulgaria)	99.74%	-	commercial banking services
OTP Bank JSC (Ukraine)	100.00%	100.00%	commercial banking services
JSC "OTP Bank" (Russia)	97.91%	97.90%	commercial banking services
OTP banka Hrvatska d.d. (Croatia)	100.00%	100.00%	commercial banking services
OTP Bank Romania S.A. (Romania)	100.00%	100.00%	commercial banking services
OTP banka Srbija a.d. (Serbia)	100.00%	100.00%	commercial banking services
Vojvodjanska banka a.d. Novi Sad (Serbia)	100.00%	100.00%	commercial banking services
OTP Banka Slovensko a. s. (Slovakia)	99.44%	99.38%	commercial banking services
Crnogorska komercijalna banka a.d. (Montenegro)	100.00%	100.00%	commercial banking services
Banka OTP Albania SH.A. (Albania)	100.00%	-	commercial banking services
OTP Financing Malta Company Ltd. (Malta)	100.00%	100.00%	refinancing activities
OTP Financing Netherlands B.V. (the Netherlands)	100.00%	100.00%	refinancing activities
OTP Holding Ltd. (Cyprus)	100.00%	100.00%	refinancing activities
OTP Financing Cyprus Ltd. (Cyprus)	100.00%	100.00%	refinancing activities
OTP Factoring Ltd.	100.00%	100.00%	work-out
OTP Mortgage Bank Ltd.	100.00%	100.00%	mortgage lending
OTP Real Estate Ltd.	100.00%	100.00%	real estate management and development
Merkantil Bank Ltd.	100.00%	100.00%	finance lease
OTP Building Society Ltd.	100.00%	100.00%	housing savings and loan
OTP Fund Management Ltd.	100.00%	100.00%	fund management
R.E. Four d.o.o. (Serbia)	100.00%	100.00%	real estate management
Bank Center No. 1. Ltd.	100.00%	100.00%	real estate lease
Inga Kettő Ltd.	100.00%	100.00%	property management
OTP Funds Servicing and Consulting Ltd.	100.00%	100.00%	fund services
OTP Real Estate Leasing Ltd. (previously OTP Flat Lease Ltd.)	100.00%	100.00%	real estate leasing
OTP Life Annuity Ltd.	100.00%	100.00%	life annuity services

NOTE 34: SIGNIFICANT SUBSIDIARIES AND ASSOCIATES (in HUF mn) [continued]

Significant associates and joint ventures[1]

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

As at 30 June 2019

	Szallas.hu Ltd.	*D-ÉG Thermoset Ltd.*	*Company for Cash Services Ltd.*	*Total*
Total assets	1,831	3,883	2,571	**8,285**
Total liabilities	1,206	4,629	207	**6,042**
Shareholders' equity	625	(746)	2,364	**2,243**
Total revenues	1,492	2,386	594	**4,472**
Ownership	0%	0.10%	20%	

As at 31 December 2018

	Szallas.hu Ltd.	*D-ÉG Thermoset Ltd.*	*Company for Cash Services Ltd.*	*Total*
Total assets	2,135	3,883	2,377	**8,395**
Total liabilities	813	4,629	112	**5,554**
Shareholders' equity	1,322	(746)	2,265	**2,841**
Total revenues	4,172	2,386	1,136	**7,694**
Ownership	30%	0.10%	20%	

NOTE 35: TRUST ACTIVITIES (in HUF mn)

The Bank acts as a trustee for certain loans granted by companies or employers to their employees, mainly for housing purposes. The ultimate risk for these loans rests with the party advancing the funds. As these loans and related funds are not considered to be assets or liabilities of the Group, they have been excluded from the accompanying Consolidated Statement of Financial Position.

	30 June 2019	**31 December 2018**
The amount of loans managed by the Group as a trustee	37,593	38,647

NOTE 36: CONCENTRATION OF ASSETS AND LIABILITIES

	30 June 2019	**31 December 2018**
In the percentage of the total assets		
Receivables from, or securities issued by the Hungarian Government or the NBH	17.94%	18.98%

There were no other significant concentrations of the assets or liabilities of the Group as at 30 June 2019 or as at 31 December 2018.

The Group continuously provides the Authority with reports on the extent of dependency on large depositors as well as the exposure of the biggest 50 depositors towards the Group.

[1] Based on unaudited financial statements.

NOTE 36: CONCENTRATION OF ASSETS AND LIABILITIES [continued]

Further to this obligatory reporting to the Authority, the Group pays particular attention on the exposure of its largest partners and cares for maintaining a closer relationship with these partners in order to secure the stability of the level of deposits.

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

NOTE 37: CONSOLIDATED EARNINGS PER SHARE (in HUF mn)

Consolidated Earnings per share attributable to the ordinary shares of the Group are determined by dividing consolidated Net profit for the period attributable to ordinary shareholders, after the deduction of declared preference dividends, by the weighted average number of ordinary shares outstanding during the year. Dilutive potential ordinary shares are deemed to have been converted into ordinary shares.

	30 June 2019	31 December 2018
Consolidated net profit for the period attributable to ordinary shareholders (in HUF mn)	177,786	318,233
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	262,141,793	261,816,188
Basic Earnings per share (in HUF)	**678**	**1,215**
Consolidated net profit for the period attributable to ordinary shareholders (in HUF mn)	177,786	318,233
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	262,195,095	261,939,080
Diluted Earnings per share (in HUF)	**678**	**1,215**

	30 June 2019	31 December 2018
	Number of shares	
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	17,858,217	18,183,822
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	**262,141,793**	**261,816,188**
Dilutive effects of options issued in accordance with the remuneration policy and convertible into ordinary shares[1]	53,302	122,892
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	**262,195,095**	**261,939,080**

[1] Both in the first half- year of 2019 and in the year 2018 the dilutive effect is in connection with the Remuneration Policy and the Management Option Program.

NOTE 38: NET GAIN OR LOSS REALIZED ON FINANCIAL INSTRUMENTS (in HUF mn)

As at 30 June 2019

	Net interest gain and loss	Net non-interest gain and loss	Loss allowances	Other Comprehensive Income
Cash, amounts due from banks and balances with the National Banks	671	-	-	-
Placements with other banks, net of loss allowance for placements	5,617	-	(41)	-
Trading securities at fair value through profit or loss	-	1,897	-	-
Non-trading instruments mandatorily at fair value through profit or loss	-	614	-	-
Securities at fair value through other comprehensive income	21,350	3,361	(267)	17,084
Loans at amortized cost	310,053	10,771	(18,578)	-
Loans measured at fair value through profit or loss	343	-	-	-
Securities at amortized cost	31,981	-	312	-
Other financial assets	2,085	-	-	-
Derivative financial instruments	1,197	1,597	-	-
Amounts due to the National Governments, to the National Banks and other banks	(6,352)	-	-	-
Financial liabilities designated at fair value through profit or loss	(193)	(664)	-	-
Deposits from customers	(26,412)	107,679	-	-
Liabilities from issued securities	(3,911)	-	-	-
Leasing liabilities	(892)	-	-	-
Subordinated bonds and loans	(1,222)	-	-	-
Total result on financial instruments	**334,315**	**125,255**	**(18,574)**	**17,084**

As at 31 December 2018

	Net interest gain and loss	Net non-interest gain and loss	Loss allowances	Other Comprehensive Income
Cash, amounts due from banks and balances with the National Banks	421	-	-	-
Placements with other banks, net of loss allowance for placements	7,248	-	(144)	-
Trading securities at fair value through profit or loss	-	598	-	-
Non-trading instruments mandatorily at fair value through profit or loss	-	-	-	-
Securities at fair value through other comprehensive income	37,912	301	820	(22,333)
Loans at amortized cost	553,293	19,300	(39,143)	-
Loans measured at fair value through profit or loss	800	-	-	-
Securities at amortized cost	59,899	-	(212)	-
Other financial assets	3,964	-	-	-
Derivative financial instruments	25,634	9,409	-	-
Total result on financial assets	**689,171**	**29,608**	**(38,679)**	**(22,333)**

NOTE 38: NET GAIN OR LOSS REALIZED ON FINANCIAL INSTRUMENTS (in HUF mn) [continued]

As at 31 December 2018 [continued]

	Net interest gain and loss	Net non-interest gain and loss	Loss allowances	Other Comprehensive Income
Amounts due to the National Governments, to the National Banks and other banks	(8,449)	-	-	-
Financial liabilities designated at fair value through profit or loss	(355)	144	-	-
Deposits from customers	(47,132)	197,547	-	-
Liabilities from issued securities	(6,343)	-	-	-
Leasing liabilities	-	-	-	-
Subordinated bonds and loans	(2,169)	-	-	-
Total result on financial liabilities	**(64,448)**	**197,691**	**-**	**-**
Total result on financial instruments	**624,723**	**227,299**	**(38,679)**	**(22,333)**

NOTE 39: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn)

In determining the fair value of a financial asset or liability the Group in the case of instruments that are quoted on an active market uses the market price. In most cases market price is not publicly available so the Group has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 39. d) for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.

To provide a reliable estimate of the fair value of those financial instrument that are originally measured at amortized cost, the Group used the discounted cash-flow analyses (loans, placements with other banks, amounts due to banks, deposits from customers). The fair value of issued securities and subordinated bonds is based on quoted prices (e.g. Reuters). Cash and amounts due from banks and balances with the National Banks represent amounts available immediately thus the fair value equals to the cost.

The assumptions used when calculating the fair value of financial assets and liabilities when using valuation technique are the following:

- the discount rates are the risk free rates related to the denomination currency adjusted by the appropriate risk premium as of the end of the reporting period,
- the contractual cash-flows are considered for the performing loans and for the non-performing loans, the amortized cost less impairment is considered as fair value,
- the future cash-flows for floating interest rate instruments are estimated from the yield curves as of the end of the reporting period,
- the fair value of the deposit which can be due in demand cannot be lower than the amount payable on demand.

Classes of assets and liabilities not measured at fair value in the statement of financial position, the income approach was used to convert future cash-flows to a single current amount. Fair value of current assets is equal to carrying amount, fair value of liabilities from issued securities and other bond-type classes of assets and liabilities not measured at fair value measured based on Reuters market rates, and fair value of other classes not measured at fair value of the statement of financial position is measured at discounted cash-flow method. Fair value of loans, net of loss allowance for loans measured at discount rate adjustment technique, the discount rate is derived from observed rates of return for comparable assets or liabilities that are traded in the market.

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

NOTE 39: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn)

a) Fair value of financial assets and liabilities

	30 June 2019		31 December 2018	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash, amounts due from banks and balances with the National Banks	1,504,941	1,504,941	1,547,272	1,547,272
Placements with other banks, net of loss allowance for placements	494,745	514,372	420,606	419,458
Financial assets at fair value through profit or loss	190,504	190,504	181,356	181,356
Trading securities at fair value through profit or loss	*67,377*	*67,377*	*50,439*	*50,439*
Fair value of derivative financial assets held for trading	*91,499*	*91,499*	*103,405*	*103,405*
Non-trading instruments mandatorily at fair value through profit or loss	*31,628*	*31,628*	*27,512*	*27,512*
Securities at fair value through other comprehensive income	2,145,586	2,145,586	1,883,849	1,883,849
Loans at amortized cost[1]	9,442,357	10,010,973	8,066,593	8,559,132
Loans measured at fair value through profit or loss	31,943	31,943	34,525	34,525
Securities at amortized cost	1,792,912	1,909,227	1,740,520	1,810,096
Derivative financial assets designated as hedge accounting	5,952	5,952	15,201	15,201
Other financial assets[2]	86,125	86,125	70,594	70,594
Financial assets total	**15,695,065**	**16,399,623**	**13,960,516**	**14,521,483**
Amounts due to the National Governments, to the National Banks and other banks	492,447	495,212	360,475	349,810
Financial liabilities designated at fair value through profit or loss	29,924	29,924	32,231	32,231
Deposits from customers	12,699,826	12,707,189	11,285,085	11,274,889
Liabilities from issued securities	385,397	499,093	417,966	488,905
Held-for-trading derivative financial liabilities	73,576	73,576	73,316	73,316
Derivative financial liabilities designated as hedge accounting	11,425	11,425	7,407	7,407
Leasing liabilities	50,093	50,093	50	50
Other financial liabilities[3]	202,548	202,548	154,957	154,957
Subordinated bonds and loans	81,532	75,242	81,429	72,623
Financial liabilities total	**14,026,768**	**14,144,302**	**12,412,916**	**12,454,188**

[1] Higher discount rate due to the lower yield environment resulted in higher fair value comparing to the carrying values.
[2] Other financial assets contain account receivables, advances to investments and securities, other advances given, subsidies paid on behalf of the government, receivable from investment services, receivable from leasing, and prepayments and accrued income.
[3] Other financial liabilities contain account payables, liabilities from dividend payable, deferrals, liabilities of deals stock brokerage and advances received from customers.

NOTE 39: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

b) Fair value of derivative instruments

The Group regularly enters into hedging transactions in order to decrease its financial risks. However some economically hedging transaction do not meet the criteria to account for hedge accounting, therefore these transactions were accounted as derivatives held for trading.
The assessment of the hedge effectiveness (both for fair value hedges and cash flow hedges) to determine the economic relationship between the hedged item and the hedging instrument is accomplished with prospective scenario analysis via different rate shift scenarios of the relevant risk factor(s) of the hedged risk component(s). The fair value change of the hedged item and the hedging instrument is compared in the different scenarios. Economic relationship is justified if the change of the fair value of the hedged item and the hedging instrument are in the opposite direction and the absolute changes are similar amounts. The hedge ratio is determined as the ratio of the notional of the hedged item and the notional of the hedging instrument. The sources of hedge ineffectiveness are the not hedged risk components (e.g. change of cross currency basis spreads in case of interest rate risk hedges), slight differences in maturity dates and interest payment dates in case of fair value hedges, and differences between the carrying amount of the hedged item and the carrying amount of the hedging instrument in case of FX hedges (e.g. caused by interest rate risk components in the fair value of the hedging instrument).

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

	Fair value	
	30 June 2019	**31 December 2018**
Interest rate swaps held for trading		
Positive fair value of interest rate swaps held for trading	52,563	44,120
Negative fair value of interest rate swaps held for trading	(38,859)	(27,956)
Foreign exchange swaps held for trading		
Positive fair value of foreign exchange swaps held for trading	23,540	31,994
Negative fair value of foreign exchange swaps held for trading	(24,153)	(27,120)
CCIRS held for trading		
Positive fair value of CCIRS held for trading	1,963	12,417
Negative fair value of CCIRS held for trading	(1,311)	(9,165)
Other derivative contracts held for trading		
Positive fair value of other derivative contracts held for trading	13,433	14,874
Negative fair value of other derivative contracts held for trading	(9,253)	(9,075)
Interest rate swaps designated as fair value hedge		
Positive fair value of interest rate swaps designated as fair value hedge	2,348	5,610
Negative fair value of interest rate swaps designated as fair value hedge	(9,075)	(6,458)
CCIRS designated as fair value hedge		
Positive fair value of CCIRS designated as fair value hedge	3,434	4,003
Negative fair value of CCIRS designated as fair value hedge	(740)	(352)
Other derivative contracts designated as fair value hedge		
Positive fair value of other derivative contracts designated as fair value hedge	170	-
Negative fair value of other derivative contracts designated as fair value hedge	(1,610)	-
Interest rate swaps designated as cash-flow hedge		
Positive fair value of interest rate swaps designated as cash-flow hedge	-	3,751
Negative fair value of interest rate swaps designated as cash-flow hedge	-	(523)
MIRS designated as cash-flow hedge		
Positive fair value of MIRS designated as cash-flow hedge	-	1,837
Negative fair value of MIRS designated as cash-flow hedge	-	(74)
Derivative financial assets total	**97,451**	**118,606**
Derivative financial liabilities total	**(85,001)**	**(80,723)**
Derivative financial instruments total	**12,450**	**37,883**

NOTE 39: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Types of hedge accounting

Amount, timing and uncertainty of future cash flows – hedging instruments as at 30 June 2019

Type of hedge	Type of risk	Type of instrument	Within one month	Within three months and over one month	Within one year and over three months	Within five years and over one year	More than five years	Total
Fair Value Hedge	**Interest rate risk**	**Interest rate swap**						
		HUF						
		Notional	-	-	313,514	68,568	48,000	**430,082**
		Average Interest Rate (%)	-	-	1.60%	1.36%	1.85%	
		EUR						
		Notional	-	-	20	177	27	**224**
		Average Interest Rate (%)	-	-	3.88%	0.14%	0.61%	
		USD						
		Notional	-	-	10	441	29	**480**
		Average Interest Rate (%)	-	-	2.61%	1.93%	2.35%	
		RUB						
		Notional	-	-	-	2,100	-	**2,100**
		Average Interest Rate (%)	-	-	-	7.38%	-	
Fair Value Hedge	**FX & IR risk**	**Cross currency interest rate swap**						
		EUR/HUF						
		Notional	-	1	2	15	14	**32**
		Average Interest Rate (%)	(1.58%)	(1.59%)	(1.61%)	(1.63%)	(1.66%)	
		Average FX Rate	310.80	310.86	310.45	309.79	308.69	

NOTE 39: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Types of hedge accounting [continued]

Amount, timing and uncertainty of future cash flows – hedging instruments as at 30 June 2019 [continued]

Type of hedge	Type of risk	Type of instrument	Within one month	Within three months and over one month	Within one year and over three months	Within five years and over one year	More than five years	Total
Fair Value Hedge	**FX risk**	**Cross currency interest rate swap**						
		EUR/HUF						
		Notional	319	-	-	-	-	**319**
		Average FX Rate	319.90	-	-	-	-	
		RON/HUF						
		Notional	-	-	150	1,050	-	**1,200**
		Average FX Rate	-	-	67.50	68.83	-	
		RUB/HUF						
		Notional	-	-	2,000	9,100	-	**11,100**
		Average FX Rate	-	-	4.20	4.33	-	
	Other	**Interest rate swap**						
		HUF						
		Notional	211	(565)	2,206	27,458	727	**30,037**

Derivative financial instruments designated as hedge accounting as follows:

Type of hedge	Type of instrument	Type of risk	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument as at 30 June 2019		Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness for the six month period ended 30 June 2019
				Assets	Liabilities		
Fair value hedge							
	Interest rate swap	Interest rate risk	648,081	453	(8,784)	Derivative financial instruments designated as hedge accounting	-
	Cross-currency swap	FX & IR risk	13,038	-	(977)	Derivative financial instruments designated as hedge accounting	-
	Cross-currency swap	FX risk	134,261	3,434	(397)	Derivative financial instruments designated as hedge accounting	-
	Foreign exchange swaps	FX risk	103,209	170	(1,609)	Derivative financial instruments designated as hedge accounting	-
	Interest rate swap	Other	32,204	1,895	(1)	Derivative financial instruments designated as hedge accounting	-

NOTE 39: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Types of hedge accounting [continued]

Derivative financial instruments designated as hedge accounting as follows [continued]:

Type of hedge	Type of risk	Carrying amount of the hedged item as at 30 June 2019		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item for the six month period ended 30 June 2019		Line item in the statement of financial position in which the hedged item is included
		Assets	Liabilities	Assets	Liabilities	
Fair value hedges						
- Loans	***Interest rate risk***	2,519	-	494	-	Loans
- Government bonds	***Interest rate risk***	350,919	-	817	-	Securities at amortised cost
- Government bonds	***Interest rate risk***	86,090	-	965	-	Securities at fair value through other comprehensive income
- Government bonds	***Interest rate risk***	1,006	-	18	-	Financial assets at fair value through profit or loss
- Other securities	***Interest rate risk***	40,286	-	193	-	Securities at fair value through other comprehensive income
- Loans	***FX & IR risk***	3,079	-	-	-	Loans
- Loans	***FX risk***	29,959	-	2,463	-	Loans
- Other securities	***Other risk***	-	(23,484)	-	(4,378)	Liabilities from issued securities
Fair value hedges total		**513,858**	**(23,484)**	**4,950**	**(4,378)**	

Type of hedge	Type of risk	Carrying amount of the hedged item as at 30 June 2019 EUR million	Type of hedging instrument	Changes in fair value used for calculating hedge ineffectiveness for the six month period ended 30 June 2019 HUF million
Net investment hedge for foreign subsidiaries				
Fx assets in foreign subsidiaries	Fx risk	310[1]	OTP HB Perpet bonds	629.3

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

NOTE 39: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) Fair value levels

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly. Fair value measurements – in relation with instruments measured not at fair value – are categorized in level 2;
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

As at 30 June 2019	**Total**	**Level 1**	**Level 2**	**Level 3**
Financial assets at fair value through profit or loss	190,504	84,527	105,966	11
from this: trading securities at fair value through profit or loss	67,377	54,445	12,921	11
from this: positive fair value of derivative financial assets held for trading	91,499	48	91,451	-
from this: non-trading instruments mandatorily at fair value through profit or loss	31,628	30,034	1,594	-
Securities at fair value through other comprehensive income	2,145,586	1,541,802	587,829	15,955
Loans mandatorily measured at fair value through profit or loss	31,943	1,480	-	30,463
Positive fair value of derivative financial assets designated as fair value hedge	5,952	-	5,952	-
Financial assets measured at fair value total	**2,373,985**	**1,627,809**	**699,747**	**46,429**
Financial liabilities at fair value through profit or loss	29,924	-	-	29,924
Negative fair value of held-for-trading derivative financial liabilities	73,576	196	73,380	-
Negative fair value of derivative financial liabilities designated as fair value hedge	11,425	-	11,425	-
Financial liabilities measured at fair value total	**114,925**	**196**	**84,805**	**29,924**

NOTE 39: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) Fair value levels [continued]

As at 31 December 2018	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	181,356	73,063	108,293	-
from this: trading securities at fair value through profit or loss	50,439	47,498	2,941	-
from this: positive fair value of derivative financial assets held for trading	103,405	299	103,106	-
from this: non-trading instruments mandatorily at fair value through profit or loss	27,512	25,266	2,246	-
Securities at fair value through other comprehensive income	1,883,849	1,473,501	398,662	11,686[1]
Loans mandatorily measured at fair value through profit or loss	34,525	1,780	-	32,745
Positive fair value of derivative financial assets designated as fair value hedge	9,613	-	9,613	-
Positive fair value of derivative financial assets designated as cash-flow hedge	5,588	-	5,588	-
Financial assets measured at fair value total	**2,114,931**	**1,548,344**	**522,156**	**44,431**
Financial liabilities at fair value through profit or loss	32,231	-	-	32,231
Negative fair value of held-for-trading derivative financial liabilities	73,316	1,294	72,022	-
Negative fair value of derivative financial liabilities designated as fair value hedge	6,810	-	6,810	-
Negative fair value of derivative financial liabilities designated as cash-flow hedge	597	-	597	-
Financial liabilities measured at fair value total	**112,954**	**1,294**	**79,429**	**32,231**

Movements in Level 3 financial instruments measured at fair value

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

Movement on securities at fair value through other comprehensive income in Level 3	Opening balance	Purchase	Issue	Settlement / Close (-)	Revaluation	Closing balance
Trading securities at fair value through profit or loss	-	11	-	-	-	11
Securities at fair value through other comprehensive income	11,686	2,645	641	-	983	15,955
Loans mandatorily measured at fair value through profit or loss	32,745	-	-	(2,408)	126	30,463
Financial assets measured at fair value total	**44,431**	**2,656**	**641**	**(2,408)**	**1,109**	**46,429**
Financial liabilities at fair value through profit or loss	32,231	-	-	(1,643)	(664)	29,924
Financial liabilities measured at fair value total	**32,231**	**-**	**-**	**(1,643)**	**(664)**	**29,924**

There were no movements among the levels of fair value hierarchy neither in the six month period ended 30 June 2019 nor for the year ended 31 December 2018.

NOTE 40: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF mn)

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

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

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

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

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

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

From the first quarter of 2019 Expressbank AD and its subsidiaries, OTP Leasing EOOD and Express Factoring EOOD (altogether: Express Group) were included into the Bulgarian operation, so from the first quarter of 2019 the statement of recognised income and balance sheet of DSK Leasing AD was included into this segment too.
The activities of the other subsidiaries are out of the leasing and fund management activity, such as: OTP Real Estate Ltd., OTP Life Annuity Ltd, OTP Funds Servicing and Consulting Ltd., OTP Building s.r.o., OTP Real Slovensko s.r.o.

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

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

NOTE 40: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF mn) [continued]

Adjustments

Goodwill / investment impairment and their tax saving effect:

As at 30 June 2019 HUF 4,390 million negative tax effect was recognized mainly due to the goodwill impairment on OTP Bank Romania S.A. In the valuation model the new organic growth strategy had a negative impact given the substantial front-loaded cost requirements, but the recently introduced banking tax also took its toll through the profitability estimations.
As at 31 December 2018 HUF 4,136 million tax shield was recognized due to impairment on investment, which affect was partly compensated by HUF 2,903 million release of impairment. Altogether with HUF 5,962 million goodwill impairment on OTP Real Estate Lease Ltd. and Monicomp Ltd. negative tax effect was recognized in the amount of HUF 4,729 million.

Special tax on financial institutions (after income tax):
Special tax on financial institutions includes the special tax paid by the Hungarian financial institutions and the Slovakian banking levy. Besides, it also contains the Slovakian Deposit Protection Fund contributions being introduced again in 2014, and the contribution into the Resolution Fund in Slovakia, too.

Effect of acquisitions (after income tax):
The following main items might appear on this line: the potential badwill related to acquisitions which improves the accounting result, expenses related directly to the acquisitions and integration processes, and the volume of Day1 impairment under IFRS 9 booked after the consolidation of the Bulgarian and Albanian subsidiaries in the first half year of 2019.

One-off impact of regulatory changes related to FX consumer contracts in Serbia (after income tax):
HUF (1.9) billion as a negative result on the optional conversion of the Serbian CHF mortgage exposure into EUR.

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

NOTE 40: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF mn) [continued]

As at 30 June 2019

Main components of the Consolidated Statement of Profit or Loss in HUF million	OTP Group - consolidated - in the Consolidated Statement of Profit or Loss - structure of accounting reports	Adjustments on the accounting in Recognized Income	OTP Group - consolidated - in the Consolidated Statement of Profit or Loss - structure of management reports	OTP CORE (Hungary)	Foreign banks subtotal (without adjustments)	JSC "OTP Bank" (Russia) and Touch Bank	OTP Bank JSC (Ukraine)	DSK Group including Expressbank AD (Bulgaria)	OTP Bank Romania S.A. (Romania)	Vojvodjanska banka a.d. (Serbia)	OTP banka Hrvatska d.d. (Croatia)	OTP Banka Slovensko a.s. (Slovakia)	Crnogorska komercijalna banka a.d. (Montenegro)	Banka OTP Albania SHA (Albania)	Non-banking subsidiaries subtotal	Merkantil Bank (Hungary)	Asset Management subsidiaries	Other subsidiaries	Corporate Centre	Eliminations and adjustments
	a	b	1=a+b 1= 2+3+12+16+17	2	3=4+…+11	4	5	6	7	8	9	10	11		12=13+14+15	13	14	15	16	17
Net profit for the year	**177,959**		**177,959**																	
Adjustments (total)		**(24,671)**	**(24,671)**																	
Dividends and net cash transfers (after income tax)		609	609																	
Goodwill /investment impairment (after income tax)		(4,390)	(4,390)																	
Bank tax on financial institutions (after income tax)		(15,424)	(15,424)																	
Effect of acquisition (after income tax)		(3,540)	(3,540)																	
One-off impact of regulatory changes related to FX consumer contracts in Serbia (after income tax)		(1,926)	(1,926)																	
Consolidated adjusted net profit for the year	**177,959**	**24,671**	**202,630**	**97,353**	**91,758**	**13,901**	**16,011**	**34,229**	**3,627**	**2,990**	**17,422**	**533**	**1,840**	**1,205**	**12,386**	**3,298**	**1,770**	**7,318**	**2,311**	**(1,178)**
Profit before income tax	**196,565**	**31,363**	**227,928**	**105,663**	**107,561**	**17,572**	**19,302**	**38,707**	**3,797**	**2,853**	**21,278**	**634**	**1,995**	**1,423**	**13,031**	**3,499**	**1,931**	**7,601**	**2,585**	**(912)**
Adjusted operating profit	**215,184**	**17,750**	**232,934**	**82,243**	**136,192**	**40,059**	**20,369**	**41,803**	**5,911**	**3,374**	**20,605**	**892**	**1,726**	**1,453**	**12,634**	**3,484**	**1,932**	**7,218**	**2,585**	**(720)**
Adjusted total income	529,815	(30,824)	498,991	205,532	267,318	69,835	30,471	76,194	17,870	15,678	41,485	7,220	5,865	2,700	28,166	6,892	3,464	17,810	2,837	(4,862)
Adjusted net interest income	334,315	(955)	333,360	130,048	191,646	54,073	21,786	51,934	12,953	11,150	28,221	5,216	4,036	2,277	9,122	6,833	13	2,276	2,837	(293)
Fee and commission income related to lending	12,231	0	12,231	2,952	9,204	5,348	1,126	1,273	319	171	496	380	8	83	166	154	0	12	0	(91)
Fee and commission income related to deposit and account maintenance	78,761	0	78,761	49,724	29,227	2,824	2,360	11,714	1,215	3,022	5,580	1,198	1,302	12	27	27	0	0	0	(217)
Fee and commission related to bank cards	51,574	0	51,574	34,744	16,912	2,374	3,009	5,224	835	1,053	2,635	541	1,031	210	0	0	0	0	0	(82)
Fee and commission income related to security trading	9,564	0	9,564	11,538	2,942	0	54	2,329	0	52	484	2	21	0	1	0	0	1	0	(4,917)
Other fee and commission income	33,401	(30,522)	2,879	(25,230)	14,686	6,733	1,889	3,364	547	341	1,109	429	188	86	13,925	1	6,117	7,807	0	(502)
Fee and commission income	185,531	(30,522)	155,009	73,728	72,971	17,279	8,438	23,904	2,916	4,639	10,304	2,550	2,550	391	14,119	182	6,117	7,820	0	(5,809)
Fee and commission expenses	(30,973)	11	(30,962)	(15,200)	(13,966)	(2,660)	(1,907)	(3,581)	(1,255)	(833)	(2,028)	(717)	(899)	(86)	(7,060)	(269)	(3,020)	(3,771)	0	5,264
Adjusted net profit from fees and commissions	154,558	(30,511)	124,047	58,528	59,005	14,619	6,531	20,323	1,661	3,806	8,276	1,833	1,651	305	7,059	(87)	3,097	4,049	0	(545)
Adjusted other net non-interest income	40,942	642	41,584	16,956	16,667	1,143	2,154	3,937	3,256	722	4,988	171	178	118	11,985	146	354	11,485	0	(4,024)
Adjusted other administrative expenses	(314,631)	48,574	(266,057)	(123,289)	(131,126)	(29,776)	(10,102)	(34,391)	(11,959)	(12,304)	(20,880)	(6,328)	(4,139)	(1,247)	(15,532)	(3,408)	(1,532)	(10,592)	(252)	4,142
Total risk costs	**(18,619)**	**8,037**	**(10,582)**	**17,844**	**(28,631)**	**(22,487)**	**(1,067)**	**(3,096)**	**(2,114)**	**(521)**	**673**	**(258)**	**269**	**(30)**	**397**	**15**	**(1)**	**383**	**0**	**(192)**
Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX)	(18,619)	9,380	(9,239)	17,838	(26,729)	(21,958)	(372)	(3,254)	(1,713)	(387)	1,029	(257)	168	15	(136)	(111)	0	(25)	0	(212)
Other provision (adjustment)	0	(1,343)	(1,343)	6	(1,902)	(529)	(695)	158	(401)	(134)	(356)	(1)	101	(45)	533	126	(1)	408	0	20
Total other adjustments (one-off items)[1]	0	5,576	**5,576**	5,576	**0**	0	0	0	0	0	0	0	0	0	**0**	0	0	0	0	0
Income tax	(18,606)	(6,692)	**(25,298)**	(8,310)	**(15,803)**	(3,671)	(3,291)	(4,478)	(170)	137	(3,856)	(101)	(155)	(218)	**(645)**	(201)	(161)	(283)	(274)	(266)
Total Assets	**16,458,378**	**0**	**16,458,378**	**8,814,170**	**9,094,469**	**868,500**	**474,465**	**3,636,866**	**838,398**	**613,188**	**1,947,320**	**466,287**	**249,445**	**0**	**853,179**	**456,071**	**22,293**	**374,815**	**2,447,748**	**(4,751,188)**
Total Liabilities	**14,465,534**	**0**	**14,465,534**	**7,192,585**	**7,805,994**	**689,693**	**395,980**	**3,145,674**	**753,144**	**520,990**	**1,670,073**	**437,037**	**193,403**	**0**	**619,494**	**415,431**	**9,088**	**194,975**	**1,397,022**	**(2,549,561)**

( ) used at: provisions, impairment and expenses

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

NOTE 40: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF mn) [continued]

As at 31 December 2018

Main components of the Consolidated Statement of Profit or Loss in HUF million	OTP Group - consolidated - in the Consolidated Statement of Profit or Loss - structure of accounting reports	Adjustments on the accounting in Recognized Income	OTP Group - consolidated - in the Consolidated Statement of Profit or Loss - structure of management reports	OTP CORE (Hungary)	Foreign banks subtotal (without adjustments)	JSC "OTP Bank" (Russia) and Touch Bank	OTP Bank JSC (Ukraine)	DSK Bank EAD (Bulgaria)	OTP Bank Romania S.A. (Romania)	OTP banka Srbija a.d. and Vojvodjanska banka a.d. (Serbia)	OTP banka Hrvatska d.d. (Croatia)	OTP Banka Slovensko a.s. (Slovakia)	Crnogorska komercijalna banka a.d. (Montenegro)	Non-banking subsidiaries subtotal	Leasing subsidiaries	Asset Management subsidiaries	Other subsidiaries	Corporate Centre	Eliminations and adjustments
	a	b	1=a+b 1= 2+3+12+16+17	2	3=4+…+11	4	5	6	7	8	9	10	11	12=13+14+15	13	14	15	16	17
Net profit for the year	**318,322**		**318,322**																
Adjustments (total)		**(7,014)**	**(7,014)**																
Dividends and net cash transfers (after income tax)		457	457																
Goodwill /investment impairment (after income tax)		(4,729)	(4,729)																
Bank tax on financial institutions (after income tax)		(15,286)	(15,286)																
Effect of acquisition (after income tax)		(6,844)	(6,844)																
Impact of fines imposed by the Hungarian Competition Authority (after income tax)		565	565																
Initial NPV gain on the monetary policy interest rate swap (MIRS) deals (after income tax)		18,823	18,823																
Consolidated adjusted net profit for the year	**318,322**	**7,012**	**325,334**	**180,445**	**122,195**	**16,421**	**24,414**	**47,295**	**3,850**	**2,999**	**24,960**	**43**	**2,213**	**15,976**	**9,828**	**4,159**	**1,989**	**6,189**	**526**
Profit before income tax	**352,159**	**10,575**	**362,734**	**195,162**	**143,086**	**21,035**	**29,174**	**51,603**	**4,901**	**3,137**	**30,598**	**99**	**2,539**	**16,840**	**9,780**	**4,572**	**2,488**	**6,924**	**718**
Adjusted operating profit	**391,446**	**(6,537)**	**384,909**	**144,578**	**213,538**	**68,879**	**30,094**	**57,097**	**10,585**	**6,227**	**35,455**	**2,597**	**2,604**	**18,902**	**10,180**	**4,447**	**4,275**	**6,924**	**961**
Adjusted total income	964,727	(83,001)	881,726	378,534	449,963	129,900	47,144	107,817	30,759	30,306	78,295	15,013	10,729	53,364	20,261	7,653	25,450	7,350	(7,489)
Adjusted net interest income	624,723	(24,892)	599,831	245,934	322,168	102,489	33,040	69,979	23,410	20,514	54,059	11,148	7,529	23,269	19,043	31	4,195	7,350	1,110
Fee and commission income related to lending	22,915	0	22,915	5,482	16,939	10,146	1,530	2,686	706	317	751	777	26	667	667	0	0	0	(174)
Fee and commission income related to deposit and account maintenance	144,942	0	144,942	94,744	51,054	6,274	4,376	16,515	2,513	5,662	10,748	2,483	2,483	57	57	0	0	0	(913)
Fee and commission related to bank cards	94,395	0	94,395	65,447	29,511	5,375	4,997	6,649	1,671	1,832	5,962	985	2,040	0	0	0	0	0	(565)
Fee and commission income related to security trading	19,448	0	19,448	22,452	5,596	1	82	4,340	0	93	1,021	7	52	0	0	0	0	0	(8,601)
Other fee and commission income	56,381	(56,958)	(577)	(45,768)	23,317	11,306	3,907	2,828	787	643	2,750	745	351	22,927	859	14,409	7,659	0	(1,053)
Fee and commission income	338,081	(56,958)	281,123	142,357	126,417	33,102	14,892	33,018	5,677	8,547	21,232	4,997	4,952	23,651	1,583	14,409	7,659	0	(11,306)
Fee and commission expenses	(60,405)	14	(60,391)	(35,347)	(24,120)	(6,335)	(3,449)	(2,583)	(2,114)	(1,262)	(5,190)	(1,462)	(1,725)	(10,997)	(704)	(6,566)	(3,727)	0	10,072
Adjusted net profit from fees and commissions	277,676	(56,944)	220,732	107,010	102,297	26,767	11,443	30,435	3,563	7,285	16,042	3,535	3,227	12,654	879	7,843	3,932	0	(1,234)
Adjusted other net non-interest income	62,328	(1,165)	61,163	25,590	25,498	644	2,661	7,403	3,786	2,507	8,194	330	(27)	17,441	339	(221)	17,323	0	(7,365)
Adjusted other administrative expenses	(573,281)	76,464	(496,817)	(233,956)	(236,425)	(61,021)	(17,050)	(50,720)	(20,174)	(24,079)	(42,840)	(12,416)	(8,125)	(34,462)	(10,081)	(3,206)	(21,175)	(426)	8,450
Total risk costs	**(39,287)**	**13,119**	**(26,168)**	**46,591**	**(70,452)**	**(47,844)**	**-920**	**(5,494)**	**(5,684)**	**(3,090)**	**(4,857)**	**(2,498)**	**(65)**	**(2,062)**	**(400)**	**125**	**(1,787)**	**0**	**(243)**
Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX)	(39,287)	20,004	(19,283)	48,192	(67,027)	(42,204)	(1,680)	(9,532)	(4,794)	(3,146)	(3,046)	(2,579)	(46)	(145)	(174)	0	29	0	(301)
Other provision (adjustment)	0	(6,885)	(6,885)	(1,601)	(3,425)	(5,640)	760	4,038	(890)	56	(1,811)	81	(19)	(1,917)	(226)	125	(1,816)	0	58
Total other adjustments (one-off items)[1]	0	3,993	**3,993**	3,993	**0**	0	0	0	0	0	0	0	0	**0**	0	0	0	0	0
Income tax	(33,837)	(3,563)	**(37,400)**	(14,717)	**(20,891)**	(4,614)	(4,760)	(4,308)	(1,051)	(138)	(5,638)	(56)	(326)	**(864)**	48	(413)	(499)	(735)	(192)
Total Assets	**14,590,288**	**0**	**14,590,288**	**8,563,425**	**7,358,790**	**707,593**	**391,240**	**2,381,275**	**771,968**	**590,166**	**1,837,158**	**454,498**	**224,892**	**919,149**	**605,279**	**19,461**	**294,409**	**2,147,905**	**(4,398,983)**
Total Liabilities	**12,763,631**	**0**	**12,763,631**	**7,001,737**	**6,217,042**	**559,595**	**333,419**	**1,927,384**	**711,922**	**505,318**	**1,568,032**	**425,116**	**186,256**	**686,953**	**555,596**	**2,690**	**128,667**	**1,065,755**	**(2,207,856)**

( ) used at: provisions, impairment and expenses

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

NOTE 41: SIGNIFICANT EVENTS DURING THE SIX MONTH PERIOD ENDED 30 JUNE 2019

1) Term Note Program

See details in Note 16.

2) New agreement on Slovenian bank purchasing

OTP Bank signed an acquisition agreement on purchasing 99.73% shareholding of SKB Banka, the Slovenian subsidiary of Societe Generale Group and other local subsidiaries held by SKB Banka. With a market share of nearly 9%, SKB Banka is the 4th largest bank on the Slovenian banking market and as a universal bank it has been active in the retail and corporate segment as well. The financial closure of the transaction is expected in the coming months subject to obtaining all the necessary regulatory approvals.

NOTE 42: POST BALANCE SHEET EVENTS

1) New acquisition in Montenegro

The financial closure of the transaction, based on the acquisition agreement on purchasing 90.56% shareholding of Societe Generale banka Montenegro a.d. („SGM"), the Montenegrin subsidiary of Societe Generale Group between Crnogorska komercijalna banka a.d., the Montenegrin subsidiary of OTP Bank and Societe Generale Group, has been completed on 16 July 2019. The acquisition agreement between SG and CKB was signed on 28 February 2019.
With a market share of 11.9% as at the end of March 2019, SGM is the 3rd largest bank on the Montenegrin banking market and as a universal bank it has been active in the retail and corporate segment as well. The integration process is expected to be completed in 2020.

2) New acquisition in Moldova

On 25 July 2019 the financial closure of the Moldovan transaction has been completed. As a result, OTP Bank has become 96.69% owner of Mobiasbanca – Groupe Societe Generale S.A. („MBSG"), the Moldovan subsidiary of Societe Generale Group.

With a market share of 13.8%, MBSG is the 4th largest bank on the Moldovan banking market and as a universal bank it has been active in the retail and corporate segment as well. With the acquisition of the Moldovan bank, the Group is already present in 11 countries in the Central and Eastern European region.

3) New acquisition in Serbia

On 24 September 2019 the financial closure of the Serbian transaction has been completed (after the acquisition agreement was signed on 19 December 2018). As a result, OTP Bank has become 100% owner of Societe Generale banka Srbija a.d. Beograd („SGS"), the Serbian subsidiary of Societe Generale Group and other local subsidiaries held by SGS. As at the end of June 2019, with a market share of 8.3%, SGS is the 4th largest bank on the Serbian banking market and as a universal bank it has been active in the retail and corporate segment as well. As a result of the acquisition the Group will further strengthen its market position in Serbia.

4) Agreement on the sale of Express Life Bulgaria

DSK Bank EAD and Expressbank AD, the Bulgarian subsidiaries of OTP Bank, as the sellers, signed an acquisition agreement on the sale of their 100% shareholding in Express Life Bulgaria IJSC to Groupama Zhivotozastrahovane EAD, a Bulgarian subsidiary of the Groupama Group, as the purchaser. The financial closure of the transaction is expected in the coming months subject to obtaining all the necessary regulatory approvals.