

Disclosure by institutions 31 December 2019



**OTP Bank Plc. separate and consolidated,
OTP Mortgage Bank Ltd.,
OTP Building Society Ltd.,
Merkantil Bank Ltd.**

In line with Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises, and Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012

(English translation of the original report)

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I. OTP Group

In accordance with Regulation (EU) No 575/2013 of the European Parliament and the Council on prudential requirements for credit institutions and investment firms and amending regulation (EU) No 648/2012, OTP Bank Plc. ("OTP Bank") - as a supervised institution - is obliged to fulfil prudential regulations at group level.

The principles and methods shown in this chapter of the document can be interpreted at both company and OTP Group ("Group") level except when otherwise indicated. Participant institutions are: OTP Bank Plc., OTP Mortgage Bank Ltd., OTP Building Society Ltd., Merkantil Bank Ltd.

I.1. Risk management objectives and policies

I.1.1. OTP Group's risk management strategy and general risk profile

OTP Bank Group's Strategy for Risk Assumption deals with partners, with credit- and financial institutional businesses. In addition it also incorporates those partners where counterparty risk or market risk is relevant. The grade of extent of the Strategy for Risk Assumption to participants depends on whether they have a significant exposure or multiple ones in the detailed categories of risk types defined by the Strategy for Risk Assumption.

The Strategy points out an aggregate system of frameworks, instruments, an for the most common types of risk (credit risk, country risk, operational risk, market risk, liquidity risk). The aim of the Group is to handle strategic risk, reputational risk, and real-estate risk exclusively from the Strategy for Risk Assumption.

Furthermore, The Strategy for Risk Assumption is updated continuously, but at least with a frequency of 3 years. The Board of the OTP Banking Group approved the current Strategy for Risk Assumption at 10/December/2019.

The Banking Group's general risk profile, which can be found in the VI.1. Appendix, harmonises with the Group's risk appetite framework and it does not violate the Strategy for Risk Assumption.

The frameworks and methods used for a given type of relevant risk are described in the next section.

I.1.1.1. Credit risks

Traditionally, OTP Bank has been characterized by conservative risk assumption. Its fundamental objective is to implement its strategic plan through maintaining the equilibrium between risk and return. In order to be able to do so, it has established an independent risk management organizational unit and a uniform and consistent risk management system. OTP Bank operates a risk management process, which guarantees that the Bank complies, at all times, with the Basel accords, the applicable statutory regulations and supervisory authority requirements in all of the countries where OTP Bank operates, and at group level as well.

The independent risk management organizational unit performs the following:

- In order to identify potential risks, it analyses OTP Bank's activities, identifies the major risk factors to which these activities and the positions generated by them are exposed, and indicates the correlations between these positions.
- In order to measure risks, it collects historical data on the major risk factors, the losses stemming from them and the variables that can predict them.

Monitors the results of the risk measures continuously, and prepares regular and up-to-the-minute reports on them in a transparent manner for the various operative and executive levels.

In order to manage risks each organizational unit applies risk mitigation techniques (client/transaction ratings, limits, securities, hedging transactions, control points embedded in processes and risk transfers).

In its regulations on risk mitigation and the use of credit risk collateral, OTP Bank determines:

- the risk management process and methods, including decision-making powers and tasks linked to risk assumption as well as the requirements for the control of risk assumption;
- the types of eligible collateral in connection with contracts entailing bank exposures and the conditions for their acceptance;
- the criteria for the appraisal of the financial position and future solvency of current and future debtors, internal regulations related to debtor rating, and the manner in which the findings of the rating procedure are used.

OTP Bank determines the risk profile of the Group, and strictly regulates the framework, the principles and guidelines of risk management by the Strategy for Risk Assumption, and ensures that it is uniformly applied at group level. The objective of OTP Group is to develop a diversified portfolio, the performance of which does not excessively depend on the changes in the position of any particular sector, geographical region or debtor group.

Determination of credit risk appetite for each subsidiary takes place annually, with the establishment and adoption of the Lending Policy. The Lending Policy contains in detail regarding the retail clientele the main indicators of the lending products, the value of the expected risk indicators for the portfolio and new disbursements, and the changes in the risk management processes associated with the business development plans. The Lending Policy defines industry preferences and the main expectations for each segment and product in case of the entrepreneurial clientele. The Lending Policy's expectations and the Limits are monitored on a regular basis and reported to different management levels.

By defining operational-level credit risk appetite, the Group

- ensures the incorporation of strategic directions and expectations into day-to-day risk management activity;
- considers profitability aspects by analysing the income-generation potential of individual customer segments and product groups in the context of specific risk factors;
- assesses the risk indicators that can best ensure the fulfilment of growth objectives in the context of a prudent, conservative risk assumption practice.

Determining and adhering to the tolerance levels and the desirable values of the indicators listed above may ensure the construction of a desirable risk profile. The annual Lending Policy – as the manifestation of the operational-level credit risk appetite – summarises the behaviour required for the construction of this desirable loan portfolio, defining:

- the limits and target numbers reflecting the willingness to take risks;
- the level, proportion and concentration of the assumed risks comprising the portfolio and the expectations about the quality of the portfolio;
- preferences and business orientation, potential tightening or exclusions regarding the customer base, the sectors, collaterals, products and product types and the maturity structure.

In order to monitor the credit risk appetite defined at the operational level, the Group operates a control system that covers

- regulatory tools;
- the risk parameters of products;
- the reporting system, and
- additional, secondary controls (e.g. ex post audits of the compliance of specific transactions within the local competence level).

The group members' financing requirements are based on short term projections generated in the course of strategic and financial planning. The funding requirements are detailed in the annual business plans, while their realisation determined by the actual business demand. The general credit risk management and risk taking principles must be observed in the case of intra-group financing transactions as well.

I.1.1.2. Market risks

OTP Bank's market risk management strategy is to realize benefit from exchange rate and yield curve movements in compliance with legal requirements, taking the risk exposure the loss from which does not jeopardize profitability and operation safety of the Group. The aim of market risk management is to restrict potential loss arising from unfavourable exchange rate and/or yield curve movements.

- OTP Bank's Treasury is responsible for market risk management and for keeping risk within the frames approved by the Board.
- Continuous monitoring of market risk exposure, its reporting to the management, and the development of risk measurement methods is the responsibility of an organizational unit in a separate division from Treasury.
- Group-wide market risk exposures are reviewed monthly by the Asset- Liability Committee (ALCO), based on the monthly report of the Risk Management Department.
- Group-member's ALCO also reviews quarterly the given group-member's risk exposures.
- The local market risk regulations are sent the Risk Management Department of OTP group by the Group member's market risk departments. These departments are responsible to ensure that the local regulation is in line with the group-wide regulation.
- The Board approves the market risk measurement methodologies and the limit system which defines the acceptable risk.

For risk measuring and internal reporting, OTP Bank applies a risk management system that is based on but is independent from the front office system, in order to make the IT implementation of the developing risk measurement techniques efficient. All the concerned organizational areas have access to the risk management system but with different access levels.

The main principles of market risk management regulation:

- OTP Bank is allowed to run market risks within the limits set by the Board of Directors. OTP Bank can open asset and liability management (ALM) positions to hedge strategic risks appearing in the profit plan within the limit approved by the Asset Liability Committee (ALCO), but above that limit the decision of the Board of Directors is required. For the sake of risk management, positions originating from other organizational units (for example home loan payments) are forwarded without delay to the Treasury in compliance with the internal reporting process.
- OTP Bank breaks up the positions exposed to market risk into underlying risk factors (interest rates, foreign exchange rates, stock prices, volatility) and manages them in accordance with the positions calculated in the manner stated above.
- OTP Bank continuously monitors the exposure originating from portfolios exposed to market risk, the value-at-risk of the portfolio and the changes in the values of the portfolio and it sets a limit system for them. To avoid losses incompatible with the risk-taking policy of the Bank, OTP Bank attaches an internal action plan for limit breach.
- Decision-makers of OTP Bank are given information about the Bank's risk exposure and the regarding portfolios' profit-and-loss effects on a regular basis.
- The profit-and-loss effect of ALM deals which intend to hedge the profit-plan-driven market risk exposure and the profit-and-loss effect of the core portfolio in the plan are regularly reported to the management of OTP Bank, in order to make the control of hedging transparent.
- OTP Bank allocates capital to the portfolios exposed to market risk in order to cover the possible losses.

OTP Bank uses the standard model to quantify the capital requirement of market risks.

In case of identification of trading book exposures OTP Group takes into account the 4. Article of CRR (86. paragraph). FOLDER-s lined to trading book transactions are determined in the IT system. A given FOLDER is homogeneous, either trading book or banking book transaction. Limit-monitoring and capital requirement calculation in case of the trading book FOLDER-s are complex.

I.1.1.3. Counterparty risks

The Group uses a uniform methodology for the determination of counterparty limits, taking into account the risk assessment of the given counterparty, the risk absorption capacity of the risk taking subsidiaries, and the level of expected business requirements.

The limits are allocated to group members and to sublimits according to a uniform methodology. It is also used for the limit utilization.

The limit utilization of derivative deals is determined by deal weights set by using market risk methodologies, which takes into account the type, maturity, currency or currency pair of the deal and the available collateral agreements.

Deals which mean exposure outside of the Group are collateralized under the CSA related to the ISDA frameagreement signed by OTP Bank and under the Central Counterparties (CCP) according to the conditions determined in CSAs and LCH operation. In these cases OTP Bank seeks to impose symmetric conditions, the collateral is pledged and accepted by the counterparties in cash denominated in EUR.

The Group seeks to minimize wrong-way risks deriving from counterparty risk exposures. The group members do not conclude credit derivative type of deals, which are mostly characterized by wrong-way risks. If the risk of the counterparty and the risk of the collateral are closely related in a deal secured by collateral, then the collateral cannot be taken into account as exposure mitigation tool.

OTP Bank should provide its counterparties a total of EUR 10 million as additional collateral in case of credit rating downgrade.

In case of tasks related to ISDA/CSA, GMRA and EMA agreements and other ISDA related contracts, involved in the central clearing system that supports OTC transactions, in case of the application of EMIR variable deposit (CSA VM) the amount of it are calculated at least daily as follows:

- The amount of the variation margin in the netting stock for each transaction, credited by the contracting party, is the sum of the value calculated by the Article 11 (2) of Regulation 648/2012/EU, its net value, and all of the variation margins which granted previously.
- The Bank calculates the daily value of the collateral, and on that basis transfer any unused collateral to the collateral providing contracting party.
- If the Bank and the contracting party agree on a minimum transfer amount, the calculation method of the amount of collateral is the variable deposit due since the last collateral collection, taking into account the additional collateral.
- If the amount of collateral due exceeds the minimum transfer amount agreed jointly by the contracting parties, the collateral collecting party shall collect the total amount of the collateral due, without deducting the minimum transfer amount. The minimum transfer amount may not exceed EUR 500,000 or the corresponding amount in other currencies.
- The Bank accepts only funds as defined in Article 4 (1) (a) as variable deposit in ISDA/CSA agreements as defined in Section 2 of the 2016/2251 Delegated Regulation. The acceptable currency of the fund can only be denominated in EUR, HUF and USD and the funds that accepted as collateral are taken into account at 100% in the CSA agreements.

I.1.1.4. Operational risk

Operational risk – according to its classical interpretation – means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk. In many respects, operational risks are very diverse and elusive and different from the conventional banking risks, as well. As for the effective operational risk management requires the participation and commitment of the entire organisation, the support from the management body is crucial in order to mobilize and involve the employees who are concerned and responsible for operational risk. As a result of this strong management support the Group has well-designed and trained internal expert network. The Group places great importance on the trainings of this internal expert network and entrants.

The Group manages conduct and model risk within the framework of operational risk management. Conduct risk can arise from the inappropriate, unethical or unlawful behaviour on the part of an organization's management or employees which can be caused by deliberate actions or may be inadvertent and caused by inadequacies in an organization's practices, frameworks or education programs. Potential and incurred losses from conduct risks are continuously monitored and the relative rare but high impact market practices are evaluated in a forward looking manner during the scenario analyses process. Model risk means the potential loss an institution may incur, as a consequence of decisions that could be principally based on the output of internal models, due to errors in the development, implementation or use of such models. The Group strives to identify all of the models and model-families applied related to both business and support processes. Risk based assessment of models and the evaluation of how the given models comply with the control criteria are essential part of the Group model risk governance framework. The Group has business continuity plans and procedures, as well as, crisis communication plans; in order to sustain operation in case an event exercising a severe impact on its operation and reputation occurs.

Due to the dynamically changing operational environment, including technological development, in the focus of operational risk management there are increased risks, like ICT (e.g. cyber-attacks, data security problems, unauthorised access, etc.) and reputational risks.

During operational risk management the most important fundamental principles followed by the Group are summarised below:

- In order for operational risks to be managed, a standardised, easily understood, at time robust framework system must be put in place at group level, covering the definition of operational risks and the methods of identification, measurement, monitoring, management and mitigation thereof;
- The operational risk management system must cover all risks inherent in the activities of the Group, operational risk toolset must be improved and developed according to the changes and both internal and external expectations;
- Strong support of people concerned with operational risk management activities;
- The Bank's management body and the Operational Risk Committee need to be informed on a regular basis of the prevailing operational risk exposure of the Bank Group and any potential and incurred losses, including tendencies, arising from operational risks;
- The Group must strive for high level risk-awareness and must articulate its operational risk appetite;
- Bank must have guidelines, processes and procedures mitigating operational risks;
- Independent operational risk management activities, which are must be fully integrated into the Group's risk management activities and its general management information system.

The Group has been following the principle of "partial use" in calculation of the consolidated capital requirement for operational risks based on Advanced Measurement Approach (AMA) methodology from 31 December 2012.

The consolidated capital requirement is calculated based on the AMA model approved by the National Bank of Hungary. In accordance with the permission, the following subsidiaries are currently involved in the AMA scope: OTP Bank Plc., OTP Mortgage Bank Ltd., OTP Building Society Ltd., OTP Factoring Ltd., Merkantil Bank Ltd., Ukrainian, Russian, Bulgarian, Slovakian, Serbian and Montenegrin subsidiary banks.

The consolidated capital requirement is the sum of the AMA capital requirement and the BIA (Basic Indicator Approach) capital requirement calculated by those subsidiaries that do not fall under the AMA approach.

The stand-alone capital requirement regarding the subsidiaries involved into the AMA scope - that is for OTP Bank as well - is allocated from the consolidated AMA capital requirement.

The Advanced Measurement Approach enables institutions to achieve sophisticated risk management and refined capital calculation regarding operational risks.

The model includes the use of four data elements: historical internal loss data collected by all the management organizations of OTP Bank; risk self-assessment performed by banking experts; scenario analysis that reflects extreme events; and external data that aims to complete the internal loss database. The four basic sources are divided into a subjective (self-assessment, scenario analysis) and an objective (external and internal loss data) group. OTP Bank is member of the ORX (Operational Riskdata Exchange Association) data consortium, thus it takes into account losses of the ORX as external data.

Operational risk events can be divided into two groups according to another aspect: rare events that cause large losses and frequent events that cause smaller losses. The characteristics of the risks that fall into these two groups show different pictures.

The framework of the quantification is determined by the distribution as per the ORCs and the individual loss value. ORCs are designed based on main event types (internal fraud; external fraud; employment practices and workplace safety; clients, products and business practice; damage to physical assets; business disruption and system failures; execution, delivery and process management) and business units. In order to define the group-level capital requirement, within the individual ORCs calculated VaR values must be aggregated taking into account the effect of diversification. Finally, the 99.9th percentile of the aggregated distribution is considered as the operational risk VaR value that is valid for the operational risk capital requirement.

The Group has different type of insurances which aim is to mitigate operational risk losses, but any AMA-compliance insurances or other risk transfer mechanisms are not applied in order to reduce the capital requirement for operational risk.

I.1.2. Credit risk mitigation

Regulations on the valuation and management of securities contain firstly the aspects and factors that OTP Bank uses as a basis for collateral valuation depending on the type of the collateral and secondly the methods that the Bank uses in evaluating the collateral. They lay down the procedures applicable when change occurs in the availability, value and enforceability of the collateral as well as the rules governing the frequency of regular and subsequent collateral valuation.

Collateral valuation covers all the lending, risk management, and legal activities that OTP Bank performs prior to the extension of a loan as well as during the term of the risk assumption in order to obtain information on the availability, value and enforceability of the collateral.

During the term of the contract containing the risk exposure, OTP Bank regularly monitors and documents the fulfilment of the conditions set forth in the contract, including developments in the client's financial and economic position as well as changes in the availability, fair value and enforceability of the collateral and the securities.

In its lending activity OTP Bank uses the following types of eligible securities the most frequently:

- pledge: security deposit, real estate, movable property, receivables;
- guarantee and suretyship.

In case of the valuation of collaterals accepted by OTP Bank the basis of the evaluation is the market value or the collateral value based on the appraisal. Otherwise, depending on the type of collateral, the basis of the evaluation may be other market value or other initial value.

This basic value is reduced by OTP Bank with a discount rate of 0-80% depending on the type of collateral. The reason for this, in case of given collateral the market value can not be realized in the event of collateral enforcement because of the circumstances and the urgency of the enforcement.

Tracking of the value of the collateral takes place at different frequencies depending on the type of collateral. During this monitoring activity, OTP Bank uses various methods, such as valuation update, on-site inspection, statistical evaluations.

OTP Bank – the group of partners is determined by regulatory approval - takes into account the risk reduction potential of the concluded netting agreements, when calculating counterparty credit risk exposures for derivative transactions. OTP has got a regulatory approval for ISDA Master Agreements under English law in case of counterparties which have headquarters in Hungary, Great Britain, France, Germany, Austria, Switzerland, the Netherlands, Italy, Belgium and Denmark, this enables with 40 active counterparties to apply CRR allowed netting rules as a widely admitted application for risk reduction. As a precondition, OTP Bank regularly monitor, whether these netting clause are enforceable or not according to independent legal opinions. Netting reduces exposure from counterparty credit (in case of affected countries) by 55%.

The issuers of the guarantee must have the appropriate amount of counterparty limit for the whole maturity of the deal. The issuers of the eligible guarantees are dominant participants in domestic and international markets. In the case of the latter, the institutions with investment-grade rating are preferred.

The Group does not conclude credit derivative deals and does not have any securitization positions.

In order to avoid excessive dependency, OTP Bank manages the concentration risks of the portfolio by setting limits for sectors, countries, clients and counterparties at both bank and bank group levels.

In order to restrain the transfer of risk originating from a potential owner-business interest relationship between clients or relationships of business nature or collateral-related relationships, clients that qualify as a client group must be defined and client level concentration limits must be interpreted at a client-group level.

In order to support the recording and maintenance of client groups at bank group level, group-level regulations have been developed together with an IT system.

I.1.3. Applied stress test methodologies in the OTP Group

In the frame of credit risk management several stress tests are being operated by the Bank with the aim of better understanding what kind of risks can endanger the capital or liquidity position of the Bank. Most of them are independently related to the given risk measurement. Different risk parameters, sensitivity tests related to financial indicators and in order to understand the risk exposures deeper scenario analysis can be found among the applied techniques.

The OTP Group regularly participates in EBA stress test. During these stress tests the expected capital position are presented along predefined “baseline” and “adverse” macro scenarios taking into consideration the material risks of the Group in a 3-year time horizon with a forward looking aspect. Additional capital requirement can arise if the Bank performs in a bad way. The Bank has taken part in 2018 in the European stress test, with excellent results.

Moreover, stress tests are conducted regularly within the Group during the annual planning process, the ICAAP and in the Recovery Plan as well. The aim of them is to calculate the impact of those complex scenarios on the balance sheet, profit and loss statement and capital position in an unified model what assume multiple risks (for example credit-, operational-, interest rate risk, sovereign, etc.).

I.2. Information regarding corporate governance system

I.2.1. The number of directorships of OTP Bank's chief executives

Chart 1 : The number of directorships of OTP Bank's chief executives*

Members of the Board of Directors	Number of directorship (according to CRR Art. 435. paragraph (2))		Members of the Supervisory Board	Number of directorship (according to CRR Art. 435. paragraph (2))	
	outside OTP Group	in OTP Group*		outside OTP Group	in OTP Group*
Dr. Sándor CSÁNYI	2	-	Tibor TOLNAY	-	-
Mihály BAUMSTARK	2	-	Dr. Gábor HORVÁTH	-	-
Dr. Tibor BÍRÓ	-	-	Klára BELLA	-	-
Tamás ERDEI	1	-	András MICHNAI	-	-
Dr. István GRESA	-	-	Dr. Márton Gellért VÁGI	-	-
Antal György KOVÁCS	-	5	Olivier Péqueux	1	-
Dr. Antal PONGRÁCZ	-	1			
Dr. László UTASSY	-	2			
Dr. József VÖRÖS	-	-			
László WOLF	1	2			

*: with the exception of directorships held at OTP Bank, the number of directorships includes the membership of Board of Directors and the Supervisory Board as well

For the safe operations of the financial institutions of OTP Bank and OTP Group it is critical that the institutions are governed by professionally qualified and financially reliable executives with good business reputation.

Directive 2013/36/EU, defining the capital requirement system of credit institutions (hereinafter: CRD IV), as well as national legal regulations phrase several requirements in respect of executive officers.

Hungary's Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises ("Hpt.") requires the establishment of a nomination committee in order to ensure the suitability of management bodies, while complying with the principles of proportionality.

The Nomination Committee is a permanent committee established by the Board of Directors, which forms the principles of Board member candidate selection for OTP Bank and sets candidates accordingly, and proposes principles and framework for the requirements of compliance assessment of the bank and the banking group executives and key position holders.

In respect of the members of the management bodies, executive officers and key function holders of the financial institutions subject to consolidated supervision together with OTP Bank, the coordination and professional support of the compliance assessment process shall be the competence and responsibility of the Human Resources Management Directorate of OTP Bank. The group operation is performed with the responsible involvement of the relevant financial institution and the professional units participating in the assessment process.

On the basis of the résumés it can be stated that both the Board and the Supervisory Board members own exceptional professional knowledge, experience and track record in their field of expertise, furthermore, have in-depth proficiency and several years of experience in the management of financial institutions.

I.2.2. Board members' education data

Chart 2: Board members' education data

Board of Directors		Supervisory Board	
Dr. Sándor CSÁNYI			
College of Finance and Accounting, Hungary	BSc in Finance (1974)	University of Technology, Hungary	MSc in Civil Engineering (1978)
University of Economics, Hungary	MSc in Economics (1980)	University of Economics, Hungary	economic engineer (1983) economist(1993)
Mihály BAUMSTARK			
University of Agricultural Sciences, Hungary	MSc in Agricultural Sciences (1973)	Eötvös Lóránd University, Hungary	MA in Law (1980)
University of Economics, Hungary	MSc in Economics (1981)	Klára BELLA	
Dr. Tibor BIRÓ		College of Finance and Accounting, Hungary	BSc in Finance (1992)
College of Finance and Accounting, Hungary	BSc in Finance (1974)	University of Economics, Hungary	MSc in Economics (1996)
University of Economics, Hungary	MSc in Economics (1978)	András MICHNAI	
Tamás ERDEI		College of Finance and Accounting, Hungary	BSc in Finance (1981)
College of Finance and Accounting, Hungary	BSc in Finance (1978)	Dr. Márton Gellért VÁGI	
Dr. István GRESA		University of Economics, Hungary	MSc in Economics (1987)
College of Finance and Accounting, Hungary	BSc in Finance (1974)	Olivier Péqueux	
University of Economics, Hungary	MSc in Economics (1980)	École Polytechnique	graduate engineer (1998)
Antal György KOVÁCS		École nationale de la statistique et de l'administration économique	statistician-economist (2000)
College of Finance and Accounting, Hungary	MSc in Economics (1985)	<hr/>	
Dr. Antal PONGRÁCZ			
College of Finance and Accounting, Hungary	MSc in Economics (1969)		
Dr. László UTASSY			
Eötvös Lóránd University, Hungary	MA in Law (1978) Legal advisor (1980)		
Dr. József VÖRÖS			
University of Economics, Hungary	MSc in Economics (1974)		
László WOLF			
University of Economics, Hungary	MSc in Economics (1983)		

For the time being, unambiguous expectations regarding diversity policy have not been announced in the European and Hungarian regulatory environment, so the Bank currently has no separate diversity policy, but as soon as such EU or national regulation is in place, OTP Bank Plc. will take the necessary measures immediately.

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

I.2.3. Risk management committees

The Risk Assumption and Risk Management Committee is a permanent committee founded by the Board of Directors with the purpose to support its decision making activity. This Committee is responsible for giving pre-opinion on the group level Strategy for Risk Assumption before the Board approval and keeping under control its realization. In 2019 the Committee held six meetings.

Credit-Limit Committee (CLC) is a permanent committee meeting minimum weekly (88 times in 2019). Its main function is the approval of constitutions, the risk management strategy of OTP Bank and bank group, and the presentation of the credit policy to the Board of Directors of OTP Bank. The CLC decides on approval of risk assumption of specific counterparties and provides its presentation to the Board of Directors.

Work-Out Committee (WOC) is also a permanent committee meeting weekly (45 times in 2019). Within its scope are decision-making powers over OTP Bank's active debts (retail and non-retail) in special treatment, as well as the right to agree with the special treatment of foreign subsidiary banks', OTP Faktoring Ltd's, its subsidiaries' and Merkantil Bank Ltd's active debts that exceed the agreed limit. Furthermore the WOB is entitled to act as a NPL committee which incorporates the right of the pre-approval of the NPL strategy and the connecting implementation plan, the execution its year-based revision and the elaboration of inventiveness granting the effectiveness of the NPL strategy.

Asset-Liability Committee (ALCO) is a permanent committee established by the Board of Directors, which makes decisions on separately non-regulated affairs relating to OTP Bank's highest-level asset-liability management. It met 12 times in 2019 (once each month).

The Group Operational Risk Management Committee (OPRISK Committee) is a permanent committee meeting quarterly. It monitors the changes in the operational risk exposure, the operational risk management activity and the business continuity planning. It also makes sure that both the risk management practises and reporting channels required by the management and prescribed by the law work adequately. In addition to this, the analysis and evaluation of large individual losses place great importance in order to manage operational risk proactively.

The Management Committees get frequent information about risks from the Risk Assumption and Risk Management Committee as well as through proposals made by competent Divisions.

I.3. Scope of consolidation in group level reports

I.3.1. Associates which are accounted for using the equity method (proportionally consolidated) for the year ended 31 December 2019

Chart 3: Associates which are accounted for using the equity method (proportionally consolidated) for the year ended 31 December 2019

Number	Entity	Consolidated in accordance with IFRS	Consolidated in accordance with CRR
1	D-ÉG Thermoset Ltd. "i.l."	Yes	No
2	Szallas.hu Ltd.	Yes	No

I.3.2. Not consolidated entities for the year ended 31 December 2019

Chart 4: Not consolidated entities for the year ended 31 December 2019

Not consolidated in accordance with IFRS ¹	
1	Auctioneer s. r. o.
2	Club Hotel Füred Szálloda Ltd.
3	Diákigazolvány Ltd.
4	Dinghy Sport Club Hungary Ltd.
5	Govcka Project Company SRL
6	IMOS AD ŠID
7	Ingatlanvagyon Projekt 14. Ltd.
8	Investment Projekt 1. d.o.o.
9	OFB Projects EOOD
10	OTP Advisors SRL
11	OTP Consulting Romania SRL
12	OTP Immobilien Verwertung GmbH.
13	OTP Nedvizhimost OOO
14	OTP Travel Ltd.
15	OTP Újlakás Credit Intermediary Ltd.
16	OTP Vendéglátás és Hotelszolgáltatás Szervező Ltd.
17	PEVEC d.o.o. Beograd
18	Project 03 s.r.o.
19	Project Company Complex Banya EOOD
20	Projekt 13 Apartmány Slovensko s.r.o.
21	Projekt-Ingatlan 8. Ltd.
22	Rea Project One Company SRL
23	RESPV s.r.l.
24	SC AS Tourism SRL
25	SC Cefin Real Estate Kappa SRL
26	Shiw aForce.com Ltd.
27	Special Purpose Company LLC
28	Zelena Nektretine d.o.o.
Not consolidated in accordance with CRR ²	
1	PortfoLion Venture Capital Fund Management Ltd.

¹ Subsidiaries in which the Bank holds a significant interest have not been consolidated because the effect of consolidating such companies is not material to the Consolidated Financial Statements as a whole.

² Entities excluded from the scope of prudential consolidation based on the Article 19 section 1 of the CRR.

I.3.3. Current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries

There is no impediment like this in the Group.

I.3.4. Regulatory capital deficit at subsidiaries not included in the consolidation

The Group does not have subsidiaries not included in the consolidation that do not fulfil the regulatory CAR minimum.

I.3.5. Practice of regulations' application

In none of the Group's subsidiaries have the competent authorities waived prudential requirements on an individual basis.

I.4. Regulatory capital and capital requirements

I.4.1. Capital adequacy of the OTP Group

The capital requirement calculation of the Group for the year 2019 is based on IFRS data. The prudential filters and deductions have been applied in line with the CRR during the calculation of regulatory capital.

The Group applied standardized capital calculation method regarding credit and market risk, advanced measurement approach (AMA) and basic indicator approach (BIA) regarding the operational risk.

At the end of 2019 the audited capital adequacy ratio of OTP Group under the scope of consolidation according to prudential consolidation (CRR) was 16.69% which contains the profit of financial year 2019. The Group regulatory capital requirement as of 31st December 2019 was HUF 1,115,137 million, the amount of regulatory capital was HUF 2,409,618 million.

Chart 5: OTP Group's overview of RWAs

(in HUF million)	RWAs	Minimum capital requirements
	31.12.2019	31.12.2019
Credit risk (excluding CCR)	12 631 078	1 010 486
Of which the standardised approach	12 631 078	1 010 486
CCR	75 821	6 066
Of which mark to market	70 080	5 606
Of which CVA	5 741	459
Market risk	198 812	15 905
Of which the standardised approach	198 812	15 905
Operational risk	1 533 508	122 681
Of which basic indicator approach	636 876	50 950
Of which standardised approach	0	0
Of which advances measurement approach	896 632	71 731
Total	14 439 218	1 155 137

Note: The credit risk RWA is calculated according to 2017/2395 EU regulation, including the effect of transitional arrangements for mitigating the impact of the introduction of IFRS 9 and the correction in accordance with the Article 1. (7) paragraph b) point.

Chart 6: Credit risk exposure and CRM effects on 31st December 2019

(in HUF million)	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWAs	RWA density
Exposures to central governments or central banks	5 566 336	22 999	6 032 742	13 945	1 011 117	16.72%
Exposures to regional governments or local authorities	135 571	32 037	125 301	15 085	42 237	30.09%
Exposures to public sector entities	230 931	39 417	162 343	12 837	103 897	59.31%
Exposures to multilateral development banks	4 698	0	10 730	93	1 225	11.32%
Exposures to international organisation	0	0	0	0	0	0.00%
Exposures to institutions	334 220	407 532	404 756	226 535	385 996	61.14%
Exposures to corporates	3 735 510	2 431 323	3 466 773	1 059 452	4 451 011	98.34%
Retail exposures	3 787 054	905 480	3 491 708	207 792	2 727 024	73.71%
Exposures secured by mortgages on immovable property	4 311 980	198 659	4 311 980	66 622	2 675 900	61.11%
Exposures in default	299 296	6 814	294 432	2 930	329 230	110.72%
Exposures associated with particularly high risk	36 102	4 044	35 569	2 025	56 391	150.00%
Exposures in the form of covered bonds	104 634	0	104 634	0	52 317	50.00%
Exposures to institutions and corporates with a short-term credit assessment	0	0	0	0	0	0.00%
Exposures in the form of units or shares in collective investment undertakings ('CIUs')	17 413	0	17 413	0	17 413	100.00%
Equity exposures	87 938	0	87 938	0	156 437	177.89%
Other items	1 129 668	1 299	1 129 668	605	620 883	54.93%
Total	19 781 351	4 049 604	19 675 987	1 607 921	12 631 078	59.35%

In calculation of credit risk capital requirement, the Group took into consideration the following guarantees as credit risk mitigation at the end of 2019:

- Guarantees of group-member central government: The guarantors belong to the group 3 and 4 according to the credit quality step.
- Guarantees of institutions: The guarantors belong to the group 1, 2, 3 and 4 according to the credit quality step.
- Guarantees of regional governments and public sector entities: The guarantors do not have credit quality step.
- Guarantees of multilateral development banks.

I.4.2. Information about disclosure requirements related to the regulatory capital in line with Commission Implementing Regulation (EU) No. 1423/2013

Chart 7: Presentation of balance sheet discrepancies based on the differences in the scope of consolidation according to accounting (IFRS) and prudential (CRR)

Total assets (in HUF million)	Balance sheet as in published financial statements (1) 31 December 2019	Cross reference to raws of own funds disclosure template	Under regulatory scope of consolidation 31 December 2019
Cash, amounts due from banks and balances with the National Banks	1 784 378		1 842 325
Placements with other banks, net of allowance for placement losses	410 079		410 209
Financial assets at fair value through profit or loss	251 990	7*	250 899
Financial assets at fair value through other comprehensive income	2 426 779	7*	2 423 729
<i>Of which: direct and indirect not significant holdings of the CET1 instruments of financial sector entities</i>	30 463	18, 72	30 463
Loans at amortized cost	11 846 260		12 210 577
Loans mandatorily at fair value through profit or loss	32 802		32 802
Associates and other investments	20 822		67 067
<i>Of which: direct, indirect and synthetic significant holdings of the CET1 instruments of financial sector entities</i>	2 475	23	36 468
<i>Of which: direct and indirect not significant holdings of the CET1 instruments of financial sector entities</i>	195	18, 72	195
Securities at amortised cost	1 968 072		2 000 296
Property and equipment	320 430		318 495
Intangible assets and goodwill	242 219	8	243 061
Right-of-use assets	52 950		53 124
Investment properties	41 560		25 769
Derivative financial assets designated as hedge accounting	7 463	7*	7 463
Deferred tax assets	26 543		28 302
<i>Of which: deferred tax assets that rely on future profitability, do not arise from temporary difference (2)</i>	5 739	10	5 828
<i>Of which: deferred tax assets that rely on future profitability, arise from temporary difference (2)</i>	19 590	25	19 578
Other assets	227 349		256 834
Assets classified as held-for-sale	462 071		0
TOTAL ASSETS	20 121 767		20 170 952

*The additional value adjustments are determined according to simplified approach, which means that the regulatory capital is decreased by 0,1% of the marked balance sheet items.

** The intangible assets contains the intangible assets and the leased intangible assets.

Description	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items				
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
(In HUF million)							
Cash, amounts due from banks and balances with the National Banks	1 784 378	1 842 325	1 842 325	0	0	0	0
Placements with other banks, net of allowance for placement losses	410 079	410 209	410 209	0	0	0	0
Financial assets at fair value through profit or loss	251 990	250 899	0	27 219	0	250 899	215
Financial assets at fair value through other comprehensive income	2 426 779	2 423 729	2 423 729	0	0	0	2 424
Loans at amortized cost	11 846 260	12 210 577	12 210 577	0	0	0	0
Loans mandatorily at fair value through profit or loss	32 802	32 802	32 802	0	0	0	33
Associates and other investments	20 822	67 067	67 067	0	0	0	0
Securities at amortised cost	1 968 072	2 000 296	2 000 296	0	0	0	0
Property and equipment	320 430	318 495	318 495	0	0	0	0
Intangible assets and goodwill	242 219	243 061	0	0	0	0	243 061
Right-of-use assets	52 950	53 124	53 124	0	0	0	0
Investment properties	41 560	25 769	25 769	0	0	0	0
Derivative financial assets designated as hedge accounting relationships	7 463	7 463	0	7 463	0	0	7
Deferred tax assets	26 543	28 302	22 474	0	0	0	5 828
Other assets	227 349	256 834	256 834	0	0	0	0
Assets classified as held-for-sale	462 071	0	0	0	0	0	0
Total assets	20 121 767	20 170 952	19 663 701	34 682	0	250 899	251 568
Amounts due to banks, the National Governments, deposits from the National Banks and other banks	813 399	812 131	0	0	0	0	812 131
Financial liabilities at fair value through profit or loss	30 862	30 862	0	0	0	0	30 862
Deposits from customers	15 171 308	15 549 425	0	0	0	0	15 549 425
Liabilities from issued securities	393 167	401 979	0	0	0	0	401 979
Derivative financial liabilities held for trading	86 743	93 809	0	0	0	0	93 809
Derivative financial liabilities designated as hedge accounting relationships	10 709	10 709	0	0	0	0	10 709
Deferred tax liabilities	29 195	29 168	0	0	0	0	29 168
Leasing liabilities	54 194	53 791	0	0	0	0	53 791
Other liabilities	628 468	616 138	0	0	0	0	616 138
Subordinated bonds and loans	249 938	249 937	0	0	0	0	249 937
Liabilities directly associated with assets classified as held-for-sale	362 496	-	0	0	0	0	0
TOTAL LIABILITIES	17 830 479	17 847 949	0	0	0	0	17 847 949
Share capital	28 000	28 000	0	0	0	0	28 000
Retained earnings and reserves	2 319 263	2 338 700	0	0	0	0	2 338 700
Treasury shares	(60 931)	(48 310)	0	0	0	0	(48 310)
Non-controlling interest	4 956	4 613	0	0	0	0	4 613
TOTAL SHAREHOLDERS' EQUITY	2 291 288	2 323 003	0	0	0	0	2 323 003
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	20 121 767	20 170 952	0	0	0	0	20 170 952

*The additional value adjustments are determined according to simplified approach, which means that the regulatory capital is decreased by 0,1% of the marked balance sheet items.

Notes to the table:

- (1) Under accounting scope of consolidation as in published financial statements.
- (2) In consolidated balance sheet the amounts of deferred tax receivables and deferred tax liabilities are determined according to IAS 12, which does not take into consideration the classification expected by CRR (relying on future profitability or is not relying on future profitability, and arising from temporary difference or is not arising from temporary difference). For determining deferred tax receivables (and deferred tax liabilities) taken into account in regulatory capital, the total amount of deferred tax receivables and deferred tax liabilities is classified according to CRR categories, then in each CRR category the offsetting between deferred tax assets and associated deferred tax liabilities is done separately for each subsidiary (which is allowed according to 14 (2-3) article of 241/2014/EU RTS). Applying this methodology does not affect the difference of deferred tax receivables and deferred tax liabilities.
- (3) Tier 2 instrument taking into account regulatory capital.
- (4) Taking into consideration articles 81-88 of CRR

Chart 8: Differences between accounting (IFRS) and regulatory (CRR) scopes of consolidation and the mapping of financial statement categories with regulatory risk categories

Description	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items				
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
(in HUF million)							
Cash, amounts due from banks and balances with the National Banks	1 784 378	1 842 325	1 842 325	0	0	0	0
Placements with other banks, net of allowance for placement losses	410 079	410 209	410 209	0	0	0	0
Financial assets at fair value through profit or loss	251 990	250 899	0	27 219	0	250 899	215
Financial assets at fair value through other comprehensive income	2 426 779	2 423 729	2 423 729	0	0	0	2 424
Loans at amortized cost	11 846 260	12 210 577	12 210 577	0	0	0	0
Loans mandatorily at fair value through profit or loss	32 802	32 802	32 802	0	0	0	33
Associates and other investments	20 822	67 067	67 067	0	0	0	0
Securities at amortised cost	1 968 072	2 000 296	2 000 296	0	0	0	0
Property and equipment	320 430	318 495	318 495	0	0	0	0
Intangible assets and goodwill	242 219	243 061	0	0	0	0	243 061
Right-of-use assets	52 950	53 124	53 124	0	0	0	0
Investment properties	41 560	25 769	25 769	0	0	0	0
Derivative financial assets designated as hedge accounting relationships	7 463	7 463	0	7 463	0	0	7
Deferred tax assets	26 543	28 302	22 474	0	0	0	5 828
Other assets	227 349	256 834	256 834	0	0	0	0
Assets classified as held-for-sale	462 071	0	0	0	0	0	0
Total assets	20 121 767	20 170 952	19 663 701	34 682	0	250 899	251 568
Amounts due to banks, the National Governments, deposits from the National Banks and other banks	813 399	812 131	0	0	0	0	812 131
Financial liabilities at fair value through profit or loss	30 862	30 862	0	0	0	0	30 862
Deposits from customers	15 171 308	15 549 425	0	0	0	0	15 549 425
Liabilities from issued securities	393 167	401 979	0	0	0	0	401 979
Derivative financial liabilities held for trading	86 743	93 809	0	0	0	0	93 809
Derivative financial liabilities designated as hedge accounting relationships	10 709	10 709	0	0	0	0	10 709
Deferred tax liabilities	29 195	29 168	0	0	0	0	29 168
Leasing liabilities	54 194	53 791	0	0	0	0	53 791
Other liabilities	628 468	616 138	0	0	0	0	616 138
Subordinated bonds and loans	249 938	249 937	0	0	0	0	249 937
Liabilities directly associated with assets classified as held-for-sale	362 496	-	0	0	0	0	0
TOTAL LIABILITIES	17 830 479	17 847 949	0	0	0	0	17 847 949
Share capital	28 000	28 000	0	0	0	0	28 000
Retained earnings and reserves	2 319 263	2 338 700	0	0	0	0	2 338 700
Treasury shares	(60 931)	(48 310)	0	0	0	0	(48 310)
Non-controlling interest	4 956	4 613	0	0	0	0	4 613
TOTAL SHAREHOLDERS' EQUITY	2 291 288	2 323 003	0	0	0	0	2 323 003
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	20 121 767	20 170 952	0	0	0	0	20 170 952

Chart 9: Non-deducted participations in insurance undertakings

(in HUF million)	31.12.2019
Holdings of own funds instruments of a financial sector entity where the institution has a significant investment not deducted from own funds (before risk-weighting)	3 777
Total RWA	9 441

Chart 10: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

Description (in HUF million)	Total	Items subject to			
		Credit risk framework	CCR framework	Securitisation framework	Market risk framework
Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	20 170 952	19 663 701	34 682	0	250 899
Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	17 847 949	0	0	0	0
Total net amount under the regulatory scope of consolidation	2 323 003	0	0	0	0
Off-balance sheet amounts	4 348 776	1 617 960	0	0	0
Non deducted from regulatory capital, capital requirement increase elements	20 229	20 229	0	0	0
Differences because the transitional arrangements related to IFRS 9 or analogous ECLs*	99 222	99 222	0	0	0
Exposure amounts considered for regulatory purposes	21 686 694	21 401 113	34 682	0	250 899

* Calculated according to 2017/2395 EU regulation.

The main reason of the difference between the carrying values is that different entities are consolidated in the regulatory and accounting scope.

Chart 11: Consolidated entities for the year-ended 31 December 2019

Num-ber	Entity	Scope of accounting consolidation	Scope of regulatory consolidation	Num-ber	Entity	Scope of accounting consolidation	Scope of regulatory consolidation
1	OTP Bank Plc.	Yes	Yes	58	OTP Financing Cyprus Company Limited	Yes	Yes
2	Air-Invest Ltd.	Yes	Yes	59	OTP Financing Malta Ltd.	Yes	Yes
3	AppSense Ltd.	Yes	No	60	OTP Financing Netherlands B.V.	Yes	Yes
4	Bajor-Polár Center Real Estate Management Ltd.	Yes	Yes	61	OTP Financing Solutions B.V.	Yes	Yes
5	BALANSZ Real Estate Institute Fund	Yes	No	62	OTP Fund Management Ltd.	Yes	Yes
6	BANK CENTER No. 1. Ltd.	Yes	Yes	63	OTP Funds Servicing and Consulting Ltd.	Yes	Yes
7	Banka OTP Albania SHA	Yes	Yes	64	OTP Holding Ltd.	Yes	Yes
8	CL Babér Ltd.	Yes	Yes	65	OTP Holding Malta Ltd.	Yes	Yes
9	CRESCO d.o.o.	Yes	Yes	66	OTP Hungaro-Project Ltd.	Yes	No
10	Crnogorska Komercijalna Banka a.d.	Yes	Yes	67	OTP Immobilien Verwertung GmbH	No	Yes
11	DSK Asset Management EAD	Yes	Yes	68	OTP Ingatlankezelő Ltd.	Yes	Yes
12	DSK Auto Leasing EOOD	Yes	Yes	69	OTP Ingatlanpont Ltd.	Yes	No
13	DSK Bank EAD	Yes	Yes	70	OTP Ingatlanüzemeltető Ltd.	Yes	Yes
14	DSK DOM EAD	Yes	Yes	71	OTP Invest d.o.o.	Yes	Yes
15	DSK Leasing AD	Yes	Yes	72	OTP Insurance Broker EOOD	Yes	Yes
16	DSK Mobile EAD	Yes	Yes	73	OTP Investments d.o.o. Novi Sad	Yes	Yes
17	DSK Operating lease EOOD	Yes	Yes	74	OTP Leasing d.d.	Yes	Yes
18	DSK Tours EOOD	Yes	Yes	75	OTP Leasing EOOD	Yes	Yes
19	DSK Trans Security EAD	Yes	Yes	76	OTP Leasing Romania IFN S.A.	Yes	Yes
20	EISYS Ltd.	Yes	No	77	OTP Leasing Srbija d.o.o. Beograd	Yes	Yes
21	Express Factoring EOOD	Yes	Yes	78	OTP Life Annuity Real Estate Investment Ltd.	Yes	Yes
22	Expressbank AD	Yes	Yes	79	OTP Lizing d.o.o.	Yes	Yes
23	INGA KETTŐ Ltd.	Yes	Yes	80	OTP Mérnöki Szolgáltató Ltd.	Yes	Yes
24	JN Parkolóház Real Estate Utilizer LLC	Yes	No	81	OTP Mobile Service Ltd.	Yes	No
25	JSC "OTP Bank" (Russia)	Yes	Yes	82	OTP Mortgage Bank Ltd.	Yes	Yes
26	LLC AllianceReserve	No	Yes	83	OTP MRP	Yes	No
27	LLC AMC OTP Capital	Yes	Yes	84	OTP Nekretnine d.o.o.	Yes	Yes
28	LLC MFO "OTP Finance"	Nem	Yes	85	OTP Osiguranje A.D.O. Beograd	Yes	No
29	LLC OTP Leasing	Yes	Yes	86	OTP Osiguranje d.d.	Yes	No
30	Merkantil Bill and Property Investments Bank Ltd.	Yes	Yes	87	OTP Pénzügyi Pont Ltd.	Yes	Yes
31	Merkantil Lease Service LLC	Yes	Yes	88	OTP Real Estate Investment Fund Management Ltd.	Yes	Yes
32	MFM Project Investment and Development Ltd.	Yes	No	89	OTP Real Estate Leasing Ltd.	Yes	Yes
33	Miskolci Diákotthon Investment Utilization LLC	Yes	No	90	OTP Real Estate Ltd.	Yes	Yes
34	Mobiasbanca - OTP Group S.A.	Yes	Yes	91	OTP Savjetovanje d.o.o.	Yes	Yes
35	MONICOMP Ltd.	Yes	Yes	92	OTP Services d. o. o.	Yes	Yes
36	NIMO 2002 Ltd.	Yes	Yes	93	OTP Solution Fund	Yes	No
37	OPUS Securities S.A.	Yes	Yes	94	Podgorička banka AD Podgorica	Yes	Yes
38	OTP Asset Management SAI S.A.	Yes	Yes	95	POK DSK-Rodina AD	Yes	Yes
39	OTP Aventin d.o.o.	Yes	Yes	96	PortfoLion Digital Ltd.	Yes	No
40	OTP Bank JSC (Ukraine)	Yes	Yes	97	PortfoLion Venture Capital Fund Management Ltd.	Yes	No
41	OTP Bank Romania S.A.	Yes	Yes	98	Portfolion Zöld Fund	Yes	No
42	OTP Banka Hrvatska d.d.	Yes	Yes	99	R.E. Four d.o.o., Novi Sad	Yes	Yes
43	OTP Banka Slovensko a.s.	Yes	Yes	100	Regional Urban Development Fund AD	Yes	Yes
44	OTP Banka Srbija AD. Beograd	Yes	Yes	101	SB Leasing d.o.o.	Yes	Yes
45	OTP Building Society Ltd.	Yes	Yes	102	SC Aloha Buzz SRL	Yes	Yes
46	OTP Buildings s.r.o.	Yes	Yes	103	SC Favo Consultanta SRL	Yes	Yes
47	OTP Card Factory Ltd.	Yes	Yes	104	SC Tezaur Cont SRL	Yes	Yes
48	OTP Debt Collection d.o.o. Podgorica	Yes	Yes	105	Shiw aForce.com Inc.	Yes	No
49	OTP Digitalis Fund	Yes	No	106	SKB Banka d.d. Ljubljana	Yes	Yes
50	OTP eBIZ Ltd.	Yes	No	107	SKB Leasing d.o.o.	Yes	Yes
51	OTP Factoring Bulgaria EAD	Yes	Yes	108	SKB Leasing Select s.o.o.	Yes	Yes
52	OTP Factoring Ltd.	Yes	Yes	109	SPLC Property Management Ltd.	Yes	Yes
53	OTP Factoring Management Ltd.	Yes	Yes	110	SPLC-P Real estate development, Real estate management LLC	Yes	No
54	OTP Factoring Serbia d.o.o.	Yes	Yes	111	TOP Collector LLC	Yes	Yes
55	OTP Factoring Slovensko s.r.o.	Yes	Yes	112	Velvin Ventures Ltd.	Yes	Yes
56	OTP Factoring SRL	Yes	Yes	113	Vojvodjanska banka a.d. Novi Sad	Yes	Yes
57	OTP Factoring Ukraine LLC	Yes	Yes				

Chart 12: Outline of the differences in the scopes of consolidation (entity by entity)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation			Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	
OTP Bank Plc.	Full consolidation	X			Credit institution
Air-Invest Ltd.	Full consolidation	X			Personal air transportation
AppSense Ltd.	Full consolidation				Computer programming
Bajor-Polár Center Real Estate Management Ltd.	Full consolidation	X			Real estate management
Balansz Real Estate Institute Fund	Full consolidation				Real estate fund
BANK CENTER No. 1. Ltd.	Full consolidation	X			Real estate management
Banka OTP Albania SHA	Full consolidation	X			Credit institution
Cl. Babér Ltd.	Full consolidation	X			Real estate management
CRESCO d.o.o.	Full consolidation	X			Real estate management
Crogoriska Komercijalna Banka a.d.	Full consolidation	X			Credit institution
DSK Asset Management EAD	Full consolidation	X			Fund management
DSK Auto Leasing EOOD	Full consolidation	X			Leasing activities
DSK Bank EAD	Full consolidation	X			Credit institution
DSK DOM EAD	Full consolidation	X			Other credit supply
DSK Leasing AD	Full consolidation	X			Leasing activities
DSK Mobile EAD	Full consolidation	X			IT services
DSK Operating lease EOOD	Full consolidation	X			Leasing activities
DSK Tours EOOD	Full consolidation	X			Travel agency services
DSK Trans Security EAD	Full consolidation	X			Security and money transportation services
ESYS Ltd.	Full consolidation				information technology consultancy
Express Factoring EOOD	Full consolidation	X			Factoring entity
Expressbank AD	Full consolidation	X			Credit institution
INGA KETTŐ Ltd.	Full consolidation	X			Real estate management
JN Parkolóház Real Estate Utilizer LLC	Full consolidation				Real estate development
JSC "OTP Bank" (Russia)	Full consolidation	X			Credit institution
LLC AllianceReserve		X			Operating and management consulting
LLC AMC OTP Capital	Full consolidation	X			Fund management
LLC MFO "OTP Finance"	Full consolidation	X			Other credit supply
LLC OTP Leasing	Full consolidation	X			Leasing Activities
Merkantil Bill and Property Investments Bank Ltd.	Full consolidation	X			Credit institution
Merkantil Lease Service LLC	Full consolidation	X			Leasing activities
MFM Projekt beruházási és Fejlesztési Ltd.	Full consolidation				Real estate utilization
Mskolci Diákotthon Investment Utilization LLC	Full consolidation				Real estate utilization
Mobiasbanca - OTP Group S.A.	Full consolidation	X			Credit institution
MONCOMP Ltd.	Full consolidation	X			IT hardware services
NIMO 2002 Ltd.	Full consolidation	X			Real estate utilization
OPUS Securities S.A.	Full consolidation	X			Structured financing
OTP Asset Management SAI S.A.	Full consolidation	X			Asset management
OTP Aventin d.o.o.	Full consolidation	X			Real estate activities
OTP Bank JSC (Ukraine)	Full consolidation	X			Credit institution
OTP Bank Romania S.A.	Full consolidation	X			Credit institution
OTP Banka Hrvatska d.d.	Full consolidation	X			Credit institution
OTP Banka Slovensko a.s.	Full consolidation	X			Credit institution
OTP Banka Srbija a.d. Novi Sad	Full consolidation	X			Credit institution
OTP Building Society Ltd.	Full consolidation	X			Savings and mortgage activities
OTP Buildings s.r.o.	Full consolidation	X			Real estate utilization
OTP Card Factory Ltd.	Full consolidation	X			Card manufacturing
OTP Debt Collection d.o.o. Podgorica	Full consolidation	X			Factoring entity
OTP Digitális Fund	Full consolidation				Venture Capital Fund
OTP eBIZ Ltd.	Full consolidation				IT services
OTP Factoring Bulgaria EAD	Full consolidation	X			Factoring entity
OTP Factoring Ltd.	Full consolidation	X			Factoring entity
OTP Factoring Management Ltd.	Full consolidation	X			Factoring entity
OTP Factoring Serbia d.o.o.	Full consolidation	X			Factoring entity
OTP Factoring Slovensko s.r.o.	Full consolidation	X			Factoring entity
OTP Factoring SRL	Full consolidation	X			Factoring entity
OTP Factoring Ukraine LLC	Full consolidation	X			Factoring entity
OTP Financing Cyprus Company Limited	Full consolidation	X			Group-financing services
OTP Financing Malta Ltd.	Full consolidation	X			Group-financing services
OTP Financing Netherlands B.V.	Full consolidation	X			Group-financing services
OTP Financing Solutions B.V.	Full consolidation	X			Group-financing services
OTP Fund Management Ltd.	Full consolidation	X			Fund management

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation			Description of the entity
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	
OTP Funds Servicing and Consulting Ltd.	Full consolidation	X			Fund servicing and consulting
OTP Holding Ltd.	Full consolidation	X			Holding
OTP Holding Malta Ltd.	Full consolidation	X			Holding
OTP Hungaro-Project Ltd.	Full consolidation				Operating and management consulting
OTP Immobilien Verwertung GmbH.		X			Real estate utilization
OTP Ingatlankezelő Ltd.	Full consolidation	X			Real estate management
OTP Ingatlanpont Ltd.	Full consolidation				Real estate activities
OTP Insurance Broker EOOD		X			Insurance broker
OTP Ingatlanüzemeltető Ltd.	Full consolidation	X			Real estate utilization
OTP Invest d.o.o.	Full consolidation	X			Fund management
OTP Investments d.o.o. Novi Sad	Full consolidation	X			Real estate activities
OTP Kockázati Fund					Venture Capital Fund
OTP Leasing d.d.	Full consolidation	X			Leasing activities
OTP Leasing EOOD	Full consolidation	X			Leasing activities
OTP Leasing Romania IFN S.A.	Full consolidation	X			Leasing activities
OTP Leasing Srbija d.o.o. Beograd	Full consolidation	X			Leasing activities
OTP Life Annuity Real Estate Investment Ltd.	Full consolidation	X			Life annuity services
OTP Lizing d.o.o.	Full consolidation	X			Leasing activities
OTP Mérnöki Szolgáltató Ltd.	Full consolidation	X			Engineering service
OTP Mobile Service Ltd.	Full consolidation				IT services
OTP Mortgage Bank Ltd.	Full consolidation	X			Mortgage activities
OTP MRP	Full consolidation				Profit-sharing and bonus plans
OTP Nekretnine d.o.o.	Full consolidation	X			Real estate management
OTP Osiguranje A.D.O. Beograd	Full consolidation				Insurance entity
OTP Osiguranje d.d.	Full consolidation				Insurance entity
OTP Pénzügyi Pont Ltd.	Full consolidation	X			Financial product broker
OTP Real Estate Investment Fund Management Ltd.	Full consolidation	X			Fund management
OTP Real Estate Leasing Ltd.	Full consolidation	X			Leasing activities
OTP Real Estate Ltd.	Full consolidation	X			Real estate vendor
OTP Savjetovanje d.o.o.	Full consolidation	X			Real estate management
OTP Services d. o. o.	Full consolidation	X			Leasing activities
OTP Solution Fund	Full consolidation				Fund
OTP-DayOne Magvető Fund					Venture Capital Fund
Podgorička banka AD Podgorica	Full consolidation	X			Credit institution
POK DSK-Rodina AD	Full consolidation	X			Retirement insurance activities
PortfoLion Digital Ltd.	Full consolidation				Operating and management consulting
PortfoLion Venture Capital Fund Management Ltd.	Full consolidation				Venture Capital management
Portfolio Regionalis Fund	Full consolidation				Venture Capital Fund
Portfolio Zöld Fund					Venture Capital Fund
R.E. Four d.o.o., Novi Sad	Full consolidation	X			Real estate vendor
Regional Urban Development Fund AD	Full consolidation				Fund
SB Leasing d.o.o.	Full consolidation	X			Leasing activities
SC Aloha Buzz SRL	Full consolidation	X			Other financial activities
SC Favo Consultanta SRL	Full consolidation	X			Other financial activities
SC Tezaur Cont SRL	Full consolidation	X			Other financial activities
Shiw aForce.com Inc.	Full consolidation				Computer programming
SKB Banka d.d. Ljubljana	Full consolidation	X			Credit institution
SKB Leasing d.o.o.	Full consolidation	X			Leasing activities
SKB Leasing Select s.o.o.	Full consolidation	X			Leasing activities
SPLC Property Management Ltd.	Full consolidation	X			Retail of vehicles
SPLC-P Real estate development, Real estate manager	Full consolidation				Real estate development
TOP Collector LLC	Full consolidation	X			Other financial activities
Velvin Ventures Ltd.	Full consolidation	X			Real estate management
Vojvodjanska banka a.d. Novi Sad	Full consolidation	X			Credit institution
D-ÉG Thermostat Ltd.	Proportional consolidation (Equity method)				Wholesale of heating utilities
Szallas.hu Ltd.	Proportional consolidation (Equity method)				Webportal service

Differences related to deductions from regulatory capital according to accounting and regulatory scope of consolidation:

The differences due to different scopes of consolidation (accounting and regulatory) have an effect on the following deductions from regulatory capital as at 31st December 2019:

- Additional value adjustments
- Intangible assets
- Treasury shares
- Deferred tax assets that rely on future profitability and do not arise from temporary differences

The Group applies the simplified approach in case of the additional value adjustments, which determines the deduction from regulatory capital as the 0.1% of the sum of fair-valued assets and liabilities stated in the balance sheet (under accounting scope of consolidation). The calculated additional value adjustments is HUF 2,840 million according to balance sheet as in published financial statements, in the case of the balance sheet under regulatory scope of consolidation the additional value adjustments would be HUF 2,848 million on 31st December 2019.

In case of accounting scope of consolidation the deduction from regulatory capital due to the intangible assets is HUF 230,017 million. Under regulatory scope of consolidation the deduction from regulatory capital due to the intangible assets is HUF 243,061 million.

In case of accounting scope of consolidation the deduction from regulatory capital due to the treasury shares is HUF 60,931 million. Under regulatory scope of consolidation the deduction from regulatory capital due to the treasury shares is HUF 48,310 million.

In case of accounting scope of consolidation the deduction from regulatory capital due to deferred tax assets that rely on future profitability and do not arise from temporary differences is HUF 5,739 million, under regulatory scope of consolidation is HUF 5,828 million.

Breakdown of regulatory capital is presented according to the regulatory scope of consolidation in the next section. Under accounting scope of consolidation the regulatory capital is HUF 2,390,688 million, the capital adequacy ratio is 16.8%, CET1 ratio is 14.4%, taking into account the profit for 2019.20

Due to the COVID 19 pandemia, in order to strengthen the banking system, Hungarian National Bank requests banks to make sure that dividends are neither approved, nor paid until the 30.09.2020. In this document the regulatory capital is presented In line with the request of the National Bank and dividend payment is not taken into account in the regulatory capital¹.

¹ <https://www.mnb.hu/en/pressroom/press-releases/press-releases-2020/the-mnb-takes-several-measures-to-support-the-operation-of-banks> (21.04.2020)

Chart 13: Breakdown of regulatory capital including transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds in accordance with 2017/2395 EU regulation

Common Equity Tier 1 capital: instruments and reserves (in HUF million)	(A) 31 December 2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE- REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
1 Capital instruments and the related share premium accounts	28 000	26 (1), 27, 28, 29, EBA list 26 (3)	
of which: share	28 000	EBA list 26 (3)	
2 Retained earnings (1)	2 178 390	26 (1) (c)	
3 Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	65 843	26 (1)	
3a Funds for general banking risk	0	26 (1) (f)	
4 Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	0	486 (2)	
5 Minority interests (amount allowed in consolidated CET1)	2 566	84, 479, 480	0
5a Independently reviewed interim profits net of any foreseeable charge or dividend	0	26 (2)	
6 Common Equity Tier 1 (CET1) capital before regulatory adjustments	2 274 799		
Common Equity Tier 1 (CET1) capital: regulatory adjustments (in HUF million)	(A) 31 December 2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE- REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
7 Additional value adjustments (negative amount)	(2 848)	34, 105	
8 Intangible assets (net of related tax liability) (negative amount)	(243 061)	36 (1) (b), 37, 472 (4)	
10 Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	(5 828)	36 (1) (c), 38, 472 (5)	
11 Fair value reserves related to gains or losses on cash flow hedges		33 (1) (a)	
12 Negative amounts resulting from the calculation of expected loss amounts		36 (1) (d), 40, 159, 472 (6)	
13 Any increase in equity that results from securitised assets (negative amount)		32 (1)	
14 Gains or losses on liabilities valued at fair value resulting from changes in own credit standing		33 (1) (b)	
15 Defined-benefit pension fund assets (negative amount)		36 (1) (e), 41, 472 (7)	
16 Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	(48 310)	36 (1) (f), 42, 472 (8)	
17 Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		36 (1) (g), 44, 472 (9)	
18 Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36 (1) (h), 43, 45, 46, 49 (1)- (3), 79, 472 (10)	30 658
19 Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1)-(3), 79, 470, 472 (11)	

Common Equity Tier 1 (CET1) capital: regulatory adjustments (in HUF million)	(A) 31 December 2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE- REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
20a Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative		36 (1) (k)	
20b of which: qualifying holdings outside the financial sector (negative amount)		36 (1) (k) (i), 89-91 36 (1) (k) (ii)	
20c of which: securitisation positions (negative amount)		243 (1) (b) 244 (1) (b) 258	
20d of which: free deliveries (negative amount)		36 (1) (k) (iii), 379 (3)	
21 Deferred tax assets arising from temporary difference (amount above 10 % threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)		36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	
22 Amount exceeding the 15% threshold (negative amount)		48 (1)	59 377
23 of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities		36 (1) (i), 48 (1) (b), 470, 472 (11)	39 798
24 of which: deferred tax assets arising from temporary difference		36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	19 578
25a Losses for the current financial year (negative amount)		36 (1) (a), 472 (3)	
25b Foreseeable tax charges relating to CET1 items (negative amount)		36 (1) (l)	
26 Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment (2)	99 293		
27 Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)		36 (1) (j)	
28 Total regulatory adjustments to Common Equity Tier 1 (CET1)	(200 754)		
29 Common Equity Tier 1 (CET1) capital	2 074 045		

Additional Tier 1 (AT1) capital: instruments (in HUF million)	(A) 31 December 2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE- REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
30 Capital instruments and the related share premium accounts		51, 52	
31 of which: classified as equity under applicable accounting standards			
32 of which: classified as liabilities under applicable accounting standards			
33 Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1		486 (3)	
34 Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties		85, 86, 480	
35 of which: instruments issued by subsidiaries subject to phase-out		486 (3)	
36 Additional Tier 1 (AT1) capital before regulatory adjustments	0		

Additional Tier 1 (AT1) capital: regulatory adjustments (in HUF million)	(A) 31 December 2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE- REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
37 Direct and indirect holdings by an institution of own AT1 instruments (negative amount)		52 (1) (b), 56 (a), 57, 475 (2)	
38 Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		56 (b), 58, 475 (3)	
39 Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		56 (c), 59, 60, 79, 475 (4)	
40 Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		56 (d), 59, 79, 475 (4)	
42 Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)		56 (e)	
43 Total regulatory adjustments to Additional Tier 1 (AT1) capital	0		
44 Additional Tier 1 (AT1) capital	0		
45 Tier 1 capital (T1 = CET1 + AT1)	2 074 045		
Tier 2 (T2) capital: instruments and provisions (in HUF million)	(A) 31 December 2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE- REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
46 Capital instruments and the related share premium accounts	334 471	62, 63	
47 Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2		486 (4)	
48 Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party	1 102	87, 88, 480	
49 of which: instruments issued by subsidiaries subject to phase-out		486 (4)	
50 Credit risk adjustments		62 (c) & (d)	
51 Tier 2 (T2) capital before regulatory adjustment	335 573		

Tier 2 (T2) capital: regulatory adjustments (in HUF million)	(A) 31 December 2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE- REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
52 Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)		63 (b) (i), 66 (a), 67, 477 (2)	
53 Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount)		66 (b), 68, 477 (3)	
54 Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)		66 (c), 69, 70, 79, 477 (4)	
55 Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)		66 (d), 69, 79, 477 (4)	
57 Total regulatory adjustments to Tier 2 (T2) capital			
58 Tier 2 (T2) capital	335 573		
59 Total capital (TC = T1 + T2)	2 409 618		
60 Total risk weighted assets	14 439 218		

Capital ratios and buffers (in HUF million)	(A) 31 December 2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE- REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
61 Common Equity Tier 1 (as a percentage of total risk exposure amount)	14.36%	92 (2) (a), 465	
62 Tier 1 (as a percentage of total risk exposure amount)	14.36%	92 (2) (b), 465	
63 Total capital (as a percentage of total risk exposure amount)	16.69%	92 (2) (c)	
64 Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of total risk exposure amount)	8.625%	CRD 128, 129, 130, 131 and 133	
65 of which: capital conservation buffer requirement	2.500%		
66 of which: countercyclical buffer requirement	0.125%		
67 of which: systemic risk buffer requirement (3)			
67a of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	1.50%	CRD 131	
68 Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	6.36%	CRD 128	

Amounts below the thresholds for deduction (before risk-weighting) (in HUF million)	(A) 31 December 2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE- REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
72 Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	(30 658)	36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)	
73 Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		36 (1) (i), 45, 48, 470, 472 (11)	
75 Deferred tax assets arising from temporary difference (amount below 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met)		36 (1) (c), 38, 48, 470, 472 (5)	

Applicable caps on the inclusion of provisions in Tier 2 (in HUF million)	(A) 31 December 2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE- REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
76 Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)		62	
77 Cap on inclusion of credit risk adjustments in T2 under standardised approach		62	
78 Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)		62	
79 Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		62	

Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022) (in HUF million)	(A) 31 December 2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE- REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
80 Current cap on CET1 instruments subject to phase-out arrangements		484 (3), 486 (2) & (5)	
81 Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		484 (3), 486 (2) & (5)	
82 Current cap on AT1 instruments subject to phase-out arrangements		484 (4), 486 (3) & (5)	
83 Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		484 (4), 486 (3) & (5)	
84 Current cap on T2 instruments subject to phase-out arrangements		484 (5), 486 (4) & (5)	
85 Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		484 (5), 486 (4) & (5)	

(1) Profit for financial year 2019 is included in retained earnings.

(2) Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds according to 2017/2395 EU regulation.

(3) Capital buffer is not implemented

Chart 14: The effect of the transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds in accordance with 2017/2395 EU regulation

IFRS 9 effect		31.12.2019
(in HUF million)		
Regulatory capital		
1	Common Equity Tier 1 (CET1) capital	2 074 045
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1 974 752
3	Tier 1 capital	2 074 045
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1 974 752
5	Total capital	2 409 618
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	2 310 325
Total risk weighted assets		
7	Total risk weighted assets	14 439 218
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	14 349 781
Capital ratios		
9	Common Equity Tier 1 (as a percentage of total risk exposure amount)	14.36%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	13.76%
11	Tier 1 (as a percentage of total risk exposure amount)	14.36%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	13.76%
13	Total capital (as a percentage of total risk exposure amount)	16.69%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	16.10%
Leverage ratio		
15	Total exposure	21 606 453
16	Leverage ratio	9.60%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	9.14%

Chart 15: Capital instruments' main features on 31st December 2019

Capital instruments' main features template ⁽¹⁾					
1	Issuer	OTP Bank Plc.	OTP Bank Plc.	Opus Securities S.A.	OTP Bank Plc.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	HU0000061726	XS0274147296	XS0272723551	XS2022388586
3	Governing law(s) of the instrument	Hungarian law	In general English law except for Subordination which is governed by Hungarian law	In general English law except for provisions related to Subordination of the Subordinated Swap Agreement which is governed by Hungarian law. The Security Deposit Agreement and the Custody Agreement are governed by Hungarian law. The Guarantee is governed by the laws of the State of New York.	In general English law except for Subordination and waiver of set-off, which is governed by Hungarian law
<i>Regulatory treatment</i>					
4	Transitional CRR rules	Common Equity Tier 1	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Common Equity Tier 1	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo & Consolidated	Solo & Consolidated	Consolidated	Solo & Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Share, Common Equity Tier 1 as published in Regulation (EU) No 575/2013 article 28	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	28 000.001 m HUF	In standalone regulatory capital ⁽²⁾ : 112 330 m HUF (decreased by own instruments of OTP Bank) In consolidated regulatory capital ⁽³⁾ : 80 167 m HUF (decreased by own instruments of OTP Bank and other subsidiaries)	89 935 m HUF	164 369 m HUF (4)
9	Nominal amount of instrument	28 000.001 m HUF	500 m EUR	514.274 m EUR	500 m EUR
9a	Issue price	100 HUF	99.375 per cent.	100 per cent.	99.738 per cent.
9b	Redemption price	N/A	100 per cent. + cumulated non-paid interest (if any)	100 per cent. + accumulated interest (if any)	100 per cent. + cumulated non-paid interest (if any)
10	Accounting classification	Shareholders' equity	Liability - amortised cost	Shareholders' equity	Liability - amortised cost
11	Original date of issuance	10/08/1995	07/11/2006	31/10/2006	15/7/2019
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Dated
13	Original maturity date	No maturity	No maturity	No maturity	15/7/2029
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates, and redemption amount	N/A	First call date: 07/11/2016 at 100 per cent. + cumulated non-paid interest (if any); Contingent call options: Redemption for Taxation Reasons and Redemption for Regulatory Purposes, on the next Interest Payment Date after notification (or any time before 07/11/2016), at 100 per cent. + cumulated non-paid interest (if any) (+ accumulated interest if redeemed before 07/11/2016)	First call date: 31/10/2016 at 100 per cent. if OTP exercises its option to terminate the Subordinated Swap Agreement (SSA) Contingent call options: (i) if OTP exercises its option to terminate the SSA at any time prior to 31 October 2016 following the occurrence of a Redemption Event (at least 85 per cent of the outstanding amount have been exchanged and/or purchased and cancelled); (ii) if OTP exercises its option to terminate the SSA at any time prior to 31 October 2016 or on any Interest Payment Date thereafter following the occurrence of a Relevant Event	Optional call date: 15/07/2024 at 100 per cent. + accrued and unpaid interest; Contingent call options: Redemption Due to Tax Event and Due to Capital Disqualification Event at 100 per cent. + accrued and unpaid interest

Capital instruments' main features template ⁽¹⁾ (continuation)					
16	Subsequent call dates, if applicable	N/A	Quarterly (on 7 February, 7 May, 7 August, 7 November every year) after (and including) 7/11/2016	Quarterly (on 31 January, 30 April, 31 July, 31 October every year) after (and including) 31/10/2016	Optional call date: 15/07/2024
17	Fixed or floating dividend/coupon	Floating (dividend)	Fixed to floating	Fixed to floating	Fixed to fixed
18	Coupon rate and any related index	N/A	Fixed 5.875% p. a. payable annually in the first 10 years, three-month EURIBOR + 3% p.a., variable after year 10 (payable quarterly)	Fixed 3.95% p.a. payable annually in the first 10 years, three-month EURIBOR + 3% p.a., variable after year 10 (payable quarterly)	Fix coupon of 2.875% p.a., paid annually in the first five years, starting from year 6 until maturity, the yearly fix coupon is calculated as the sum of the initial margin (320 basis points) and the 5 year mid-swap rate prevailing at the end of year 5
19	Existence of a dividend stopper	N/A	Yes	Yes	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A	Full discretionary	Full discretionary	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A	Full discretionary	Full discretionary	Mandatory
21	Existence of step up or other incentive to redeem	N/A	No	No	No
22	Noncumulative or cumulative	Noncumulative	Cumulative	Noncumulative	Cumulative
23	Convertible or non-convertible	N/A	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A
30	Write-down features	No	No	No	No
31	If write-down, write-down trigger (s)	N/A	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Under the Act XLIX of 1991 on Bankruptcy, Liquidation and Voluntary Winding-up Proceedings (Subsection 4 of Section 61) and Regulation No 575/2013 of the European Parliament and of the Council (CRR) (Paragraph j) of Section 28) the instruments will rank below all other claims in the event of the liquidation of OTP. Tier 2 instruments under Article 63 of the CRR will be immediately senior to this instrument.	Under the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Subsection 2 of Section 57) the instruments will rank below the claims described at Paragraph h) of Subsection 1 of Section 57 at the Act XLIX of 1991 on Bankruptcy, Liquidation and Voluntary Winding-up Proceedings (Csódtv.) in the event of the liquidation of OTP. Claims under instrument XS2022388586 will be immediately senior to this instrument.	Under the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Subsection 2 of Section 57) the instruments will rank below the claims described at Paragraph h) of Subsection 1 of Section 57 at the Act XLIX of 1991 on Bankruptcy, Liquidation and Voluntary Winding-up Proceedings (Csódtv.) in the event of the liquidation of OTP. Claims under instrument XS2022388586 will be immediately senior to this instrument.	Under the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises (Subsection 2 of Section 57) the instruments will rank below the claims described at Paragraph h) of Subsection 1 of Section 57 at the Act XLIX of 1991 on Bankruptcy, Liquidation and Voluntary Winding-up Proceedings (Csódtv.) in the event of the liquidation of OTP. Subordinated instruments under the Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises and Regulation (EU) No 575/2013 of the European Parliament and of the Council (CRR), which are not Tier 2 instruments under Article 63 of the CRR will be immediately senior to this instrument.
36	Non-compliant transitioned features	No	No	No	No
37	If yes, specify non-compliant features	N/A	N/A	N/A	N/A

(1) 'N/A' inserted if the question is not applicable

(2) Calculated according to IFRS data

(3) Calculated according to IFRS data

(4) Calculated according to IFRS data

I.4.3. Internal capital requirement calculation

The constant development of capital requirement calculation is a significant activity for the Group, in line with the changing external economic and regulatory environment. The Group applied only adequately stable, sufficiently conservative and well-performing models for the different processes according to prudent approach. During the Internal Capital Adequacy Assessment Process (ICAAP) the potential risks of the Group are thoroughly reviewed.

The internal model applied for credit risk capital requirement covers a significant part of the credit portfolio. The model, based on the simulation of the macroeconomic environment, determines the loss and the required capital requirement under stress for each portfolio. For credit portfolios not involved in the internal model, the Group applies standardized approach.

The Group applies a historical VAR model to calculate the internal capital requirement of FX, market and interest rate risk.

In the case of operational risk the advanced AMA and BIA methods are applied, after approval by the National Bank of Hungary.

Moreover, the Group intends to identify all the risks not covered in Pillar 1. If it is justified by risk measurement methods, internal models are applied.

I.5. Trading book market and counterparty risks (capital requirements)

Market risk is the risk that movements in market risk factors, including foreign exchange rates, commodity prices, interest rates, credit spreads and equity prices will reduce the group's income or the value of its portfolios.

Chart 16: Trading book positions capital requirement

Description (in HUF million)	RWAs	Capital requirements
Interest rate risk (general and specific)	163 536	13 083
Equity risk (general and specific)	549	44
Foreign exchange risk	31 363	2 509
Commodity risk	2 991	239
Options		
Simplified approach	0	0
Delta-plus method	372	30
Scenario approach	0	0
Securitisation (specific risks)	0	0
Total	198 812	15 905

Chart 17: Analysis of CCR exposure by approach

Description (in HUF million)	Notional	Replacement cost/current market value	Potential future credit exposure	EEPE (Effective Expected Positive Exposure)	Multiplier	EAD post CRM	RWAs
Mark to market		13 841	97 675			89 042	13 695
Original exposure	0					0	0
Standardised approach		0			0		
IMM (for derivatives and SFTs)				0	0	0	0
<i>Of which securities financing transactions</i>				0	0	0	0
<i>Of which derivatives and long settlement transactions</i>				0	0	0	0
<i>Of which from contractual cross-product netting</i>				0	0	0	0
Financial collateral simple method (for SFTs)						0	0
Financial collateral comprehensive method (for SFTs)						19 393	56 385
VaR for SFTs						0	0
Total							70 080

Chart 18: CVA capital charge

Description (in HUF million)	Exposure value	RWAs
Total portfolios subject to the advanced method	0	0
VaR component (including the 3 x multiplier)		0
SVaR component (including the 3 x multiplier)		0
All portfolios subject to the standardised method	38 138	5 741
Based on the original exposure method	0	0
Total subject to the CVA capital charge	0	0

Chart 19: CCR exposures by regulatory portfolio and risk

(in HUF million)	Risk weight											Total	Of which unrated	
	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Other			
Central governments or central banks	6 823	0	0	0	0	7 186	0	0	0	0	0	0	14 009	0
Regional government or local authorities	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Public sector entities	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Multilateral development banks	0	0	0	0	66	0	0	0	0	0	0	0	66	66
International organisations	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Institutions	0	0	0	0	28 974	6 008	0	0	1 243	0	0	0	36 225	12 035
Corporates	0	0	0	0	0	0	0	0	45 531	5 386	0	0	50 917	39 909
Retail	0	0	0	0	0	0	0	3 670	0	0	0	0	3 670	3 670
Institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other items	0	3 549	0	0	0	0	0	0	1	0	0	0	3 550	0
Total	6 823	3 549	0	0	29 040	13 194	0	3 670	46 775	5 386	0	0	108 436	55 680

Note: „Of which unrated” column contains the exposures which do not have external credit ratings

Chart 20: Impact of netting and collateral held on exposure values

(in HUF million)	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Derivatives	58 613	0	58 613	2 299	56 314
SFTs	59 287	0	59 287	41 134	18 153
Cross-product netting	162 060	71 588	90 472	56 505	33 967
Total	279 961	71 588	208 373	99 938	108 435

Chart 21: Composition of collateral for exposures to CCR

(in HUF million)	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash	0	28 684	41 787	11 223	410	271
Total	0	28 684	41 787	11 223	410	271

1.6. Countercyclical buffer

In accordance with the Article 140. of CRD, institution-specific countercyclical capital buffer consists of the weighted average of the countercyclical buffer rates that apply in the jurisdictions where the relevant credit exposures of the institution are located. In case of OTP Group the institution-specific countercyclical buffer rate is not material, only 12.5 basispoint. It implicates HUF 18 049 m capital buffer.

I.7. Leverage

In accordance with the permission of the supervisory authority referring to 575/2013/EU Article 499 (3), the calculation of leverage ratio is based on end-of-quarter data. The Group calculates the leverage ratio without the transitional provisions according to the article 499 (1) of CRR.

Chart 22: Net exposure value to leverage ratio

	in HUF million	Applicable Amount
1	Total assets as per published financial statements	20 121 767
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	49 185
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	0
4	Adjustments for derivative financial instruments	89 042
5	Adjustment for securities financing transactions (SFTs)	19 393
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	1 648 210
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	0
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	0
7	Other adjustments	(321 142)
8	Leverage ratio total exposure measure	21 606 453

Chart 23: Leverage ratio

	in HUF million	CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	20 101 376
2	(Asset amounts deducted in determining Tier 1 capital)	(251 568)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)*	19 849 808
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	31 597
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	57 445
EU-5a	Exposure determined under Original Exposure Method	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
11	Total derivatives exposures (sum of lines 4 to 10)	89 042
SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	0
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	Counterparty credit risk exposure for SFT assets	19 393
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	0
15	Agent transaction exposures	0
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	0
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	19 393
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	4 049 605
18	(Adjustments for conversion to credit equivalent amounts)	(2 401 395)
19	Other off-balance sheet exposures (sum of lines 17 and 18)*	1 648 210
Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)		
EU-19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
Capital and total exposure measure		
20	Tier 1 capital	2 074 045
21	Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	21 606 453
Leverage ratio		
22	Leverage ratio	9.60%
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully phased in
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	0

Note: The exposures are calculated according to 2017/2395 EU regulation, including the effect of transitional arrangements for mitigating the impact of the introduction of IFRS 9 and the correction in accordance with the Article 1. (7) paragraph b) point.

The change of Tier1 capital and the leverage ratio total assets can have an impact on leverage ratio. Due to the acquisitions happened in 2019, OTP Group has been extended with 6 new banks, and total assets increased by ~38%. Mainly because of this the leverage ratio slightly decreased compared to end of 2018. (31.12.2018: 10,10%)

Currently there is no regulatory minimum level for the leverage ratio. In line with the proposal of the European decision makers OTP Group considers 3% as minimum level of leverage ratio. Taking into account that the current level of the leverage ratio exceed this minimum level, there is no intention of decreasing the leverage ratio. The Group monitors the level of leverage ratio quarterly and as part of recovery plan indicators informs the Asset – Liability Committee. If the leverage ratio reaches critical level, the Asset - Liability Committee ask the competent departments to prepare action plan in order to handle the breaching the minimum level.

Chart 24: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

	in HUF million	CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	19 849 808
EU-2	Trading book exposures	215 820
EU-3	Banking book exposures, of which:	19 633 988
EU-4	Covered bonds	104 634
EU-5	Exposures treated as sovereigns	5 642 062
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	295 032
EU-7	Institutions	334 220
EU-8	Secured by mortgages of immovable properties	4 312 423
EU-9	Retail exposures	3 787 054
EU-10	Corporate	3 662 017
EU-11	Exposures in default	299 296
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	1 197 250

I.8. Credit risk adjustments

I.8.1. Methodology of valuation and provisions

The consolidated financial reports of the Group are based on IFRS regulation. Measurement and provision allocation of assets, investments and off-balance sheet liabilities are realized according to frameworks of relevant IFRS/IAS standards.

The group level assessment standards are determined by "OTP Group's Provisioning policy for loans in accordance with International Financial Reporting Standards (IFRS)". The calculation of credit losses may be carried out collectively or individually.

The recognized provision level reflects to the foreseeable risks and potential losses. The amount of the recognized impairment is the difference between the book value of the outstanding debt and the expected amount of the recovered debt. OTP Group recognizes risk provision for off-balance sheet (pending, future) liabilities on the basis of their assessment. If the measurement process reveals that the amount of the risk provision exceeds the amount required on the basis of the assessment, the excess amount of the risk provision is released.

At initial recognition the financial assets must be tested based on the business model and the contracted cash flow characteristics, based on which it can be determined according to which measurement method, specified in the IFRS 9 standard, the given asset is to be managed and valued. The assets can be allocated to the following three categories:

- Assets measured at amortized cost
- Assets valued at fair value through other comprehensive income (FVOCI) – IFRS13,
- Assets valued at fair value through profit and loss (FVPL) – IFRS13.

According to the requirements of the IFRS9 standard, upon the initial recognition and on the reporting dates (last calendar day of the reporting month) the assets measured at amortized cost and the assets valued at fair value through other comprehensive income must be allocated to three stages by their credit risk or POCI category:

- Stage 1 category contains the performing deals.
- Those deals, which are performing, but compared to the initial recognition it shows significant increase in credit risk, must be categorized to Stage 2.
- Stage 3 contains the non-performing (credit-impaired) deals.
- Purchased or originated credit impaired assets are financial assets that are impaired already upon the initial recognition. These assets must be classified as POCI.

In case of the Stage 1 deals 12-month credit losses must be calculated by the expectations of the default probability, for Stage 2 and Stage 3 deals lifetime expected losses must be calculated as impairment.

Depending on the item, assessment based on the following aspects:

- client and counterparty rating – financial situation, stability and income generation capability of the client or counterparty affected by the financial and investment service, and any changes in these factors;
- the repayment schedule (overdue days) – patterns of delay on principal and interest payment related to the amortization of the outstanding debt, regular fulfillment of the payment obligation;
- status of restructuring risk contract;
- sovereign risk and changes in the sovereign risk associated with the client (both political risk and transfer risk);
- value, marketability and availability of the securities pledged as collateral and any changes in them;
- marketability of the item (market demand and supply, achievable market prices, share in the issuer's equity in proportion to the size of the investment),
- future payment obligation, which qualifies as a loss originating from the item,

- significant increase in credit risk compared to the initial recognition.

Probable future losses on the item are determined on a case-by-case basis, in consideration of the above aspects as applicable. If this amount is lower than the amount recognized on the item earlier, it has to be supplemented by the amount of the difference by recognizing a further amount of impairment, or if it is higher, it has to be reduced by the release of the existing amount of impairment.

Delinquent deal: the client doesn't perform his/her payment obligations.

According to the CRR a default shall be considered to have occurred with regard to a particular obligor when either or both of the following events have taken place:

- the institution considers that the obligor is unlikely to pay its credit obligations to the institution, the parent undertaking or any of its subsidiaries in full, without recourse by the institution to actions such as realising security
- the obligor is past due more than 90 days on any material credit obligation to the institution, the parent undertaking or any of its subsidiaries.

If the debts are past due more than 90 days and it derives from non-lending type contracts do not qualify as default event. These exposures are not considered to be impaired.

A credit risk exposure shall be considered as restructured:

- considering the current or future financial difficulties of the client the institution
- provides a concession/allowance in respect of the contract originating the exposure (and this would not be done if the client would not have financial difficulties)

The calculation of credit losses may be carried out on an individual or collective basis.

Portfolio (collective) assessment

The collective assessment based on the following parameters: probability of defaults, cure rate, loss given default. The condition of applying collective assessment is that the assets should be allocable to groups representing similar credit risk based on major credit risk characteristics and their capability to fulfill contractual obligations. The most important variables of the assessment procedure are payment delay, deal/client rating, the restructuring information and the default status.

Upon estimating the future cash flows related to the group(s) of financial assets, the historic credit loss data of the assets representing similar credit risk, the macroeconomic factors and information on the future of financial instruments must be taken into account.

The Group member shall measure expected credit losses of a financial asset 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.

Individual assessment

Receivables that are of insignificant amount on a stand-alone basis with objective evidence of impairment or that the risk management functional area subjected to individual assessment based on monitoring information must be measured individually:

- The cash flows expected from the financial instruments must be defined, which has to be based on at least two scenarios.
- Valuation and revaluation of collaterals is crucial, discounting the cash-flows from the sale of collaterals is an important part of individual assessment.
- The defined cash flows must be discounted to the present value.
- The impairment of the financial instrument is taking into account the riskiness of cash flows and individual collateralization.

- The individual cash-flow estimation also has to be forward looking, which has to contain the information about the macroeconomic environment and the future of the financial instruments.
- If there is a significant change in the credit risk of a financial asset, the impairment calculation must be reviewed taking into account the new information and risks.

Changes in impairment of loan portfolio are presented in in the following notes of the financial statement:

- changes of impairment regarding “Placements with other banks” in Note 5.
- changes of impairment regarding “Securities at amortised cost” in Note 10.
- changes of impairment regarding “Loans” in Note 8.

Chart 25: Qualified exposures and impairment

(in HUF million)	Accumulated specific / general credit risk adjustment
Opening balance	720 222
Increases due to amounts set aside for estimated loan losses during the period	175 479
Decreases due to amounts reversed for estimated loan losses during the period	0
Decreases due to amounts taken against accumulated credit risk adjustments	(181 328)
Transfers between credit risk adjustments	11 192
Impact of exchange rate differences	57 045
Cured from default or non-impaired	0
Other adjustments	1 714
Closing balance	784 323
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	(1 599)
Specific credit risk adjustments directly recorded to the statement of profit or loss	4 733

Chart 26: Changes of non-performing loan exposures

	(in HUF million)	Gross carrying value defaulted exposures
1	Opening balance - 31.12.2018	744 115
2	Loans and debt securities that have defaulted since the last reporting period	104 722
3	Returned to non-defaulted status	19 276
4	Amounts written-off	124 870
5	Other changes*	(5 536)
6	Closing balance - 31.12.2019 (6 = 1 + 2 - 3 - 4 + 5)	699 154

* Contains the IFRS 9 transitional difference

I.8.2. Exposures to credit risks

The presented RWAs and exposures in this chapter are calculated according to 2017/2395 EU regulation, including the effect of transitional arrangements for mitigating the impact of the introduction of IFRS 9 and the correction in accordance with the Article 1. (7) paragraph b) point.

Chart 27: Net exposures broken down by net exposure classes (before credit risk mitigation)

Exposures (in HUF million)	31.12.2019	2019 Average
Exposures to central governments or central banks	6 046 687	5 558 886
Exposures to regional governments or local authorities	140 409	112 765
Exposures to public sector entities	175 180	188 320
Exposures to multilateral development banks	10 822	8 123
Exposures to international organisation	0	7
Exposures to institutions	631 292	592 363
Exposures to corporates	4 619 524	3 884 040
Retail exposures	3 710 556	3 213 302
Exposures secured by mortgages on immovable property	4 378 603	3 800 356
Exposures in default	297 817	314 318
Exposures associated with particularly high risk	38 127	44 248
Exposures in the form of covered bonds	104 634	98 131
Exposures to institutions and corporates with a short-term credit assessment	0	0
Exposures in the form of units or shares in collective investment undertakings ('CIUs')	17 413	24 135
Equity exposures	87 938	78 392
Other items	1 130 272	987 397
Total	21 389 274	18 904 783

Chart 28: Exposures broken down by geographical areas (by the country of obligors) on 31st December 2019

(in HUF million)	Exposures to central governments or central banks	Exposures to regional governments or local authorities	Exposures to public sector entities	Exposures to multilateral development banks	Exposures to international organisation	Exposures to institutions	Exposures to corporates	Retail exposures	Exposures secured by mortgages on immovable property	Exposures in default	Exposures associated with particularly high risk	Exposures in the form of covered bonds	Exposures to institutions and corporates with a short-term credit assessment	Exposures in the form of units or shares in collective investment undertakings (CIUs)	Equity exposures	Other items	Total
Total	6 046 687	140 409	175 180	10 822	0	631 292	4 619 524	3 710 556	4 378 603	297 817	38 127	104 634	0	17 413	87 938	1 130 272	21 389 274
Albania	79 732	0	0	0	0	14 199	62 048	13 135	78 486	3 371	0	0	0	0	0	9 064	260 035
Austria	2	0	0	0	0	4 473	299	115	276	25	0	0	0	0	0	2 646	7 836
Belgium	13	0	0	0	0	4 974	15 596	95	110	15	74	0	0	0	0	0	20 877
Bulgaria	541 321	6 478	12 003	6 124	0	41 493	784 050	922 267	649 567	66 579	48	0	0	313	2 424	201 623	3 234 290
Belize	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	4 998	5 000
Switzerland	0	0	0	0	0	15 715	56 134	31	106	4	0	0	0	0	0	0	71 990
Cyprus	330	0	0	0	0	0	13 079	10	6	0	2 722	0	0	0	0	1	16 148
Czech Republic	0	0	0	0	0	630	879	91	3 175	1	0	0	0	0	0	8	4 784
Germany	26 347	0	0	0	0	24 265	2 824	311	274	74	0	0	0	0	0	0	54 095
Spain	31 646	0	0	0	0	1 063	987	54	24	8	0	0	0	0	0	0	33 782
France	48	0	0	0	0	68 910	1 445	263	249	9	0	0	0	0	0	0	70 924
United Kingdom	2 093	0	0	0	0	46 154	6 012	496	754	236	0	0	0	0	0	0	55 745
Greece	50	0	0	0	0	0	1 591	400	24	47	0	0	0	0	0	0	2 112
Croatia	650 667	14 667	90 806	0	0	16 739	283 663	431 315	451 393	37 268	98	0	0	0	3 365	98 400	2 078 381
Hungary	3 309 448	68 092	72 198	0	0	79 858	1 559 640	781 531	1 694 617	84 166	9 108	104 634	0	17 100	74 122	433 976	8 288 490
Italy	13	0	0	0	0	2 644	7 788	475	359	28	0	0	0	0	0	0	11 307
Japan	0	0	0	0	0	1 812	3	0	0	0	0	0	0	0	0	0	1 815
Lithuania	6 512	0	0	0	0	0	81	0	0	0	0	0	0	0	0	0	6 593
Republic of Moldova	81 519	0	0	0	0	18 489	67 298	24 708	19 486	785	0	0	0	0	0	13 815	226 100
Montenegro	110 353	3 947	28	0	0	2 687	39 403	111 276	106 553	9 261	35	0	0	0	70	72 532	456 145
North Macedonia	0	0	0	0	0	178	1 023	108	110	10	0	0	0	0	0	0	1 429
Netherlands	205	0	0	0	0	1 271	6 715	290	281	22	0	0	0	0	0	0	8 784
Poland	46 934	0	0	0	0	327	1 268	140	147	2	0	0	0	0	0	0	48 818
Portugal	0	0	0	0	0	155	927	35	20	4	0	0	0	0	0	0	1 141
Romania	185 023	1 190	0	0	0	24 486	143 643	148 346	409 742	27 364	0	0	0	0	285	63 350	1 003 429
Serbia	345 320	8 427	65	0	0	23 955	624 730	350 937	355 714	15 702	16 869	0	0	0	1 527	94 877	1 838 123
Russian Federation	126 794	0	0	4 698	0	33 323	165 916	547 354	21 372	17 649	257	0	0	0	53	45 379	962 795
Sweden	61	0	0	0	0	1 138	1 744	22	4	9	0	0	0	0	0	0	2 978
Slovenia	248 459	30 950	0	0	0	77 440	414 038	172 828	294 821	0	4 496	0	0	0	805	31 996	1 275 833
Slovakia	66 474	6 658	80	0	0	69 394	64 954	92 416	199 960	10 176	1 834	0	0	0	63	29 940	541 949
Ukraine	161 627	0	0	0	0	41 051	279 530	110 534	89 618	24 784	1 467	0	0	0	488	27 662	736 761
United States	25 166	0	0	0	0	7 551	10 731	84	269	2	1 119	0	0	0	4 735	0	49 657
Other	528	0	0	0	0	6 918	1 485	889	1 086	216	0	0	0	0	1	5	11 128

Chart 29: Exposure classes broken down by counterparty type on 31st December 2019

(in HUF million)	Exposures to central governments or central banks	Exposures to regional governments or local authorities	Exposures to public sector entities	Exposures to multilateral development banks	Exposures to international organisation	Exposures to institutions	Exposures to corporates	Retail exposures	Exposures secured by mortgages on immovable property	Exposures in default	Exposures associated with particularly high risk	Exposures in the form of covered bonds	Exposures to institutions and corporates with a short-term credit assessment	Exposures in the form of units or shares in collective investment undertakings (CIUs)	Equity exposures	Other items	Total
Total	6 046 687	140 409	175 180	10 822	0	631 292	4 619 524	3 710 556	4 378 603	297 817	38 127	104 634	0	17 413	87 938	1 130 272	21 389 274
Governments	5 566 725	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	5 566 725
Municipal	12 574	137 607	0	0	0	0	0	0	331	134	0	0	0	0	0	0	150 646
Public sector entities	68 433	504	175 180	0	0	0	0	0	6 063	1 250	0	0	0	0	0	0	251 430
Multilaterális fejlesztési bankok	0	0	0	4 698	0	0	0	0	0	0	0	0	0	0	0	0	4 698
Institutions	0	0	0	0	0	560 747	0	0	0	15	0	0	0	0	0	0	560 762
Coporate	6 168	2 083	0	399	0	66 062	3 162 196	0	525 938	76 446	26 878	0	0	0	0	0	3 866 170
Corporate SME	104 773	193	0	3 118	0	4 483	1 457 328	0	680 133	40 436	4 940	0	0	0	0	0	2 295 404
Retail	232 167	0	0	0	0	0	0	3 344 248	3 033 904	165 360	0	0	0	0	0	0	6 775 679
Retail SME	55 847	22	0	2 607	0	0	0	366 308	132 234	14 176	0	0	0	0	0	0	571 194
Equity	0	0	0	0	0	0	0	0	0	0	6 309	0	0	0	87 938	0	94 247
Other*	0	0	0	0	0	0	0	0	0	0	0	104 634	0	17 413	0	1 130 272	1 252 319

* Other, non-credit risk items; collective, investment funds

Chart 30: Exposure classes broken down by residual maturity on 31st December 2019

(in HUF million)	On demand	≤ 1 year	> 1 year ≤ 5 year	> 5 year	No stated maturity	Total
Total	0	4 427 099	5 626 279	8 367 472	2 968 424	21 389 274
Exposures to central governments or central banks	0	1 519 115	1 948 017	2 204 003	375 552	6 046 687
Exposures to regional governments or local authorities	0	7 788	13 973	87 275	31 373	140 409
Exposures to public sector entities	0	75 070	36 969	63 110	31	175 180
Exposures to multilateral development banks	0	1 056	7 747	2 019	0	10 822
Exposures to international organisation	0	0	0	0	0	0
Exposures to institutions	0	199 532	260 407	171 353	0	631 292
Exposures to corporates	0	1 588 042	1 344 514	826 875	860 093	4 619 524
Retail exposures	0	632 755	1 260 690	1 407 283	409 828	3 710 556
Exposures secured by mortgages on immovable property	0	362 961	590 842	3 131 406	293 394	4 378 603
Exposures in default	0	31 368	60 163	128 220	78 066	297 817
Exposures associated with particularly high risk	0	8 333	10 146	10 602	9 046	38 127
Exposures in the form of covered bonds	0	0	90 319	14 315	0	104 634
Exposures to institutions and corporates with a short-term credit assessment	0	0	0	0	0	0
Exposures in the form of units or shares in collective investment undertakings ('CIUs')	0	0	0	17 413	0	17 413
Equity exposures	0	0	0	0	87 938	87 938
Other items	0	1 079	2 492	303 598	823 103	1 130 272

Due to the acquisitions (6 new banks were acquired) happened in 2019, the exposures of OTP Group increased significantly, compared to 2018.

Chart 31: Aging of past-due exposures

(in HUF million)	Gross carrying values					
	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
Loans	420 085	70 337	36 395	58 800	73 283	395 785
Debt securities	0	0	0	0	0	0
Total exposures	420 085	70 337	36 395	58 800	73 283	395 785

Chart 32: Non-performing and forborne exposures

(in HUF million)	Gross carrying amount of performing and non-performing exposures						Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received		
	Of which performing but past due > 30 days and ≤ 90 days	Of which performing forborne	Of which non-performing			On performing exposures		On non-performing exposures		On non-performing exposures	Of which forborne exposures		
			Of which defaulted	Of which impaired	Of which forborne	Of which forborne	Of which forborne						
Debt securities	4 396 560	0	0	9 479	9 479	5 968	0	(5 117)	0	(1 930)	0	0	0
Loans and advances	14 685 266	190 468	63 984	793 946	778 491	788 693	278 382	(193 595)	(10 423)	(535 272)	(175 126)	160 115	113 612
Off-balance -sheet exposures	4 274 245		1 902	18 600	13 674		396	41 413	117	7 625	43	1 822	93

Note: Exposures according to EBA definition.

Chart 33: Collateral obtained by taking possession and execution processes

(in HUF million)	Collateral obtained by taking possession	
	Value at initial recognition	Accumulated negative changes
1 Property, plant and equipment (PP&E)		
2 Other than PP&E	23 411	(7 370)
3 Residential immovable property	7 178	(850)
4 Commercial immovable property	11 498	(5 443)
5 Movable property (auto, shipping, etc)	295	(7)
6 Equity and debt instruments	4 440	(1 070)
7 Other		
8 Total	23 411	(7 370)

Chart 34: Credit quality of exposures by exposure class and instrument on 31st December 2019

(in HUF million)	Gross carrying values of		Specific/General credit risk adjustment	Net values
	Defaulted exposures	Non-defaulted exposures		
Exposures to central governments or central banks	0	6 052 977	(10 511)	6 042 466
Exposures to regional governments or local authorities	154	140 776	(393)	140 537
Exposures to public sector entities	2 070	175 863	(1 503)	176 430
Exposures to multilateral development banks	0	10 730	(99)	10 631
Exposures to international organisation	0	0	0	0
Exposures to institutions	16	633 750	(2 459)	631 307
Exposures to corporates	222 508	4 672 841	(157 953)	4 737 396
Retail exposures	472 550	3 830 467	(409 497)	3 893 520
Exposures secured by mortgages on immovable property	0	4 424 262	(45 659)	4 378 603
Exposures in default	0	0	0	0
Exposures associated with particularly high risk	0	51 371	(13 244)	38 127
Exposures in the form of covered bonds	0	104 683	(49)	104 634
Exposures to institutions and corporates with a short-term credit assessment	0	0	0	0
Exposures in the form of units or shares in collective investment undertakings ('CIUs')	0	17 413	0	17 413
Equity exposures	0	97 684	(9 746)	87 938
Other exposures	0	1 410 026	(279 754)	1 130 272
Total	697 298	21 622 843	(930 867)	21 389 274

Chart 35: Credit quality of exposures by counterparty types on 31st December 2019

(in HUF million)	Gross carrying values of		Specific / General credit risk adjustment	Net values
	Defaulted exposures	Non-defaulted exposures		
Governments	0	5 570 058	(3 333)	5 566 725
Municipal	154	150 886	(396)	150 644
Public sector entities	2 070	251 419	(2 058)	251 431
Multilateral development banks	0	4 698	0	4 698
Institutions	16	563 051	(2 305)	560 762
Corporate	152 690	3 848 236	(134 756)	3 866 170
Corporate SME	71 785	2 278 401	(54 781)	2 295 405
Retail	443 386	6 755 996	(423 704)	6 775 678
Retail SME	27 197	563 982	(19 985)	571 194
Equity	0	103 994	(9 746)	94 248
Other*	0	1 532 122	(279 803)	1 252 319
Total	697 298	21 622 843	(930 867)	21 389 274

* Other, non-credit risk items; collective, investment funds

Chart 36: Credit quality of exposures by geography on 31st December 2019

(in HUF million)	Gross carrying values of		Specific / General credit risk adjustment	Net values
	Defaulted exposures	Non-defaulted exposures		
Összesen	697 298	21 622 841	(930 866)	21 389 274
Albania	4 686	258 895	(3 546)	260 035
Austria	81	9 466	(1 711)	7 836
Belgium	63	20 908	(93)	20 878
Bulgaria	143 411	3 271 010	(180 123)	3 234 289
Belize	0	6 463	(1 463)	5 000
Switzerland	17	72 534	(561)	71 990
Cyprus	3	16 517	(372)	16 148
Czech Republic	4	4 803	(22)	4 785
Germany	252	54 431	(588)	54 095
Spain	16	33 792	(27)	33 781
France	37	70 959	(72)	70 924
United Kingdom	1 196	55 566	(1 016)	55 746
Greece	143	2 080	(111)	2 112
Croatia	83 155	2 094 840	(99 613)	2 078 382
Hungary	177 686	8 368 131	(257 325)	8 288 492
Italy	85	11 428	(206)	11 307
Japan	0	1 815	0	1 815
Lithuania	1	6 594	(1)	6 594
Republic of Moldova	1 286	226 831	(2 017)	226 100
Montenegro	20 629	462 564	(27 049)	456 144
North Macedonia	36	1 438	(45)	1 429
Netherlands	84	8 825	(124)	8 785
Poland	6	48 827	(15)	48 818
Portugal	9	1 143	(11)	1 141
Romania	45 485	1 006 071	(48 128)	1 003 428
Serbia	28 111	1 842 355	(32 342)	1 838 124
Russian Federation	96 412	1 025 481	(158 097)	962 796
Sweden	45	2 972	(39)	2 978
Slovenia	2	1 279 381	(3 550)	1 275 833
Slovakia	24 830	556 267	(39 149)	541 948
Ukraine	68 769	739 841	(71 849)	736 761
United States	13	49 697	(53)	49 657
Other	745	10 916	(539)	11 123

Chart 37: Overview of CRM techniques

(in HUF million)	Exposures unsecured - Carrying amount	Exposures to be secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	22 802 745	722 102	128 796	593 306	0
Total debt securities	0	0	0	0	0
Total exposures	22 802 745	722 102	128 796	593 306	0
Of which defaulted	301 149	4 962	517	4 444	0

Note: The table contains exposures secured by financial collaterals and guarantees. Exposures secured by mortgage collaterals are included in "Exposures unsecured" column.

1.9. Use of External Credit Assessment Institutions

To determine the risk weight of non-trading-book exposures, the Group applies the rating of Fitch, an accepted external credit rating agency. OTP Group applies the following table in case of the exposures and issuer in order to determine the credit quality step from the internal ratings. OTP Group applies external credit rating in case of exposures to sovereign, institutions and corporate, credit ratings are taken into account on client basis. Risk weights are derived based on CRR Articles 114, 119, 120, 121 and 122.

Chart 38: Each credit assessment corresponds to the following credit quality step

Fitch's ratings	Credit quality step	Fitch's ratings	Credit quality step
AAA	1	BB-	4
AA+	1	B+	5
AA	1	B	5
AA-	1	B-	5
A+	2	CCC+	6
A	2	CCC	6
A-	2	CCC-	6
BBB+	3	CC	6
BBB	3	C	6
BBB-	3	DDD	6
BB+	4	DD	6
BB	4	D	6

Chart 39: Exposures broken down by credit quality steps (CQS) of obligors

(in HUF million)	Risk weight										Total	Of which unrated
	0%	4%	10%	20%	35%	50%	75%	100%	150%	250%		
Exposures to central governments or central banks	4 571 546	25 316	38 324	376 439	0	256 502	0	778 560	0	0	6 046 687	0
Exposures to regional governments or local authorities	0	0	122 687	0	0	0	0	17 699	0	0	140 386	140 386
Exposures to public sector entities	71 072	0	0	282	0	0	0	103 826	0	0	175 180	175 180
Exposures to multilateral development banks	4 698	0	6 125	0	0	0	0	0	0	0	10 823	6 124
Exposures to international organisation	0	0	0	0	0	0	0	0	0	0	0	0
Exposures to institutions	0	0	215 688	0	0	145 489	0	270 114	0	0	631 291	377 756
Exposures to corporates	0	0	0	0	0	2	0	4 526 219	4	0	4 526 225	4 452 067
Retail exposures	0	0	0	0	0	0	3 699 500	0	0	0	3 699 500	3 699 499
Exposures secured by mortgages on immovable property	0	0	0	0	1 924 579	217 574	1 209 366	1 027 083	0	0	4 378 602	4 330 184
Exposures in default	0	0	0	0	0	0	0	233 625	63 737	0	297 362	297 362
Exposures associated with particularly high risk	0	0	0	0	0	0	0	0	37 594	0	37 594	37 594
Exposures in the form of covered bonds	0	0	0	0	0	104 634	0	0	0	0	104 634	104 634
Exposures to institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0	0	0	0	0	0
Exposures in the form of units or shares in collective investment undertakings ('CIUs')	0	0	0	0	0	0	0	17 413	0	0	17 413	17 413
Equity exposures	0	0	0	0	0	0	0	42 272	0	45 666	87 938	87 938
Other exposures	539 752	0	0	0	0	0	0	570 292	0	20 229	1 130 273	1 130 272
Total	5 187 068	25 316	382 824	376 721	1 924 579	724 201	4 908 866	7 587 103	101 335	65 895	21 283 908	14 856 409

Note: "Of which unrated" column contains the exposures which do not have external credit ratings.

I.10. Capital requirement for operational risk

OTP Group's operational risk capital requirement, which was determined by the advanced measurement approach and the basic indicator approach in line with the principle of 'partial use', was HUF 122,681 million on 31st December 2019.

Chart 40: Operational risk capital requirements on 31st December 2019

Operational risk capital requirement's breakdown based on methods (in HUF million)	
Basic Indicator Approach	50 950
Standardised Approach	0
Alternative Standardised Approach	0
Advanced Measurement Approach	71 731
Total	122 681

I.11. Exposures in equities not included in the trading book

I.11.1. Trading purposes, valuation methods

Aspects of classification for trading purposes:

According to the Regulation of OTP Bank Plc. on Keeping of the Trading Book and Determining the Capital Requirements the trading book contains:

- the positions of the financial assets belonging to held-for-trading portfolio, related to investment or financial services, which are exposed primarily to market risks and
- the risk assumption related to them.

The classification into the trading book has the following criteria:

- The financial assets have to be classified into the trading book in accordance with the accounting policy.
- Those positions of the financial assets have to be classified into the trading book which are purchased by OTP Bank Plc. for realizing a short term gain due to the price difference between the purchase and selling price or due to changes of the interest rates.
- The repo transactions held for trading have to be classified into the trading book.
- The shares purchased by OTP Bank Plc. with no investment purpose have to be classified into the trading book.

According to the Investment Regulation of the Bank the long-term investments are financial instruments (*Interests in Entities*) purchased or founded for the purposes of providing the strategic (furthermore gaining ability to influence, direct, control another company) purpose of the Bank, providing the banking activities (as financial enterprise) and the banking operations (as incremental subsidiary), and shares in other financial intermediaries and in financial auxiliaries institutions.

Long-term investments can be classified as it follows:

- The OTP Group which is the complex entirety of the OTP Bank and the enterprises closely affiliated (qualified as dominant influence or participation) with OTP Bank.
- Other capital investments which operate under the direct ownership of the Bank, but not belong to the OTP Group.

In the financial statements of the Bank long-term investments are presented among Investments in subsidiaries and associates. Investments in subsidiaries comprise those investments where the Bank, through direct and indirect ownership interest, controls the investee.

Accounting and valuation methods:

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

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

I.11.2. Exposures in equities not included in the trading book on 31st December 2018

Chart 41: Exposures in equities not included in the trading book according to IFRS on 31st December 2019

Num-ber	Entity	Balance sheet value (in HUF million)	Listed (Exchanged- traded)	Num-ber	Entity	Balance sheet value (in HUF million)	Listed (Exchanged- traded)
1	ABE Clearing SAS	0	No	48	MIN Holding Nis v.a.	0	No
2	Agro banka a.d. in bankruptcy	0	No	49	Montair A.D.	0	No
3	Auctioneer s. r. o.	1	No	50	Montenegroberza ad	35	No
4	A Y BANKA LONDON u likvidaciji	0	No	51	OFB Projects EOOD	0	No
5	BANKART PROCESIRANJE PLACILNIH INSTRUMENTOV D.O.O., LJUBLJANA	805	No	52	OJSC Saint Petersburg Exchange	0	No
6	Beogradska Berza Ad., Beograd	3	No	53	OTP Advisors SRL	9	No
7	Borika Bankservice AD	2 032	No	54	OTP Consulting Romania SRL	22	No
8	Budapest Stock Exchange Ltd.	123	No	55	OTP Nedvizhimost OOO	57	No
9	Bulgarian Development Bank	0	No	56	OTP Travel Ltd.	2 614	No
10	Bulgarian Stock exchange AD	5	No	57	OTP Ujjakás Credit Intermediary LLC	9	No
11	BULGARLEASING JSC	0	No	58	OTP Vendéglátás és Hotelszolgáltatás Szervező Ltd.	3	No
12	Central Depository AD	43	No	59	Overdose Vagyonkezelő Ltd. "u.v.l."	0	No
13	Centralna depository agency a.d.	47	No	60	PEKO, TOVARNA OBUTVE, D.D. - V STECAJU	0	No
14	Club Hotel Füred Szálloda Ltd.	1 630	No	61	PEVEC d.o.o. Beograd	2 046	No
15	Company for Cash Services AD	392	No	62	Pokojninska družba A d.d.	208	No
16	Diákigazolvány Ltd.	3	No	63	POSLOVNO LOGISTICKI CENTAR "MORACA" AD PODGORICA	0	No
17	Dinghy Sport Club Hungary Ltd.	57	No	64	Privredna banka a.d. - in bankruptcy	0	No
18	DUNA VSKI PROJEK.CENTAR Beograd	0	No	65	Project Company Complex Banya EOOD	1 017	No
19	Elektroprivreda Crne Gore ad Nikšić	68	No	66	Project 03 s.r.o.	2	No
20	Első Alkotmány Utcai Ingatlanhasznosító Ltd..	0	No	67	Projekt 13 Apartmanj Slovenko s.r.o.	2	No
21	EUROAXIS BANK MOSKVA in bankruptcy	0	No	68	Projekt-Ingatlan 8. Ltd.	396	No
22	Financial Research Corporation	0	No	69	Razvojna banka Vojvodine a.d. - in bankruptcy	0	No
23	First Ukrainian Credit Bureau LLC	11	No	70	Rea Project One Company SRL	58	No
24	FORTENOVA GROUP STAK STICHTING	1 100	No	71	Recreatours AD Beograd	11	No
25	Garantiqa Credit Guarantee Closed Co. Ltd.	280	No	72	REG.AGEN.ALMA MONS N.SAD	0	No
26	Govcka Project Company SRL	197	No	73	RESPV s.r.l.	0	No
27	HAGE Ltd.	135	No	74	S.W.I.F.T. SCRL	95	No
28	HROK d.o.o.	84	No	75	SC AS Tourism SRL	2 668	No
29	HRVATSKI NOGOMETNI KLUB HAJDUK SPLIT Š.D.D.	0	No	76	SC Casa de Compensare SA	0	No
30	IKARUS Vehicle Manufacturing Company Limited "liq."	0	No	77	SC Cefin Real Estate Kappa SRL	0	No
31	IMOS AD ŠID	0	No	78	ShivaForce.com Ltd.	1	No
32	Industrija motora Rakovica	0	No	79	Skld za reševanje bank	4 288	No
33	Ingatlanvagyon Projekt 14. Ltd.	36	No	80	SLOBODNA CARINSKA ZONA NOVI SAD	14	No
34	Investment Broker Varna JSC	0	No	81	SOMBORSATAN DOO SOMBOR	0	No
35	Investment Company "CG Broker-Dealer" JSC	22	No	82	South Invest Montenegro doo	0	No
36	Investment Projekt 1. d.o.o.	0	No	83	SPC MILENIUM VRŠAC	14	No
37	Istarska autocesta d.d.	4	No	84	Special Purpose Company LLC	0	No
38	JSC PFTS	2	No	85	Središnja depozitarna agencija d.d.	1	No
39	JSC Rostov Regional Mortgage Corporation	0	No	86	TRŽIŠTE NOVCA AD BEOGRAD	0	No
40	JSC Settlement Center	0	No	87	Trziste novca d.d.	29	No
41	Jubmes banka a.d.	0	No	88	Vesta United Regional Registrar OJSC	0	No
42	Kiev International Stock Exchange	0	No	89	Središnja depozitarna agencija d.d.	1	No
43	KÖZVIL Ltd.	0	No	90	VISA Incorporated	12 794	No
44	Lutrija Crne Gore ad	6	No	91	Zagrebacka burza d.d.	97	No
45	MasterCard Incorporated	262	No	92	Zelena Nektretine d.o.o.	1 261	No
46	Mátraí Pw er Plant Closed Company Limited by Share	0	No	93	"13.Jul -Plantaze" a.d. Podgorica	591	No
47	METANOLSKO SIRČETNI KOMBINAT KIKINDA	0	No				

The consolidated gain realised from sales and liquidations relating to exposures in equities not included in the trading book was HUF 2 044 million related to 31.12.2019.

I.12. Exposure to interest rate risk on positions not included in the trading book

Asset-Liability Directorate measures banking book interest rate risk exposure in case of the most important currency – HUF - monthly, and also presents it to the management with the same frequency. In case of the other currencies consolidated exposure is measured quarterly.

The size and direction of the exposure is determined based on sensitivity analysis mainly.

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 were prepared by assuming only the adversing interest rate changes. The main assumptions were as follows:

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

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

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

The net interest income in a one year period after January 1, 2020 would be decreased by HUF 1205 million (scenario 1) and HUF 3060 million (scenario 2) as a result of these simulation. This effect is counterbalanced by capital gains (HUF 223 million for scenario 1, HUF 2 670 million for scenario 2) on the government bond portfolio held for hedging.

Furthermore, the effects of an instant 10 bp 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 analyzed. The results can be summarized as follows (HUF million):

Chart 42: The effects of the parallel shifts of the yield-curves to the net interest income on a one-year period and to the market value of the hedge government bond portfolio booked against capital

Description (in HUF million)	Effects to the net interest income (1Year period)	(Price change of AFS government bonds)
HUF -0.1% parallel shift	(1 742)	558
EUR -0.1% parallel shift	(1 261)	0
USD -0.1% parallel shift	(253)	0
Total	(3 256)	558

I.13. Remuneration policy

I.13.1. Decision-making process applied in determining the remuneration policy

The Supervisory Board of OTP Bank Plc. – within the framework approved by the Bank’s General Meeting – makes a decision about accepting the Bank Group’s Remuneration Policy, approves its amendment and takes responsibility for its review. OTP Bank Plc.’s Supervisory Board consults with all the units of OTP Bank that are significant in terms of corporate governance with regard to drafting the Banking Group’s Remuneration Policy.

OTP Bank Plc.’s Supervisory Board has the right to modify the Remuneration Policy with the exception of matters that by law are subject to the competence of the General Meeting, with the proviso that it shall notify all the subsidiaries of the OTP Banking Group on the amendment immediately and/or that it shall notify the shareholders at OTP Bank Plc.’s next General Meeting.

The Board of Directors of OTP Bank Plc. is responsible for the implementation of the Banking Group’s Remuneration Policy.

The provisions of the Banking Group’s Remuneration Policy, as well as the regulations related to it and their implementation, must be checked by OTP Bank Plc.’s Internal Audit department at least once a year, no later than by 31 March, and a report on the matter must be prepared for OTP Bank Plc.’s Board of Directors, Supervisory Board and Remuneration Committee.

OTP Bank Plc.’s Remuneration Committee oversees the remuneration of the managers who are responsible for risk management and legal compliance – including the employees, who are responsible for internal control - and prepares remuneration decisions by taking into account the long-term interests of shareholders, investors and other stakeholders of the credit institution.

OTP Bank Plc.’s Remuneration Committee makes recommendations to the Supervisory Board of OTP Bank Plc. regarding the remuneration of the Board of Directors of OTP Bank Plc. and provides support and advice with respect to drafting the Bank Group’s comprehensive remuneration policy and checking the planning and operation of the remuneration system.

OTP Bank Plc.’s Remuneration Committee consists of 3-7 members (chairman and at least two other members) appointed by the Board of Directors from among its own members, taking into consideration that the members cannot be employed by the bank. The Remuneration Committee held sessions and voted in writing twelve times in 2019 and carried out its activities without an external consultant.

OTP Bank Plc.’s Risk Assumption and Risk Management Committee’s tasks include the examination of the remuneration policy from a perspective where the incentive elements of the designed remuneration system takes into consideration the risks, the capital and liquidity situation of the credit institution, as well as the probability and sequence of incomes. The Risk Assumption and Risk Management Committee also participates in the identification procedure necessary for the determination of the personal scope of the Banking Group’s Remuneration Policy.

OTP Bank Plc.’s Risk Assumption and Risk Management Committee consists of at least 3 members (chairman and at least two other members) appointed by the Board of Directors from among its own members, taking into consideration that the members cannot be employed by the bank.

The detailed description of the tasks and responsibilities related to the operation of the Bank Group’s Remuneration Policy is contained in the effective rules of procedure of the individual bodies.

In 2019 the introduction of a proportionality rule can be considered a material change in relation to the regulation of the Banking Group’s Remuneration Policy, according to which the application of deferral and share-based payment rules have been eliminated in the case of the joint existence of up to EUR 50,000 annual performance-based remuneration and up to 25% performance-based remuneration ratio.

I.13.2. Scope of the remuneration policy

The rules of the Banking Group's Remuneration Policy shall be applied in OTP Bank Plc and in all Banking Group Subsidiaries under the consolidated supervision of the Hungarian National Bank where identified employees are employed. The identification of the identified employees is based on the provisions of Regulation (EU) No 604/2014 (RTS), with that the Supervisory Board of OTP Bank Plc also takes into consideration additional risk aspects in the identification process. For the sake of proportionality, OTP Bank Plc classifies all the Banking Group Subsidiaries into low, medium or high risk categories based on a combination of balance sheet total, net earnings for the year and the complexity of the business. The Supervisory Board of OTP Bank Plc identifies the managers of the high-risk Banking Group Subsidiaries under the consolidated level personal scope of the Banking Group's Remuneration Policy even if it is not required by RTS regulations. Subconsolidated and local level identification of employees takes place when the employee concerned does not have decision-making power and competence over the entire Banking Group, and his or her professional activities may affect only a particular Banking Group Subsidiary or a sub-consolidated group controlled by that subsidiary. Identified employees employed by OTP Bank Plc – with respect to group responsibility – are identified at consolidated level.

The provisions of the Banking Group's Remuneration Policy shall be applied to the group of persons identified on the basis of the above criteria, having a significant impact on the risk profile through their professional activities. The provisions of the Banking Group's Remuneration Policy (deferral, share-based payment, ex ante and ex post risk adjustment) and the involvement of the Risk Assumption and Risk Management Committee in the development of the incentive elements of the remuneration system facilitate the efficient and effective risk management of OTP Bank Plc.

For proportionate application, those employees identified at a local or subconsolidated level may be exempted from the application of the deferred and share-based payment rules whose annual performance-based remuneration does not exceed EUR 50,000 and 25% of the total remuneration. It is not possible to apply this rule to employees identified at consolidated level.

Banking Group Subsidiaries which are classified as institutions may adopt local remuneration policies based on the Banking Group's Remuneration Policy. As a general rule, the local remuneration policies of the Banking Group Subsidiaries shall not deviate from the rules and principles set forth in the Banking Group's Remuneration Policy, except to the extent required by local laws or regulatory requirements. Approval of the Supervisory Board of OTP Bank Plc. is the precondition of the application of the local remuneration policies deviating from the Banking Group's Remuneration Policy in every case, thereby ensuring consistency between the Banking Group's Remuneration Policy and local remuneration policies.

I.13.3. Relationship between performance and performance-based remuneration

The most important principle of the Bank Group's Remuneration Policy is that the amount of performance-based remuneration – with the ex-ante and ex-post assessment of the associated risks – is tied to the extent by which the objectives of the Bank Group/Bank/subsidiary and the individual are realised. The amount of the performance-based remuneration is determined on the basis of a joint assessment of the objectives.

In respect of the personal scope under the effect of the Banking Group's Remuneration Policy, performance evaluation, as a general rule, is based on individual agreements. Performance expectations are determined in a predefined indicator structure at Banking Group/Bank/subsidiary, organisational, managerial and job level and/or in terms of target tasks, taking into account the differences stemming from the nature of the activities of the Bank's individual units.

In the case of managers employed by OTP Bank Plc., the key performance evaluation indicators include:

- the banking group-level (domestic and foreign companies that operated as group members under consolidated supervision in the whole evaluated business year) RORAC (Return on Risk-Adjusted Capital), which indicates return relative to the capital requirement associated with the given risk of an activity, as well as
- criteria that measure strategic and individual performance (financial indicators and indicators measuring the quality of work performance).

In the case of the managers of the Banking Group Subsidiaries, performance evaluation is conducted in a differentiated manner based on the nature of the companies' activities.

The key indicator (RORAC) is based on the prevailing annual financial plan. The proposal about the evaluated business year target value of the key indicator should be submitted to the Supervisory Board of OTP Bank Plc. The target value may be modified in response to a change in the statutory regulations and/or a change in market circumstances that occurs after the target value is determined and that has a significant objective impact on the Bank's profit and/or attainment of the target value.

I.13.4. Ratio of fixed to performance-based remuneration

The members of the Board of Directors and the Supervisory Board in their function get fix honorarium and do not receive performance-based remuneration.

The remuneration of the various positions of additional persons belonging to the scope of the Bank Group Remuneration Policy comprises of a fixed and a performance-based remuneration element. The main elements of fixed remuneration are basic salary and ordinary shares issued by OTP Bank.

The proportion of the fixed and performance-based remuneration is defined in a way so that it properly reflects the function, size and complexity of the managed organisation. The ratio of performance-based remuneration shall not exceed 100 % of the fixed remuneration in the case of any of the individuals concerned.

The minimum and maximum ratios of performance-based remuneration for the Banking Group Subsidiaries, depending on the organizational level – and in the case of institutions, the organizational function as well – are defined in the Remuneration Guidelines of OTP Bank Plc, deviations from these bands may only be made in cases duly justified by labour market reasons. The bands for employees with control functions – in order to make their remuneration less dependent on the performance of the business units they control – are lower than those for employees in business and support functions. The lower bands promote that the remuneration of the employees performing control functions is predominantly or exclusively composed of basic salary. In the case of OTP Bank Plc, the applicable proportion of the performance-based remuneration is individually considered by the Supervisory Board based on the function, size and complexity of the managed organization.

I.13.5. Criteria of variable remuneration

At Banking Group level, the maximum amount available for performance-based remuneration in a given year is determined by OTP Bank Plc.'s Supervisory Board. OTP Bank Plc. uses the combined method when determining the amount of the performance-based remuneration (variable remuneration), with the proviso that the maximum amount available for performance-based remuneration is determined in line with the Banking Group's capital position and its expected financial performance.

Banking Group level and individual performances are evaluated once a year. At Banking Group level the maximum amount of performance-based remuneration in a given year and the amount broken down by individuals are determined within 45 days after the date of the General Meeting of OTP Bank Plc. that closes the evaluated year.

As a general rule, the performance-based variable remuneration is provided in the form of a cash bonus and as share based allowance, in a 50-50% ratio. As a general rule, in the personal scope identified on consolidated level the share based allowance, in accordance with the decision of the individual, is settled as remuneration converted into shares or as preferentially priced share allowance. In the case of subsidiaries outside the European Union, for the consolidated level identified personal scope the share based allowance is provided in the form of such a cash-based payment, as if - in accordance with the decision of the individual - the settlement of the remuneration converted into shares or the preferentially priced share allowance would take place, with the proviso, that the calculation method of the allowance's nominal value shall be approved by an expert independent from the Bank (so called virtual share allocation). In respect of sub-consolidated and local level identified personal scope in Hungary, the share based allowance is provided in the form of remuneration converted into shares. In respect of sub-consolidated and local level identified personal scope in foreign subsidiaries, the share based allowance is provided as such a cash-based payment, as if the settlement of the remuneration converted into shares would take place, with the proviso, that the calculation method of the allowance's nominal value shall be approved by an expert independent from the Bank (so called virtual share allocation). The number of shares available for share allocation as remuneration converted into shares broken down to individuals is to be determined on the basis of the amount of the share-based performance remuneration divided by the share price as at the date of the Supervisory Board decision. The number of shares available for preferentially priced share allowance broken down to individuals is to be determined on the basis of the amount of the share-based performance remuneration divided by the value of the preferentially priced share allowance as at the date of the Supervisory Board decision.

The share price and the value of the preferentially priced share allowance as at the date of the Supervisory Board decision is established by OTP Bank's Supervisory Board as the average of the daily average prices of the ordinary shares issued by OTP Bank Plc. recorded on the Budapest Stock Exchange on the three trading days preceding the day of the Supervisory Board decision. The due part of the performance based remuneration, not depending on the exercise of the share allocation, must be settled in 10 days counted from the Supervisory Board decision, but not later than until 30th June of the year when the payment is due.

The share allocation at a reduced price may include a maximum allowance of HUF 2,000 per share on the date of Supervisory Board decision and the income content realisable per share shall equal the smaller of the amount specified by the Supervisory Board of OTP Bank Plc. as at the date of the exercising the share allocation or HUF 4,000. The conditions of the share based remuneration are determined by the Supervisory Board of OTP Bank Plc. within the frames defined by the Annual General Meeting. In respect of the personal scope identified on consolidated level, as a general rule, the share-based portion of variable remuneration is provided by OTP Bank Plc. to those concerned, while in the sub-consolidated and local level identified personal scope, and within the subsidiaries operating outside of the territory of the European Union, virtual share allocation is applied.

The identified employees of OTP Bank Plc., OTP Mortgage Bank Ltd., OTP Building Society Ltd., Merkantil Bank Ltd., OTP Asset Management SAI S.A., OTP Factoring Ltd., OTP Real Estate Investment Fund Management Ltd., OTP Real Estate Ltd., OTP Pénzügyi Pont Ltd., Merkantil Bill and Property Investments Bank Ltd. and OTP Real Estate Leasing Ltd. by their own will, are entitled to participate in OTP Bank ESOP Organization, in which case they can acquire a member's share up to the value of their performance based remuneration within the ESOP Organization. For the identified persons participating in OTP Bank ESOP Organization the settlement of the performance based remuneration, in case of the fulfilment of the conditions, is provided by the ESOP Organization, up to the value of the member's share.

Pursuant to the general rule that is in line with the provisions of the Credit Institutions Act, in the consolidated level identified personal scope 60%, while in sub-consolidated and local level personal scope, as a general rule, 40% of the variable remuneration is deferred for 3 years – in the case of the President-CEO and deputy-CEOs of OTP Bank Plc. for 4 year –, within which period the extent of the deferred payment shall be identical every year.

Entitlement to the deferred instalments is determined based on a subsequent assessment of the risks. The assessment of risks takes place, on one hand, on the basis of quantitative criteria pertaining to prudent operations and, on the other hand, on qualitative evaluation criteria. On the basis of the values of the criteria of prudent operation, OTP Bank Plc.'s Supervisory Board resolves on the possibility to pay deferred instalments. Based on the assessment of the risks related to the activities of those concerned, the deferred portion of the performance-based remuneration may be reduced or cancelled. As a general rule, an additional condition for entitlement to the deferred instalments is the existence of the employment relationship.

If the person in a managerial position or if the employee has been involved in any practice that caused a significant loss, and/or is not up to the requirements pertaining to suitability or conformity, the Supervisory Board of OTP Bank Plc. is entitled to make the required decision on claiming back the performance-based remuneration booked for/paid to the individual concerned in regard to the period affected by the circumstance resulting in the claiming back of the remuneration. In addition to as specified in paragraph performance-based remuneration paid to the individual earlier on is refunded if the individual is found to have committed a criminal act or in the case of such serious omission, abuse or defect that had significantly deteriorated the creditworthiness and/or profitability of the institution. Decisions on claw back shall be taken by the Supervisory Board of OTP Bank Plc.

I.13.6. Summarised information relating to the remuneration

Within the context of the Bank Group's Remuneration Policy, the summarised information pertaining to the remuneration of the staff employed in positions that have a material impact on the risk profile is contained in the following table.

Chart 43: Summarised information of remuneration categorized by activities¹⁾

(in HUF million)	Remuneration for 2019					
	Investment banking	Retail banking	Asset management	Corporate functions	Independent control functions	All other
The remuneration of the staff whose professional activities have a material impact on the risk profile	731	5 261	28	9 871	2 774	419
<i>OTP Bank Plc.</i>	380	1 613		3 009	577	369
<i>OTP Mortgage Bank Ltd.</i>	27	37	0	110	16	0
<i>OTP Building Society Ltd.</i>		10		57	18	
<i>Merkantil Bank Ltd.</i>	0	217	0	468	44	35
<i>Other subsidiaries</i>	324	3 384	28	6 227	2 119	15

Comments:

- 1) The specification of activities made in accordance with annex 13. of MNB regulation 38/2019. (XI.20.):
 - a. Investment banking: including corporate finance advice services, private equity, capital markets, trading and sales;
 - b. Retail banking: including total lending activity (to individuals and enterprises);
 - c. Asset management: including portfolio management, managing of UCITS and other forms of asset management;
 - d. Corporate functions: all functions that have responsibilities for the whole institution at the consolidated level and for subsidiaries with such functions at the solo level, (e.g. Human Resources, IT);
 - e. Independent control functions: staff active in the independent risk management, compliance and internal audit functions as described in the EBA's guidelines on internal governance;
 - f. All other: staff who cannot be mapped into one of other business areas.

Chart 44: Summarised information of remuneration according to the type of remuneration

	Persons receiving remuneration ¹⁾ (persons)	Remuneration for 2019			Amount of unpaid, deferred remuneration		The amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments
		Fixed remuneration	Performance based remuneration ²⁾		Entitlement obtained	Entitlement not obtained	
			Cash based	Share based			
		(in HUF million)					
The remuneration of the staff whose professional activities have a material impact on the risk profile 1)	517	11 960	3 562	3 562	576	6 232	2 578
<i>OTP Bank Plc.</i>	62	3 108	1 420	1 420	267	3 312	1 481
<i>OTP Mortgage Bank Ltd.</i>	8	118	36	36	4	57	14
<i>OTP Building Society Ltd.</i>	7	61	12	12	0	11	2
<i>Merkantil Bank Ltd.</i>	23	538	113	113	10	172	82
<i>Other subsidiaries 3)</i>	417	8 135	1 981	1 981	295	2 680	999

Comments:

- 1) Persons under the Bank Group Remuneration Policy whose employed in positions that have a material impact on the risk profile in 2019.
- 2) The sum of calculated performance-based remuneration after the year 2019, the settlement of which shall take place based on the performance evaluation after the General Meeting closing the year 2019.
- 3) In case of the subsidiaries under consolidated supervision the fixed remuneration is calculated at the closing exchange rate as at 31 December 2019, the performance based remuneration is calculated at the official middle rate of the National Bank of Hungary on the day of the evaluation of the financial year.

The unpaid deferred remuneration and the awarded remuneration during the business year of the employees whose were identified before 2019, and not employed in identified position in 2019, or the employment was terminated by maintaining the deferred parts or retired, was the follows:

Chart 45: The changes in the remuneration of the staff whose professional activities have a material impact on the risk profile

	Persons receiving remuneration (persons)	Amount of unpaid, deferred remuneration		The amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments
		Entitlement obtained	Entitlement not obtained	
		(in HUF million)		
The remuneration of the staff whose professional activities have a material impact on the risk profile	40	10	298	432
<i>OTP Bank Plc.</i>	13	7	181	301
<i>OTP Mortgage Bank Ltd.</i>	2	0	6	8
<i>OTP Building Society Ltd.</i>	3	0	14	12
<i>Merkantil Bank Ltd.</i>	0	0	0	0
<i>Other subsidiaries</i>	22	3	97	111

During the business year in the frame of the Remuneration Policy nobody was compensated above a law with a severance payment and three person was compensated with sign-on bonus of 29.6 million HUF. Related on acquisitions one person was purchased from previous contract (assuming the payment of earlier deferred installments) in the amount of 52.9 million HUF and on person was compensated with retention bonus in the amount 19.9 million HUF.

During the year 2019 one person was compensated between 3.0 and 3.5 million EUR and three person was compensated between 1.0 and 1.5 million EUR.

Remuneration settled in 2019 for the members of the OTP Bank Plc. Board of Directors and the Supervisory Board amounted to HUF 1,422 million, which amount includes the fixed share-based remuneration of the members of the Board of Directors as well, that was settled after the General Meeting closing the year 2018.

Chart 46: Remuneration settled in 2019 for the members of the OTP Bank Plc. Board of Directors and the Supervisory Board

Name	Position	Amount of compensation		Total amount of cash compensation in 2019 (HUF)
		HUF/month	OTP shares number/month ¹	
Board of Directors				
Dr. Sándor Csányi	Chairman	810 000	1 000	9 720 000
Tamás Erdei	Vice Chairman (non-executive) ²	695 000	900	8 340 000
Antal György Kovács	Member	695 000	800	8 340 000
László Wolf	Member	695 000	800	8 340 000
Dr. Antal Pongrácz	Member (non-executive)	695 000	800	8 340 000
Dr. István Gresa	Member (non-executive)	695 000	800	8 340 000
Mihály Baumstark	Member (non-executive)	695 000	800	8 340 000
Dr. Tibor Biró	Member (non-executive)	695 000	800	8 340 000
Dr. László Utassy	Member (non-executive)	695 000	800	8 340 000
Dr. József Vörös	Member (non-executive)	695 000	800	8 340 000
Supervisory Board				
Tibor Tolnay	Chairman	2 400 000	---	28 800 000
Dr. Gábor Horváth	Vice Chairman	1 900 000	---	22 800 000
Olivier Péqueux	Member	1 700 000	---	---
Dr. Gellért Márton Vági	Member	1 700 000	---	20 400 000
Ágnes Rudas ⁴	Member (employee)	1 700 000	---	5 723 333
Klára Bella ⁵	Member (employee)	1 700 000	---	14 676 667
András Michnai	Member (employee)	1 700 000	---	20 400 000

Comments:

- 1) The share allowance is granted once a year within 30 days of the General Meeting closing the evaluated financial year; the beneficiaries bear the burden of restraint on alienation with respect to 50% of the share allowance until the end of mandate.
- 2) From April 12 2019 in the position of Vice Chairman (previously Board member, in which position the honorary fee of the OTP ordinary share was 800 pieces/month)
- 3) The compensation has been transferred to Groupama S.A
- 4) Until 12. April 2019
- 5) From 12 April 2019

In case of Hungarian subsidiaries there is no remuneration paid for Board of Directors and Supervisory Board members, employed by the Bank Group.

Chart 47: Received remuneration of the OTP Mortgage Bank Ltd.'s Board of Directors and Supervisory Board in 2019

Name	Position	Notes	Amount of	Total amount of
			compensation	cash
			HUF/month	compensation in
				2019
				HUF
Board of Directors				
Antal György Kovács	Chairman		---	---
András Becsei	Member		---	---
Zoltán Roskó	Member		120 000	1 440 000
Attila Kovács	Member		---	---
Ákos Ferenc Fischl	Member		---	---
Csaba Nagy	Member		---	---
Anna Mitkova Florova	Member		---	---
Supervisory Board				
Győző Nyitrai	Chairman		---	---
Ágota Selymes	Member		---	---
Zoltán Kormos	Member		---	---

Chart 48: Received remuneration of the OTP Building Society Ltd.'s Board of Directors and Supervisory Board members in 2019

Name	Position	Notes	Amount of	Total amount of
			compensation	cash
			HUF/month	compensation in
				2019
				HUF
Board of Directors				
Antal György Kovács	Chairman		---	---
Csaba Nagy	Member		---	---
Árpád Srankó	Member		---	---
Attila Kovács	Member		---	---
András Becsei	Member		---	---
Anna Mitkova Florova	Member		---	---
Supervisory Board				
József Windheim	Chairman		---	---
dr. Ilona Ádámné Környei	Member		---	---
Beáta Anett Sukovich	Member		120 000	1 440 000
dr. Tamás Gudra	Member		120 000	1 440 000

Chart 49: Received remuneration of the Merkantil Bank Ltd.'s Board of Directors and Supervisory Board members in 2019

Name	Position	Notes	Amount of	Total amount of
			compensation	cash
			HUF/month	compensation in
				2019
				HUF
Board of Directors				
dr. László Utassy	Chairman		---	---
Tibor László Csonka	Member		---	---
dr. Ibolya Rajmonné Veres	Member		---	---
Péter Köntös	Member		---	---
dr. Bálint Csere	Member		---	---
Supervisory Board				
dr. Ferenc Ecsedi	Chairman		---	---
Zsuzsanna Szabó	Member		---	---
Ágota Selymes	Member		---	---
dr. Tamás Suchman	Member		300 000	3 600 000

In other subsidiaries under the Bank Group's Remuneration Policy the remuneration of the Board of Directors and the Supervisory Board members in 2019 was HUF 357 million.

I.14. Disclosure of encumbered and unencumbered assets

Chart 50: The encumbered and unencumbered assets in carrying and fair value amounts by broad categories of asset type

(in HUF million)	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution	1 089 436		16 683 810	
Equity instruments	979	979	82 814	82 739
Debt securities	336 130	352 119	3 795 386	3 827 419
Other assets	1 110		1 469 624	

Chart 51: Collateral received, by broad categories of product type

(in HUF million)	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by the reporting institution	0	113 672
Equity instruments	0	0
Debt securities	0	61 302
Other collateral received	0	52 370
Own debt securities issued other than own covered bonds or ABSs	0	0

Chart 52: Encumbered assets/collateral received and associated liabilities

(in HUF million)	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	905 976	1 078 557

Information on importance of encumbrance

The encumbrances of OTP Group's assets and collaterals received are caused by different types of transactions.

- The collateral for the funds granted by the MNB's Funding for Growth Scheme is partly the loans refinanced through the funds, and in part the loans that cover the mortgage bonds issued by OTP Mortgage Bank, which are in the Group's books.
- The covered loan provided by the MNB is secured by mortgage bonds, which are in the Group's books.
- One of the Group's subsidiary bank issue mortgage bonds to finance their assets. The collateral for mortgage bonds is the mortgage loan stock placed from the funds.
- The encumbrances caused by derivative transactions largely stem from CIRS transactions, the market value of which may fluctuate depending on the foreign exchange rate.
- Some subsidiary banks enter into repo agreements, the collateral for which typically consists of government bonds issued by the government of that country.
- The value of other encumbrances (e.g. collaterals from securities lending, collaterals for VISA/MasterCard or stock exchanges) is the least relevant in the Group's encumbrances

OTP Group's repo stock and issued mortgage bonds both decreased in 2019. On the other hand, the value of encumbrances arising from the Funding for Growth Scheme funds has reduced.

The intragroup asset encumbrance stemmed from derivative transactions, repo agreements, and mortgage bond issuance.

At OTP Mortgage Bank, the stock of receivables that may be accepted as collateral has somewhat exceeded the stock of mortgage bonds issued.

The ISDA/CSA agreement regulates how to define the value of the collateral behind derivative transactions for all major partners. In the case of derivative transactions, if the total current market value of the derivative transactions with a partner, as calculated by the calculation agent, is negative, then the value that corresponds to the negative NPV shall be placed on the partner's margin account.

From the items recognized under other assets in balance sheet, OTP Group does not consider its cash balance, intangible assets, tangible assets, inventories or deferred tax assets subject to encumbrance.

I.15. Liquidity risk

The Bank managing the liquidity risk exposure by (i) accumulating appropriate amount of high quality liquidity reserves, (ii) developing advanced risk management methodology that models the relevant risk exposure in a proper and prudent way, (iii) applying transparent processes and workflows that are straightforward from authority and responsibility point of view therefore they minimize operational risks and (iv) exercising frequent high quality management reporting that provides the adequate scale and scope of insight for economically reasoned decision making.

According to the industrial best practice the risk measurement, strategic risk management and the operational risk management are separated functions. The risk measurement, the risk methodology development and the long term strategic risk management functions are the responsibilities of Asset-liability Management Directorate (ALM) in Strategic and Financial Division, while the daily liquidity management process is executed by Treasury in the Commercial Banking Division.

The ALM Directorate prepares liquidity risk related standard reports for ALCO on a monthly basis. The report contains the quantitative and qualitative ex post assessment of risk measurement and management process and contains proposals in connection with the future challenges that require ALCO approved actions to deal with.

The internal regulation on liquidity risk management is approved by ALCO after the standard annual revision process of the risk management methodology.

Monthly report is presented to the Management Committee where the evolution of liquidity risk profile analyzed in a way that makes the management certain of that risk appetite and risk tolerance are in harmony. Management Committee is the body that approves the Asset-liability Strategy.

Annual report is presented to the Board of Directors which contains key topics that affected the risk profile of the bank and the findings of internal end regulatory audits. By approving the annual report the Board of Directors validates the appropriateness of the risk management framework.

The principle of liquidity risk management is that a considerable part of risks is covered by a joint liquidity pool, which offers instant and flexible access for the parent bank and its subsidiaries, while subsidiaries shall build their own liquidity reserve for the risks that are difficult to measure and manage from the center. It is a common feature of the Group's centralized and decentralized methodological framework to compare the quantity of available high-quality reliable liquidity to the risk exposure considered to be relevant.

Liquidity reserve consists of assets that can be quickly converted into cash because of their maturity, or their eligibility for covered financing (repo), therefore they can be used to meet financial obligations, expected or unforeseeable, when they are due. The main components of the liquid asset portfolio include the central bank placements, government securities and mortgage bonds, a smaller share of corporate bonds eligible for central bank repo and money market placements. Using the conservative approach of liquidity management, the expected cashflows of maturing client loan portfolio are not considered as safe liquidity.

The Group's liquidity reserves appear at two levels of hierarchy: in the liquidity pool, and at the subsidiary banks. The minimum liquid asset volume required at either level depends on the size of the risk exposure to be covered.

According to the liquidity strategy the liquidity reserves have to cover the relevant exposure on multiple time horizons (1 month, 3 months). The reserves have to provide coverage under normal business conditions for debt maturities within one year and for the estimated liquidity need of potential liquidity reducing shocks on the applied time horizons.

Under the applied risk management framework the following risk factors have been identified and assessed: (i) business shock (deposit withdrawal and credit line utilization) (ii) market rate shock (interest rates and FX rates) and (iii) renewal risk (capital market debt maturities).

Chart 53: Liquidity coverage ratio

(in HUF million)	Description	Total unweighted	Total weighted
		value (average)	value (average)
		31.12.2019	31.12.2019
Number of data points used in the calculation of averages		12	12
HIGH-QUALITY LIQUID ASSETS			
1.	Total high-quality liquid assets (HQLA)		4 714 400
CASH – OUTFLOWS			
2.	Retail deposits and deposits from small business customers, of which:	8 276 509	629 707
3.	<i>Stable deposits</i>	5 915 950	295 798
4.	<i>Less stable deposits</i>	2 299 421	272 772
5.	Unsecured wholesale funding	3 884 649	1 974 639
6.	<i>Operational deposits (all counterparties) and deposits in networks of cooperative banks</i>	59 882	13 963
7.	<i>Non-operational deposits (all counterparties)</i>	3 818 597	1 954 506
8.	<i>Unsecured debt</i>	6 170	6 170
9.	Secured wholesale funding	0	0
10.	Additional requirements	2 302 758	380 368
11.	<i>Outflows related to derivative exposures and other collateral requirements</i>	52 844	52 844
12.	<i>Outflows related to loss of funding on debt products</i>	0	0
13.	Credit and liquidity facilities	2 249 914	327 524
14.	Other contractual funding obligations	151 314	118 692
15.	Other contingent funding obligations	995 845	34 577
16.	TOTAL CASH OUTFLOWS	15 611 074	3 137 983
CASH – INFLOWS			
17.	<i>Secured lending (e.g. reverse repos)</i>	68 859	5 028
18.	<i>Inflows from fully performing exposures</i>	609 616	421 870
19.	<i>Other cash inflows</i>	158 087	153 976
EU-19a	<i>{Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies}</i>		0
EU-19b	<i>{Excess inflows from a related specialised credit institution}</i>		0
20.	TOTAL CASH INFLOWS	836 562	580 874
EU-20a	Fully exempt inflows	0	0
EU-20b	Inflows subject to 90% cap	0	0
EU-20c	Inflows subject to 75% cap	836 562	580 874
TOTAL ADJUSTED VALUE			
21.	LIQUIDITY BUFFER		4 714 400
22.	TOTAL NET CASH OUTFLOWS		2 557 109
23.	LIQUIDITY COVERAGE RATIO (%)		185%

The declaration about the appropriateness of the liquidity risk management can be found in the **Hiba! A hivatkozási forrás nem található.** Annex. The Asset –Liability Committee, approved the declaration. (ref. 2020/51/2.).

Based on the (47) paragraph of the 15/2018.- THH – 6212. internal regulation, the information described in the 2. table of the 2. Annex of 9/2017 (VIII.8) proposal of National Bank of Hungary are not disclosed in this document, because they do not have significant effect due to the following:

- Significantly high LCR ratio
- Significant outflow is not expected
- Significant change in LCT is not expected
- OTP Group does not use fund from the market

II. OTP Bank

Information required to be disclosed regarding OTP Bank is not presented in this chapter separately, only in the OTP Group Chapter, if it is the same as OTP Group level publications.

II.1. Regulatory capital and capital requirements

II.1.1. Capital adequacy of OTP Bank

The capital requirement calculation of OTP Bank for the end of 2019 is based on IFRS and audited data.

OTP Bank applied standardized capital calculation method regarding credit and market risk, and advanced measurement approach (AMA) regarding the operational risk. OTP Bank regulatory capital requirement as of end of December 2019 was HUF 552,883 million, the amount of regulatory capital was HUF 1,905,795 million. The capital adequacy ratio calculated in line with article 92 of CRR stood at 27.58%.

Chart 54: OTP Bank's overview of RWAs

(in HUF million)	RWAs		Minimum capital requirements	
	31.12.2019	31.12.2019	31.12.2019	31.12.2019
Credit risk (excluding CCR)	6 243 173		499 454	
Of which the standardised approach	6 243 173		499 454	
CCR	152 895		12 232	
Of which mark to market	148 072		11 389	
Of which CVA	4 823		386	
Market risk	120 351		9 628	
Of which the standardised approach	120 351		9 628	
Operational risk	394 615		31 569	
Of which basic indicator approach	0		0	
Of which standardised approach	0		0	
Of which advances measurement approach	394 615		31 569	
Total	6 911 033		552 883	

Note: The credit risk RWA is calculated according to 2017/2395 EU regulation, including the effect of transitional arrangements for mitigating the impact of the introduction of IFRS 9 and the correction in accordance with the Article 1. (7) paragraph b) point.

Chart 55: Credit risk exposure and CRM effects on 31st December 2019

(in HUF million)	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWAs	RWA density
Exposures to central governments or central banks	2 688 711	0	3 064 898	9 817	88 337	2.87%
Exposures to regional governments or local authorities	67 407	23 459	56 962	11 209	14 023	20.57%
Exposures to public sector entities	64 257	0	51 443	0	23 070	44.85%
Exposures to multilateral development banks	4 688	0	4 688	0	0	0.00%
Exposures to international organisation	0	0	0	0	0	0.00%
Exposures to institutions	1 660 140	1 008 518	1 730 717	754 770	534 760	21.52%
Exposures to corporates	1 968 724	1 084 376	1 707 953	491 085	2 116 677	96.25%
Retail exposures	735 678	395 655	472 056	75 797	402 379	73.45%
Exposures secured by mortgages on immovable property	531 742	63 494	531 742	22 338	427 053	77.07%
Exposures in default	29 721	841	25 618	176	28 000	108.55%
Exposures associated with particularly high risk	1 536 468	526	1 536 468	263	2 305 097	150.00%
Exposures in the form of covered bonds	220 076	0	220 076	0	42 155	19.15%
Exposures to institutions and corporates with a short-term credit assessment	0	0	0	0	0	0.00%
Exposures in the form of units or shares in collective investment undertakings ('CIUs')	17 100	0	17 100	0	17 100	100.00%
Equity exposures	84 158	0	84 158	0	134 204	159.47%
Other items	306 673	194	306 673	194	110 318	35.95%
Total	9 915 543	2 577 063	9 810 552	1 365 649	6 243 173	55.86%

II.1.2. Information about disclosure requirements related to the regulatory capital in line with Commission Implementing Regulation (EU) No. 1423/2013

Chart 56: Mapping of financial statement categories with regulatory categories

Description	Carrying values as reported in published financial statements	Carrying values of items				
		Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
(in HUF million)						
Cash, amounts due from banks and balances with the National Bank of Hungary	289 686	289 686	0	0	0	0
Placements with other banks, net of allowance for placement losses	1 560 142	1 560 142	0	0	0	0
Repo receivables	45 539	0	45 539	0	17 340	0
Financial assets at fair value through profit or loss	172 229	0	38 965	0	172 229	150
Financial assets at fair value through other comprehensive income	1 485 977	1 485 977	0	0	0	1 486
Loans	3 315 069	3 315 069	0	0	0	0
Securities at amortised cost	1 447 224	1 447 224	0	0	0	0
Investments properties	2 381	2 381	0	0	0	0
Investments in subsidiaries	1 542 538	1 542 538	0	0	0	0
Intangible assets	53 282	0	0	0	0	53 282
Property and equipment	77 754	77 754	0	0	0	0
Right-of-use assets	13 607	13 607	0	0	0	0
Derivative financial assets designated as hedge accounting relationships	16 677	0	16 677	0	0	17
Deferred tax assets	0	0	0	0	0	0
Other assets	116 699	116 699	0	0	0	0
TOTAL ASSETS	10 138 804	9 851 077	101 181	0	189 569	54 935
Amounts due to banks, the National Governments, deposits from the National Banks and other banks	738 054	0	0	0	0	738 054
Deposits from customers	6 573 550	0	0	0	0	6 573 550
Repo liabilities	462 621	0	0	0	0	462 621
Liabilities from issued securities	43 284	0	0	0	0	43 284
Subordinated bonds and loans	279 394	0	0	0	0	279 394
Financial liabilities at fair value through profit or loss	28 861	0	0	0	0	28 861
Held for trading derivative financial liabilities	83 088	0	0	0	0	83 088
Derivative financial liabilities designated as hedge accounting relationships	10 023	0	0	0	0	10 023
Deferred tax liabilities	5 875	0	0	0	0	5 875
Leasing liabilities	13 660	0	0	0	0	13 660
Other liabilities	246 676	0	0	0	0	246 676
TOTAL LIABILITIES	8 485 086	0	0	0	0	8 485 086

Chart 57: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

Description	Total	Items subject to			
		Credit risk framework	CCR framework	Securitisation framework	Market risk framework
(in HUF million)					
Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	10 138 804	9 851 077	101 181	0	189 569
Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	8 485 086	0	0	0	0
Total net amount under the regulatory scope of consolidation	1 653 718	0	0	0	0
Off-balance sheet amounts	2 835 742	1 389 610	0	0	0
Non deducted from regulatory capital, capital requirement increase elements	12 812	12 812	0	0	0
Differences because the transitional arrangements related to IFRS 9 or analogous ECLs*	31 242	31 242	0	0	0
Exposure amounts considered for regulatory purposes	11 575 491	11 284 741	101 181	0	189 569

* Calculated according to 2017/2395 EU regulation

Chart 58: OTP Bank's regulatory capital

Total regulatory capital (in HUF million)	31 December 2019	Cross reference to rows of own funds disclosure template
Paid in capital	28 000	(1)
Retained earnings	1 393 266	(2)
Accumulated other comprehensive income and other reserves	41 735	(3)
Balance sheet profit or loss	193 354	(2)
Intangible assets (-)	(53 282)	(8)
Prudential filters	(1 834)	(7)
Deferred tax assets	(283)	(10)
Treasury shares (-)	(2 636)	(16)
(-) <i>Direct shares</i>	(2 636)	
(-) <i>Indirect shares</i>	0	
Other transitional adjustments (1)	30 775	(26)
Common Equity Tier 1 capital	1 629 096	(29)
Total Tier 1 capital	1 629 096	(45)
Upper Tier 2 capital	276 699	
Total Tier 2 capital	276 699	(58)
Total regulatory capital	1 905 795	(59)

(1) Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds according to 2017/2395 EU regulation.

Due to the COVID 19 pandemia, in order to strengthen the banking system, Hungarian National Bank requests banks to make sure that dividends are neither approved, nor paid until the 30.09.2020. In this document the regulatory capital is presented in line with the request of the National Bank and dividend payment is not taken into account in the regulatory capital².

² <https://www.mnb.hu/en/pressroom/press-releases/press-releases-2020/the-mnb-takes-several-measures-to-support-the-operation-of-banks> (21.04.2020)

Chart 59: Breakdown of regulatory capital including transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds in accordance with 2017/2395 EU regulation

Common Equity Tier 1 capital: instruments and reserves (in HUF million)		(A) 31 December 2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C)
				AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
1	Capital instruments and the related share premium accounts	28 000	26 (1), 27, 28, 29, EBA list 26 (3)	
	of which: share	28 000	EBA list 26 (3)	
2	Retained earnings (1)	1 586 621	26 (1) (c)	
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	41 735	26 (1)	
3a	Funds for general banking risk		26 (1) (f)	
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1		486 (2)	
5	Minority interests (amount allowed in consolidated CET1)		84, 479, 480	
5a	Independently reviewed interim profits net of any foreseeable charge or dividend		26 (2)	
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	1 656 355		
Common Equity Tier 1 (CET1) capital: regulatory adjustments (in HUF million)		(A) 31 December 2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C)
				AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
7	Additional value adjustments (negative amount)	(1 834)	34, 105	
8	Intangible assets (net of related tax liability) (negative amount)	(53 282)	36 (1) (b), 37, 472 (4)	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	(283)	36 (1) (c), 38, 472 (5)	
11	Fair value reserves related to gains or losses on cash flow hedges		33 (1) (a)	
12	Negative amounts resulting from the calculation of expected loss amounts		36 (1) (d), 40, 159, 472 (6)	
13	Any increase in equity that results from securitised assets (negative amount)		32 (1)	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing		33 (1) (b)	
15	Defined-benefit pension fund assets (negative amount)		36 (1) (e), 41, 472 (7)	
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	(2 636)	36 (1) (f), 42, 472 (8)	
17	Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		36 (1) (g), 44, 472 (9)	
18	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36 (1) (h), 43, 45, 46, 49 (1)-(3), 79, 472 (10)	(26 177)
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1)-(3), 79, 470, 472 (11)	(1 519 174)

Common Equity Tier 1 (CET1) capital: regulatory adjustments (in HUF million)		(A) 31 December 2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative		36 (1) (k)	
20b	of which: qualifying holdings outside the financial sector (negative amount)		36 (1) (k) (i), 89-91	
20c	of which: securitisation positions (negative amount)		36 (1) (k) (ii)	
			243 (1) (b)	
			244 (1) (b)	
20d	of which: free deliveries (negative amount)		258	
			36 (1) (k) (iii), 379 (3)	
21	Deferred tax assets arising from temporary difference (amount above 10 % threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)		36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	
22	Amount exceeding the 15% threshold (negative amount)		48 (1)	0
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities		36 (1) (i), 48 (1) (b), 470, 472 (11)	0
25	of which: deferred tax assets arising from temporary difference		36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	
25a	Losses for the current financial year (negative amount)		36 (1) (a), 472 (3)	
25b	Foreseeable tax charges relating to CET1 items (negative amount)		36 (1) (l)	
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment (2)	30 775		
27	Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)		36 (1) (j)	
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(27 259)		
29	Common Equity Tier 1 (CET1) capital	1 629 096		

Additional Tier 1 (AT1) capital: instruments (in HUF million)		(A) 31 December 2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
30	Capital instruments and the related share premium accounts		51, 52	
31	of which: classified as equity under applicable accounting standards			
32	of which: classified as liabilities under applicable accounting standards			
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1		486 (3)	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties		85, 86, 480	
35	of which: instruments issued by subsidiaries subject to phase-out		486 (3)	
36	Additional Tier 1 (AT1) capital before regulatory adjustments	0		

	(A)	(B)	(C)
Additional Tier 1 (AT1) capital: regulatory adjustments (in HUF million)	31 December 2019	REGULATION (EU) No 575/2013 ARTICLE REFERENCE	AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
37 Direct and indirect holdings by an institution of own AT1 instruments (negative amount)		52 (1) (b), 56 (a), 57, 475 (2)	
38 Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		56 (b), 58, 475 (3)	
39 Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		56 (c), 59, 60, 79, 475 (4)	
40 Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		56 (d), 59, 79, 475 (4)	
42 Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)		56 (e)	
43 Total regulatory adjustments to Additional Tier 1 (AT1) capital	0		
44 Additional Tier 1 (AT1) capital	0		
45 Tier 1 capital (T1 = CET1 + AT1)	1 629 096		

	(A)	(B)	(C)
Tier 2 (T2) capital: instruments and provisions (in HUF million)	31 December 2019	REGULATION (EU) No 575/2013 ARTICLE REFERENCE	AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
46 Capital instruments and the related share premium accounts	276 699	62, 63	
47 Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2		486 (4)	
48 Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party		87, 88, 480	
49 of which: instruments issued by subsidiaries subject to phase-out		486 (4)	
50 Credit risk adjustments		62 (c) & (d)	
51 Tier 2 (T2) capital before regulatory adjustment	276 699		

	(A)	(B)	(C)
Tier 2 (T2) capital: regulatory adjustments (in HUF million)	31 December 2019	REGULATION (EU) No 575/2013 ARTICLE REFERENCE	AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
52 Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)		63 (b) (i), 66 (a), 67, 477 (2)	
53 Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount)		66 (b), 68, 477 (3)	
54 Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)		66 (c), 69, 70, 79, 477 (4)	
55 Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)		66 (d), 69, 79, 477 (4)	(69 163)
57 Total regulatory adjustments to Tier 2 (T2) capital	0		
58 Tier 2 (T2) capital	276 699		
59 Total capital (TC = T1 + T2)	1 905 795		
60 Total risk weighted assets	6 911 033		

Capital ratios and buffers (in HUF million)		(A) 31 December 2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C)
				AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	23.57%	92 (2) (a), 465	
62	Tier 1 (as a percentage of total risk exposure amount)	23.57%	92 (2) (b), 465	
63	Total capital (as a percentage of total risk exposure amount)	27.58%	92 (2) (c)	
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of total risk exposure amount)	7.000%	CRD 128, 129, 130, 131 and 133	
65	of which: capital conservation buffer requirement	2.500%		
66	of which: countercyclical buffer requirement (3)			
67	of which: systemic risk buffer requirement (3)			
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer (4)		CRD 131	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	15.57%	CRD 128	

Amounts below the thresholds for deduction (before risk-weighting) (in HUF million)		(A) 31 December 2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C)
				AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	26 177	36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)	
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		36 (1) (i), 45, 48, 470, 472 (11)	
75	Deferred tax assets arising from temporary difference (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)		36 (1) (c), 38, 48, 470, 472 (5)	

Applicable caps on the inclusion of provisions in Tier 2 (in HUF million)		(A) 31 December 2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C)
				AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)		62	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach		62	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)		62	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		62	

Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022) (in HUF million)	(A) 31 December 2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
80 - Current cap on CET1 instruments subject to phase-out arrangements		484 (3), 486 (2) & (5)	
81 - Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		484 (3), 486 (2) & (5)	
82 - Current cap on AT1 instruments subject to phase-out arrangements		484 (4), 486 (3) & (5)	
83 - Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		484 (4), 486 (3) & (5)	
84 - Current cap on T2 instruments subject to phase-out arrangements		484 (5), 486 (4) & (5)	
85 - Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		484 (5), 486 (4) & (5)	

- (1) Profit for financial year 2019 is included in retained earnings
- (2) Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds according to 2017/2395 EU regulation.
- (3) Capital buffer is not implemented
- (4) Not relevant capital buffer

Information about the main characteristics of capital instruments is under Group level data.

Chart 60: The effect of the transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds in accordance with 2017/2395 EU regulation

IFRS 9 effect		31.12.2019
(in HUF million)		
Regulatory capital		
1	Common Equity Tier 1 (CET1) capital	1 629 096
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1 598 321
3	Tier 1 capital	1 629 096
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1 598 321
5	Total capital	1 905 795
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1 875 020
Total risk weighted assets		
7	Total risk weighted assets	6 911 033
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	6 886 609
Capital ratios		
9	Common Equity Tier 1 (as a percentage of total risk exposure amount)	23.57%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	23.21%
11	Tier 1 (as a percentage of total risk exposure amount)	23.57%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	23.21%
13	Total capital (as a percentage of total risk exposure amount)	27.58%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	27.23%
Leverage ratio		
15	Total exposure	11 525 450
16	Leverage ratio	14.13%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	13.87%

II.2. Trading book market and counterparty risks (capital requirements)

Chart 61: Trading book positions capital requirement

Description (in HUF million)	RWAs	Capital requirements
Interest rate risk (general and specific)	88 188	7 055
Equity risk (general and specific)	549	44
Foreign exchange risk	28 357	2 269
Commodity risk	2 885	231
Options		
Simplified approach		
Delta-plus method	372	30
Scenario approach		
Securitisation (specific risks)		
Total	120 351	9 628

Chart 62: Analysis of CCR exposure by approach

Description (in HUF million)	Notional	Replacement cost/current market value	Potential future credit exposure	EEPE (Effective Expected Positive Exposure)	Multiplier	EAD post CRM	RWAs
Mark to market		20 478	110 765			102 533	70 819
Original exposure	0					0	0
Standardised approach		0			0	0	0
IMM (for derivatives and SFTs)				0	0	0	0
Of which securities financing transactions				0	0	0	0
Of which derivatives and long settlement transactions				0	0	0	0
Of which from contractual cross-product netting				0	0	0	0
Financial collateral simple method (for SFTs)						0	0
Financial collateral comprehensive method (for SFTs)						80 718	77 253
VaR for SFTs						0	0
Total							148 072

Chart 63: CVA capital charge

Description (in HUF million)	Exposure value	RWAs
Total portfolios subject to the advanced method	0	0
VaR component (including the 3 x multiplier)		0
SVaR component (including the 3 x multiplier)		0
All portfolios subject to the standardised method	34 375	4 823
Based on the original exposure method	0	0
Total subject to the CVA capital charge	0	0

Chart 64: CCR exposures by regulatory portfolio and risk

Exposure classes (in HUF million)	Risk weight											Total	Of which unrated
	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Other		
Central governments or central banks	5 835	0	0	0	0	7 186	0	0	0	0	0	13 021	0
Regional government or local authorities	0	0	0	0	0	0	0	0	0	0	0	0	0
Public sector entities	0	0	0	0	0	0	0	0	0	0	0	0	0
Multilateral development banks	0	0	0	0	0	0	0	0	0	0	0	0	0
International organisations	0	0	0	0	0	0	0	0	0	0	0	0	0
Institutions	237	0	0	0	23 288	6 740	0	0	94 275	0	0	124 540	100 116
Corporates	1	0	0	0	0	0	0	0	39 370	0	0	39 370	28 363
Retail	0	0	0	0	0	0	0	3 670	0	0	0	3 670	3 670
Institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0	0	0	0	0	0	0
Other items	0	2 648	0	0	0	0	0	0	1	0	0	2 649	0
Total	6 073	2 648	0	0	23 288	13 926	0	3 670	133 646	0	0	183 250	132 149

Note: „Of which unrated” column contains the exposures which do not have external credit ratings

Chart 65: Exposures to CCP-s

(in HUF million)	Description	EAD post CRM	RWAs
Exposures to QCCPs (total)			
	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which		53
	(i) OTP derivatives	2 648	53
	(ii) Exchange-traded derivatives	0	0
	(iii) SFTs	0	0
	(iv) Netting sets where cross-product netting has been approved	0	0
	Segregated initial margin	41 787	
	Non-segregated initial margin	0	0
	Prefunded default fund contributions	1	1
	Alternative calculation of own funds requirements for exposures		0
Exposures to non-QCCPs (total)			
	Exposures for trades at non QCCPs (excluding initial margin and default fund contributions); of which		0
	(i) OTP derivatives	0	0
	(ii) Exchange-traded derivatives	0	0
	(iii) SFTs	0	0
	(iv) Netting sets where cross-product netting has been approved	0	0
	Segregated initial margin	0	
	Non-segregated initial margin	0	0
	Prefunded default fund contributions	0	0
	Unfunded default fund contributions	0	0

Chart 66: Impact of netting and collateral held on exposure values

(in HUF million)	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Derivatives	48 301	0	48 301	2 280	46 021
SFTs	37 731	0	37 731	33 251	4 481
Cross-product netting	672 390	81 252	591 138	458 391	132 747
Total	758 422	81 252	677 170	493 921	183 249

Chart 67: Composition of collateral for exposures to CCR

(in HUF million)	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash	0	28 684	41 787	11 223	410	271
Total	0	28 684	41 787	11 223	410	271

II.3. Leverage

Chart 68: Net exposure value to leverage ratio

	in HUF million	Applicable Amount
1	Total assets as per published financial statements	10 138 804
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	0
4	Adjustments for derivative financial instruments	102 531
5	Adjustment for securities financing transactions (SFTs)	80 718
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	1 389 599
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	0
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	0
7	Other adjustments	(186 202)
8	Leverage ratio total exposure measure	11 525 450

Chart 69: Leverage ratio

	in HUF million	CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	10 007 873
2	(Asset amounts deducted in determining Tier 1 capital)	(55 271)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	9 952 602
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	35 970
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	66 562
EU-5a	Exposure determined under Original Exposure Method	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
11	Total derivatives exposures (sum of lines 4 to 10)	102 531
SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	0
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	Counterparty credit risk exposure for SFT assets	80 718
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	0
15	Agent transaction exposures	0
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	0
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	80 718
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	2 577 063
18	(Adjustments for conversion to credit equivalent amounts)	(1 187 464)
19	Other off-balance sheet exposures (sum of lines 17 and 18)	1 389 599
Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)		
EU-19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
Capital and total exposure measure		
20	Tier 1 capital	1 629 096
21	Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	11 525 450
Leverage ratio		
22	Leverage ratio	14.13%
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully phased in
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	0

Note: The exposures are calculated according to 2017/2395 EU regulation, including the effect of transitional arrangements for mitigating the impact of the introduction of IFRS 9 and the correction in accordance with the Article 1. (7) paragraph b) point.

The change of Tier1 capital and risk weighted assets can have an impact on leverage ratio. There was no material change in the value of leverage ratio in 2019.

II.4. Credit risk adjustments

II.4.1. Methodology of valuation and provisions

The financial reports of the OTP Bank are based on IFRS regulation. Measurement and provision allocation of assets, investments and off-balance sheet liabilities are realized according to frameworks of relevant IFRS/IAS standards.

In its regulations entitled “International Financing Reporting Standards (IFRS) valuation requirements” OTP Bank provides detailed regulations pertaining to the measurement and provision recognition of outstanding debts, investments and off-balance sheet liabilities.

The recognized provision level reflects to the foreseeable risks and potential losses. The amount of the recognized impairment is the difference between the book value of the outstanding debt and the expected amount of the recovered debt. OTP Bank recognizes risk provision for off-balance sheet (pending, future) liabilities on the basis of their assessment. If the measurement process reveals that the amount of the risk provision exceeds the amount required on the basis of the assessment, the excess amount of the risk provision is released.

At initial recognition the financial assets must be tested based on the business model and the contracted cash flow characteristics, based on which it can be determined according to which measurement method, specified in the IFRS 9 standard, the given asset is to be managed and valued. The assets can be allocated to the following three categories:

- Assets measured at amortized cost
- Assets valued at fair value through other comprehensive income (FVOCI) – IFRS13,
- Assets valued at fair value through profit and loss (FVPL) – IFRS13.

According to the requirements of the IFRS9 standard, upon the initial recognition and on the reporting dates (last calendar day of the reporting month) the assets measured at amortized cost and the assets valued at fair value through other comprehensive income must be allocated to three stages by their credit risk or POCI category:

- Stage 1 category contains the performing deals.
- Those deals, which are performing, but compared to the initial recognition it shows significant increase in credit risk, must be categorized to Stage 2.
- Stage 3 contains the non-performing (credit-impaired) deals.
- Purchased or originated credit impaired assets are financial assets that are impaired already upon the initial recognition. These assets must be classified as POCI.

In case of the Stage 1 deals 12-month credit losses must be calculated by the expectations of the default probability, for Stage 2 and Stage 3 deals lifetime expected losses must be calculated as impairment.

Depending on the item, assessment based on the following aspects:

- client and counterparty rating – financial situation, stability and income generation capability of the client or counterparty affected by the financial and investment service, and any changes in these factors;
- the repayment schedule (overdue days) – patterns of delay on principal and interest payment related to the amortization of the outstanding debt, regular fulfillment of the payment obligation;
- status of restructuring risk contract;
- sovereign risk and changes in the sovereign risk associated with the client (both political risk and transfer risk);
- value, marketability and availability of the securities pledged as collateral and any changes in them;
- marketability of the item (market demand and supply, achievable market prices, share in the issuer’s equity in proportion to the size of the investment),
- future payment obligation, which qualifies as a loss originating from the item,
- significant increase in credit risk compared to the initial recognition.

Probable future losses on the item are determined on a case-by-case basis, in consideration of the above aspects as applicable. If this amount is lower than the amount recognized on the item earlier, it has to be supplemented by the amount of the difference by recognizing a further amount of impairment, or if it is higher, it has to be reduced by the release of the existing amount of impairment.

Delinquent deal: the client doesn't perform his/her payment obligations.

According to the CRR a default shall be considered to have occurred with regard to a particular obligor when either or both of the following events have taken place:

- the institution considers that the obligor is unlikely to pay its credit obligations to the institution, the parent undertaking or any of its subsidiaries in full, without recourse by the institution to actions such as realising security
- the obligor is past due more than 90 days on any material credit obligation to the institution, the parent undertaking or any of its subsidiaries.

If the debts are past due more than 90 days and it derives from non-lending type contracts do not qualify as default event. These exposures are not considered to be impaired.

A credit risk exposure shall be considered as restructured:

- considering the current or future financial difficulties of the client the institution
- provides a concession/allowance in respect of the contract originating the exposure (and this would not be done if the client would not have financial difficulties)

The calculation of credit losses may be carried out on an individual or collective basis.

Portfolio (collective) assessment

The collective assessment based on the following parameters: probability of defaults, cure rate, loss given default. The condition of applying collective assessment is that the assets should be allocable to groups representing similar credit risk based on major credit risk characteristics and their capability to fulfill contractual obligations. The most important variables of the assessment procedure are payment delay, deal/client rating, the restructuring information and the default status.

Upon estimating the future cash flows related to the group(s) of financial assets, the historic credit loss data of the assets representing similar credit risk, the macroeconomic factors and information on the future of financial instruments must be taken into account.

The OTP Bank shall measure expected credit losses of a financial asset 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.

Individual assessment

Receivables that are of insignificant amount on a stand-alone basis with objective evidence of impairment or that the risk management functional area subjected to individual assessment based on monitoring information must be measured individually:

- The cash flows expected from the financial instruments must be defined, which has to be based on at least two scenarios.
- Valuation and revaluation of collaterals is crucial, discounting the cash-flows from the sale of collaterals is an important part of individual assessment.
- The defined cash flows must be discounted to the present value.
- The impairment of the financial instrument is taking into account the riskiness of cash flows and individual collateralization.
- The individual cash-flow estimation also has to be forward looking, which has to contain the information about the macroeconomic environment and the future of the financial instruments.
- If there is a significant change in the credit risk of a financial asset, the impairment calculation must be reviewed taking into account the new information and risks.

Changes in impairment of loan portfolio are presented in in the following notes of the financial statement:

- changes of impairment regarding “Placements with other banks” in Note 5.
- changes of impairment regarding “Securities at amortised cost” in Note 11.
- changes of impairment regarding “Loans” in Note 9.

Chart 70: Qualified exposures and impairment

(in HUF million)	Accumulated specific / general credit risk adjustment
Opening balance	72 906
Increases due to amounts set aside for estimated loan losses during the period	42 671
Decreases due to amounts reversed for estimated loan losses during the period	0
Decreases due to amounts taken against accumulated credit risk adjustments	(16 826)
Transfers between credit risk adjustments	(13 475)
Impact of exchange rate differences	1 385
Cured from default or non-impaired	0
Other adjustments	0
Closing balance	86 661
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	0
Specific credit risk adjustments directly recorded to the statement of profit or loss	199

Chart 71: Changes of non-performing loan exposures

(in HUF million)	Gross carrying value defaulted exposures
1. Opening balance - 31.12.2018	64 803
2. Loans and debt securities that have defaulted since the last reporting period	10 858
3. Returned to non-defaulted status	1 942
4. Amounts written-off	4 905
5. Other changes*	(26 609)
6. Closing balance - 31.12.2019 (6 = 1 + 2 - 3 - 4 + 5)	42 204

* Contains the IFRS 9 transitional difference

II.4.2. Exposures to credit risk

The presented RWAs and exposures in this chapter are calculated according to 2017/2395 EU regulation, including the effect of transitional arrangements for mitigating the impact of the introduction of IFRS 9 and the correction in accordance with the Article 1. (7) paragraph b) point.

Chart 72: Net exposures broken down by exposure classes (without the effect of credit risk mitigation methods)

Exposures (in HUF million)	31.12.2019	2019 Average
Exposures to central governments or central banks	3 074 715	3 110 018
Exposures to regional governments or local authorities	68 194	69 227
Exposures to public sector entities	51 443	56 409
Exposures to multilateral development banks	4 688	2 128
Exposures to international organisation	0	0
Exposures to institutions	2 485 488	2 138 858
Exposures to corporates	2 292 432	2 138 769
Retail exposures	558 928	546 430
Exposures secured by mortgages on immovable property	554 080	541 351
Exposures in default	26 292	28 315
Exposures associated with particularly high risk	1 536 731	1 336 362
Exposures in the form of covered bonds	220 076	230 006
Exposures to institutions and corporates with a short-term credit assessment	0	0
Exposures in the form of units or shares in collective investment undertakings ('CIUs')	17 100	16 531
Equity exposures	84 158	66 115
Other items	306 867	279 180
Total	11 281 192	10 559 700

Chart 73: Exposures broken down by geographical areas (by the country of obligors) on 31st December 2019

(in HUF million)	Exposures to central governments or central banks	Exposures to regional governments or local authorities	Exposures to public sector entities	Exposures to multilateral development banks	Exposures to international organisation	Exposures to institutions	Exposures to corporates	Retail exposures	Exposures secured by mortgages on immovable property	Exposures in default	Exposures associated with particularly high risk	Exposures in the form of covered bonds	Exposures to institutions and corporates with a short-term credit assessment	Exposures in the form of units or shares in collective investment undertakings ("CIUs")	Equity exposures	Other items	Total
Total	3 074 715	68 194	51 443	4 688	0	2 485 488	2 292 432	558 928	554 080	26 292	1 536 731	220 076	0	17 100	84 158	306 867	11 281 192
Albania	0	0	0	0	0	31 213	0	0	0	0	11 865	0	0	0	0	0	43 078
Austria	0	0	0	0	0	1 333	58	1	0	5	0	0	0	0	0	0	1 397
Australia	0	0	0	0	0	230	0	0	0	0	0	0	0	0	0	0	230
Belgium	0	0	0	0	0	401	15 647	0	0	0	93	0	0	0	0	0	16 141
Bulgaria	10 803	0	0	0	0	4 346	15 519	2	74 515	0	280 924	0	0	0	0	0	386 109
Canada	0	0	0	0	0	198	0	1	0	0	0	0	0	0	0	0	199
Switzerland	0	0	0	0	0	9 231	56 089	1	0	0	0	0	0	0	0	0	65 321
Cyprus	0	0	0	0	0	0	-1 032	0	0	0	4 983	0	0	0	40	0	3 991
Czech Republic	0	0	0	0	0	5	129	0	0	0	0	0	0	0	0	0	134
Germany	25 969	0	0	0	0	14 432	1 032	3	0	29	0	0	0	0	0	0	41 465
Denmark	0	0	0	0	0	168	216	0	0	0	0	0	0	0	0	0	384
Spain	0	0	0	0	0	1 047	262	0	3	0	0	0	0	0	0	0	1 312
France	0	0	0	0	0	33 486	110	1	0	0	0	0	0	0	0	0	33 597
United Kingdom	0	0	0	0	0	37 357	177	2	0	0	0	0	0	0	0	0	37 536
Croatia	1 647	0	0	0	0	71 708	6 294	3	8 450	0	206 781	0	0	0	0	0	294 883
Hungary	2 947 916	68 194	51 443	0	0	1 680 014	1 397 793	558 798	426 835	26 255	225 411	220 076	0	17 100	68 603	306 867	7 995 305
Ireland	0	0	0	0	0	400	28	0	0	0	0	0	0	0	0	0	428
Italy	0	0	0	0	0	150	1 298	2	0	0	0	0	0	0	0	0	1 450
Japan	0	0	0	0	0	1 600	1	0	0	0	0	0	0	0	0	0	1 601
Lithuania	6 511	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	6 511
Luxembourg	0	0	0	0	0	2 964	79	0	0	0	0	0	0	0	0	0	3 043
Moldova	0	0	0	0	0	1 084	0	0	0	0	24 159	0	0	0	0	0	25 243
Montenegro	10 013	0	0	0	0	28 966	0	0	0	0	49 495	0	0	0	0	0	88 474
Malta	0	0	0	0	0	0	718 530	0	0	0	37 270	0	0	0	0	0	755 800
Netherlands	0	0	0	0	0	542	3 875	1	14	0	521	0	0	0	4	0	4 957
Poland	15 629	0	0	0	0	226	257	1	0	0	0	0	0	0	0	0	16 113
Romania	13 044	0	0	0	0	32 786	5 358	27	30 743	1	105 473	0	0	0	0	0	187 432
Serbia	6 875	0	0	0	0	289 964	52 603	5	13 508	0	206 309	0	0	0	1 295	0	570 559
Russian Federation	36 308	0	0	4 688	0	30 722	0	1	0	1	149 429	0	0	0	0	0	221 149
Sweden	0	0	0	0	0	1 027	1 744	2	0	0	0	0	0	0	0	0	2 773
Slovenia	0	0	0	0	0	67 782	6 993	0	0	0	107 372	0	0	0	0	0	182 147
Slovakia	0	0	0	0	0	138 844	577	50	4	0	16 592	0	0	0	1 160	0	157 227
Turkey	0	0	0	0	0	349	9	1	0	1	0	0	0	0	0	0	360
Ukraine	0	0	0	0	0	1	0	8	0	0	106 502	0	0	0	1	0	106 512
United States	0	0	0	0	0	2 618	8 562	3	0	0	0	0	0	0	13 055	0	24 238
Other	0	0	0	0	0	294	224	15	8	0	3 552	0	0	0	0	0	4 093

Chart 74: Exposure classes broken down by counterparty type on 31st December 2019

(in HUF million)	Exposures to central governments or central banks	Exposures to regional governments or local authorities	Exposures to public sector entities	Exposures to multilateral development banks	Exposures to international organisation	Exposures to institutions	Exposures to corporates	Retail exposures	Exposures secured by mortgages on immovable property	Exposures in default	Exposures associated with particularly high risk	Exposures in the form of covered bonds	Exposures to institutions and corporates with a short-term credit assessment	Exposures in the form of units or shares in collective investment undertakings ('CIUs')	Equity exposures	Other items	Total
Total	3 074 715	68 194	51 443	4 688	0	2 485 488	2 292 432	558 928	554 080	26 292	1 536 731	220 076	0	17 100	84 158	306 867	11 281 192
Governments	2 688 711	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2 688 711
Municipal	12 576	65 916	0	0	0	0	0	0	0	0	0	0	0	0	0	0	78 492
Public sector entities	12 814	0	51 443	0	0	0	0	0	0	67	0	0	0	0	0	0	64 324
Multilateral development banks	0	0	0	4 688	0	0	0	0	0	0	0	0	0	0	0	0	4 688
Institutions	0	0	0	0	0	2 414 901	0	0	0	0	0	0	0	0	0	0	2 414 901
Coporate	390	2 084	0	0	0	66 086	1 771 385	0	142 895	5 668	12 128	0	0	17 100	0	0	2 017 736
Corpoarte SME	102 343	194	0	0	0	4 501	448 613	0	296 504	7 856	4 719	0	0	0	0	0	864 730
Retail	201 582	0	0	0	0	0	72 434	510 627	108 503	11 925	0	0	0	0	0	0	905 071
Retail SME	56 299	0	0	0	0	0	0	48 301	6 178	776	0	0	0	0	0	0	111 554
Equity	0	0	0	0	0	0	0	0	0	0	1 519 884	0	0	0	84 158	0	1 604 042
Other*	0	0	0	0	0	0	0	0	0	0	0	220 076	0	0	0	306 867	526 943

* Other, non-credit risk items; collective, investment funds

Chart 75: Exposure classes broken down by residual maturity on 31st December 2019

(in HUF million)	On demand	<= 1 year	> 1 year <= 5 year	> 5 year	No stated maturity	Total
Total	0	4 044 210	2 284 579	3 034 442	1 917 961	11 281 192
Exposures to central governments or central banks	0	1 102 153	1 035 277	937 285	0	3 074 715
Exposures to regional governments or local authorities	0	3 317	4 205	60 672	0	68 194
Exposures to public sector entities	0	23 290	9 565	18 588	0	51 443
Exposures to multilateral development banks	0	0	4 688	0	0	4 688
Exposures to international organisation	0	0	0	0	0	0
Exposures to institutions	0	1 300 472	379 967	805 049	0	2 485 488
Exposures to corporates	0	1 314 761	479 585	496 146	1 940	2 292 432
Retail exposures	0	238 405	128 967	191 556	0	558 928
Exposures secured by mortgages on immovable property	0	51 645	120 589	381 846	0	554 080
Exposures in default	0	4 424	2 873	18 995	0	26 292
Exposures associated with particularly high risk	0	5 743	434	5 558	1 524 996	1 536 731
Exposures in the form of covered bonds	0	0	118 429	101 647	0	220 076
Exposures to institutions and corporates with a short-term credit assessment	0	0	0	0	0	0
Exposures in the form of units or shares in collective investment undertakings ('CIUs')	0	0	0	17 100	0	17 100
Equity exposures	0	0	0	0	84 158	84 158
Other items	0	0	0	0	306 867	306 867

Due to the organic growth, the exposures of OTP Bank increased significantly in 2019, compared to 2018.

Chart 76: Aging of past-due exposures

(in HUF million)	Gross carrying values					
	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
Loans	5 019 709	11 652	5 436	6 231	3 762	14 044
Debt securities	2 931 358	0	0	0	0	0
Total exposures	7 951 067	11 652	5 436	6 231	3 762	14 044

Chart 77: Non-performing and forborne exposures

(in HUF million)	Gross carrying amount of performing and non-performing exposures						Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received		
	Of which performing but past due > 30 days and <= 90 days	Of which performing forborne	Of which non-performing			On performing exposures		On non-performing exposures		On non-performing exposures	Of which forborne exposures		
			Of which defaulted	Of which impaired	Of which forborne	Of which forborne	Of which forborne						
Debt securities	2 931 358	0	0	5 243	5 243	5 243	0	(3 185)	0	(1 205)	0	0	0
Loans and advances	5 085 184	10 657	22 101	56 139	54 730	54 694	30 887	(52 714)	(5 569)	(29 585)	(16 184)	19 277	23 231
Off-balance-sheet exposures	2 829 906		674	4 177	4 177		49	12 642	109	1 646	22	501	91

Note: Exposures according to EBA definition.

Chart 78: Credit quality of exposures by exposure class and instrument on 31st December 2019

(in HUF million)	Gross carrying values of		Specific/General credit risk adjustment	Net values
	Defaulted exposures	Non-defaulted exposures		
Central governments or central banks	0	3 076 639	(5 535)	3 071 104
Regional governments or local authorities	1	68 714	(521)	68 194
Public sector entities	92	51 643	(225)	51 510
Multilateral development banks	0	4 698	(10)	4 688
Exposures to international organisation	0	0	0	0
Institutions	1	2 487 820	(2 333)	2 485 488
Corporates	20 837	2 308 588	(21 819)	2 307 606
Retail	21 170	568 063	(15 643)	573 590
Secured by mortgages on immovable property	0	559 999	(5 919)	554 080
Exposures in default	0	0	0	0
Items associated with particularly high risk	0	1 946 667	(409 936)	1 536 731
Covered bonds	0	220 076	0	220 076
Exposures to institutions and corporates with a short-term credit assessment	0	0	0	0
Collective investments undertakings	0	17 100	0	17 100
Equity exposures	0	110 540	(26 382)	84 158
Other exposures	0	306 888	(21)	306 867
Total	42 101	11 727 435	(488 344)	11 281 192

Chart 79: Credit quality of exposures by counterparty types on 31st December 2019

(in HUF million)	Gross carrying values of		Specific/General credit risk adjustment	Net values
	Defaulted exposures	Non-defaulted exposures		
Governments	0	2 689 439	(728)	2 688 711
Municipal	1	79 012	(521)	78 492
Public sector entities	92	64 487	(255)	64 324
Multilateral development banks	0	4 698	(10)	4 688
Institutions	1	2 417 121	(2 221)	2 414 901
Corporate	7 622	2 032 611	(22 497)	2 017 736
Corporate SME	13 215	865 221	(13 706)	864 730
Retail	19 242	904 593	(18 764)	905 071
Retail SME	1 928	111 580	(1 954)	111 554
Equity	0	2 031 709	(427 667)	1 604 042
Other*	0	526 964	(21)	526 943
Total	42 101	11 727 435	(488 344)	11 281 192

* Other, not mentioned items (e. g tangible assets)

Chart 80: Credit Quality of exposures by geography on 31st December 2019

(in HUF million)	Gross carrying values of		Specific/General credit risk adjustment	Net values
	Defaulted exposures	Non-defaulted exposures		
Total	42 101	11 727 435	(488 344)	11 281 192
Albania	0	43 078	0	43 078
Austria	12	1 393	(8)	1 397
Australia	1	230	(1)	230
Belgium	0	16 168	(27)	16 141
Bulgaria	0	387 896	(1 787)	386 109
Canada	1	199	(1)	199
Switzerland	0	65 723	(402)	65 321
Cyprus	0	4 260	(269)	3 991
Czech Republic	2	135	(3)	134
Germany	41	41 444	(20)	41 465
Denmark	0	386	(2)	384
Spain	0	1 313	(1)	1 312
France	1	33 598	(2)	33 597
United Kingdom	5	37 559	(28)	37 536
Croatia	1	294 906	(24)	294 883
Hungary	41 949	8 098 656	(145 300)	7 995 305
Ireland	0	430	(2)	428
Italy	1	1 458	(9)	1 450
Japan	0	1 602	(1)	1 601
Lithuania	0	6 512	(1)	6 511
Luxembourg	12	3 043	(12)	3 043
Moldova	0	25 243	0	25 243
Montenegro	0	111 834	(23 360)	88 474
Malta	0	758 494	(2 694)	755 800
Netherlands	1	4 972	(16)	4 957
Poland	1	16 118	(6)	16 113
Romania	10	216 524	(29 102)	187 432
Serbia	3	630 366	(59 810)	570 559
Russian Federation	4	221 598	(453)	221 149
Sweden	1	2 775	(3)	2 773
Slovenia	0	182 178	(31)	182 147
Slovakia	21	173 412	(16 206)	157 227
Turkey	2	360	(2)	360
Ukraine	6	315 219	(208 713)	106 512
United States	12	24 253	(27)	24 238
Other	14	4 100	(21)	4 093

Chart 81: Overview of CRM techniques

(in HUF million)	Exposures unsecured - Carrying amount	Exposures to be secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	11 868 979	623 627	128 955	494 672	0
Total debt securities	0	0	0	0	0
Total exposures	11 868 979	623 627	128 955	494 672	0
Of which defaulted	26 363	4 199	563	3 636	0

Note: The table contains exposures secured by financial collaterals and guarantees. Exposures secured by mortgage collaterals are included in "Exposures unsecured" column.

II.5. Use of External Credit Assessment Institutions

Chart 82: Exposures broken down by credit quality steps (CQS) of obligors

(in HUF million)	Risk weight										Total	Of which unrated
	0%	4%	10%	20%	35%	50%	75%	100%	150%	250%		
Exposures to central governments or central banks	2 879 579	16 043	6 511	37 217	0	118 477	0	16 888	0	0	3 074 715	3 074 715
Exposures to regional governments or local authorities	0	0	67 686	0	0	0	0	485	0	0	68 171	68 171
Exposures to public sector entities	28 373	0	0	0	0	0	0	23 070	0	0	51 443	51 443
Exposures to multilateral development banks	4 688	0	0	0	0	0	0	0	0	0	4 688	0
Exposures to international organisation	0	0	0	0	0	0	0	0	0	0	0	0
Exposures to institutions	1 620 113	0	285 335	0	0	204 692	0	375 347	0	0	2 485 487	2 346 002
Exposures to corporates	50 910	0	0	0	0	0	0	2 148 123	4	0	2 199 037	2 134 744
Retail exposures	0	0	0	0	0	0	547 853	0	0	0	547 853	547 853
Exposures secured by mortgages on immovable property	0	0	0	0	93 862	91 099	21 108	348 011	0	0	554 080	554 079
Exposures in default	0	0	0	0	0	0	0	21 384	4 411	0	25 795	25 794
Exposures associated with particularly high risk	0	0	0	0	0	0	0	0	1 536 731	0	1 536 731	1 536 731
Exposures in the form of covered bonds	135 765	0	0	0	0	84 311	0	0	0	0	220 076	220 076
Exposures to institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0	0	0	0	0	0
Exposures in the form of units or shares in collective investment undertakings ('CIUs')	0	0	0	0	0	0	0	17 100	0	0	17 100	17 100
Equity exposures	0	0	0	0	0	0	0	50 794	0	33 364	84 158	84 158
Other items	196 795	0	85	0	0	0	0	109 778	0	209	306 867	306 867
Total	4 916 223	16 043	359 617	37 217	93 862	498 579	568 961	3 110 980	1 541 146	33 573	11 176 201	10 967 733

Note: „Of which unrated" column contains the exposures which do not have external credit ratings

II.6. Capital requirement for operational risks

Capital requirement for operational risk of OTP Bank amounted to HUF 31,569 million on 31st December 2019, which was determined by advanced measurement approaches.

Chart 83: Capital requirement for operational risks on 31st December 2019:

Operational risk capital requirement's breakdown based on methods (in HUF million)	
Basic Indicator Approach	0
Standardised Approach	0
Alternative Standardised Approach	0
Advanced Measurement Approach	31 569
Total	31 569

II.7. Equity exposures not included in the trading book on 31 December 2019

Chart 84: Equity exposures not included in the trading book according to IFRS on 31 December 2019

Num-ber	Entity	Balance sheet value (in HUF million)	Listed (Exchanged-traded)	Num-ber	Entity	Balance sheet value (in HUF million)	Listed (Exchanged-traded)
1	ABE Clearing SAS	0	No	29	OTP Digitális Fund	2 997	No
2	Air-Invest Ltd.	11 257	No	30	OTP-DayOne Műveztő Fund	290	No
3	BALANSZ Real Estate Institute Fund	29 150	No	31	OTP Factoring Ltd.	25 411	No
4	BANK CENTER No. 1. Ltd.	26 063	No	32	OTP Financing Cyprus Company Limited	301	No
5	Banka OTP Albania SHA	11 865	No	33	OTP Financing Malta Ltd.	31	No
6	Budapest Stock Exchange Ltd.	123	No	34	OTP Financing Netherlands B.V.	481	No
7	CIL Babér Ltd.	6 824	No	35	OTP Fund Management Ltd.	1 653	No
8	Crnogorska Komercijalna Banka a.d.	49 460	No	36	OTP Funds Servicing and Consulting Company Ltd.	2 469	No
9	DSK Bank EAD	280 692	No	37	OTP Holding Ltd.	2 000	No
10	Financial Research Corporation	0	No	38	OTP Holding Malta Ltd.	32 359	No
11	Garantiya Credit Guarantee Closed Co. Ltd.	270	No	39	OTP Hungaro-Project Ltd.	1 929	No
12	HAGE Ltd.	135	No	40	OTP Ingatlanüzemeltető Ltd.	15	No
13	INGA KETTŐ Ltd.	17 892	No	41	OTP Kockázati Fund	525	No
14	JSC "OTP Bank" (Russia)	74 335	No	42	OTP Life Annuity Real Estate Investment Ltd.	4 331	No
15	KÖZVIL Ltd.	0	No	43	OTP Osiguranje A.D.O. Beograd	701	No
16	LLC AllianceReserve	50 074	No	44	OTP Mortgage Bank Ltd.	89 198	No
17	Mátrai Power Plant Closed Company Limited by Share	0	No	45	OTP Real Estate Investment Fund Management Ltd.	1 352	No
18	Merkantil Bill and Property Investments Bank Ltd.	23 663	No	46	OTP Real Estate Ltd.	4 466	No
19	Mobiasbanca - OTP Group S.A.	24 159	No	47	Overdose Vagyonkezelő Ltd. "u.v.l."	0	No
20	MONICOMP Ltd.	9 065	No	48	PortfoLion Venture Capital Fund Management Ltd.	3 513	No
21	OTP Bank JSC (Ukraine)	103 994	No	49	Portfolion Regionális Fund	5 008	No
22	OTP Bank Romania S.A.	105 412	No	50	Portfolion Zöld Fund	821	No
23	OTP Banka Hrvatska d.d.	205 349	No	51	R.E. Four d.o.o., Novi Sad	594	No
24	OTP Banka Slovensko a.s.	16 485	Yes	52	SC Cefin Real Estate Kappa SRL	0	No
25	OTP Banka Srbija AD. Beograd	127 140	No	53	SKB Banka d.d. Ljubljana	107 372	No
26	OTP Building Society Ltd.	1 266	No	54	S.W.I.F.T. SCRL	0	No
27	OTP Card Factory Ltd.	450	No	55	VISA Incorporated	4 735	No
28	OTP Close Building Society	1 950	No	56	Vojvodjanska Banka a.d. Novi Sad	77 782	No

OTP Bank's individual gains arising from sales and liquidations relating to exposures in equities not included in the trading book for the year ended 31 December 2019 were 8,607 million HUF.

II.8. Exposure to interest rate risk on positions not included in the trading book

Asset-Liability Directorate measures banking book interest rate risk exposure monthly, and also presents it as part of the consolidated exposure to the management with the same frequency.

The size and direction of the exposure is determined based on sensitivity analysis mainly.

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 were prepared by assuming only the adversing interest rate changes. The main assumptions were as follows:

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

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

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

The net interest income in a one year period after January 1, 2020 would be decreased by HUF 1 261 million (scenario 1) and HUF 3 256 million (scenario 2) as a result of these simulation. This effect is counterbalanced by capital gains (HUF 223 million for scenario 1, HUF 2 670 million for scenario 2) on the government bond portfolio held for hedging.

Furthermore, the effects of an instant 10 bp 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 analyzed. The results can be summarized as follows (HUF million):

Chart 85: The effects of an instant 10 bp 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

Description (in HUF million)	Effects to the net interest income (1Year period)	(Price change of AFS government bonds)
HUF -0.1% parallel shift	(1 793)	558
EUR -0.1% parallel shift	(673)	0
USD -0.1% parallel shift	(104)	0
Total	(2 570)	558

II.9. Disclosure of encumbered and unencumbered assets

Chart 86: The encumbered and unencumbered assets in carrying and fair value amounts by broad categories of asset type

(in HUF million)	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution	820 081		9 013 241	
Equity instruments	0	0	45 527	45 526
Debt securities	720 327	760 881	2 264 415	2 296 603
Other assets	0		1 916 797	

Chart 87: Collateral received, by broad categories of product type

(in HUF million)	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by the reporting institution	0	87 979
Equity instruments	0	0
Debt securities	0	40 044
Other collateral received	0	47 935
Own debt securities issued other than own covered bonds or ABSs	0	0

Chart 88: Encumbered assets/collateral received and associated liabilities

(in HUF million)	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	815 624	810 019

Information on importance of encumbrance

The encumbrances of OTP Bank's assets and collaterals received mostly arise from the derivatives, repurchase agreements, and from the funds granted by the MNB's Funding for Growth Scheme and covered loans provided by the MNB. Typically, the collateral for repo transactions is HUF-denominated government bonds issued by the Hungarian government while the covered loan provided by the MNB is secured by mortgage bonds. The collateral for the central bank funding (the MNB's Funding for Growth Scheme) is partly the loans refinanced by the funds, and in part the mortgage bonds issued by OTP Mortgage Bank, which are in OTP Bank's books. The encumbrances caused by derivative deals largely arise from CIRS transactions, the market value of which may fluctuate depending on the foreign exchange rate (however, this exposure has greatly decreased after the conversion of foreign currency mortgage loans into HUF-loans). The value of other encumbrances (e.g. collaterals from securities lending, and collaterals for VISA/MasterCard) is insignificant compared to the Bank's securities portfolio.

The Bank's repo stock significantly increased in 2019 (from HUF 280 billion to HUF 463 billion) and there was HUF 130 billion of covered loans provided by the MNB. On the other hand, the value of encumbrances coming from the Funding for Growth Scheme's funds has decreased by HUF 28 billion.

At the end of the year there was not significant over-collateralization in any case of instruments.

The ISDA/CSA agreement regulates how to define the value of the collateral behind derivative transactions for all major partners. In the case of derivative transactions, if the total current market value of the derivative transactions with a partner, as calculated by the calculation agent, is negative, then the value that corresponds to the negative NPV shall be placed on the partner's margin account.

In respect of the items recognized under other assets in the balance sheet, OTP Bank does not consider its cash balance, intangible assets, tangible assets, or inventories subject to encumbrance.

II.10. Liquidity risk

Chart 89: Liquidity coverage ratio

Description	Total unweighted value (average)	Total weighted value (average)
	31.12.2019	31.12.2019
(in HUF million)		
Number of data points used in the calculation of averages	12	12
HIGH-QUALITY LIQUID ASSETS		
1. Total high-quality liquid assets (HQLA)		2 586 751
CASH – OUTFLOWS		
2. Retail deposits and deposits from small business customers, of which:	3 642 291	220 444
3. <i>Stable deposits</i>	3 114 490	155 724
4. <i>Less stable deposits</i>	527 801	64 720
5. Unsecured w wholesale funding	2 381 903	1 347 365
6. <i>Operational deposits (all counterparties) and deposits in networks of cooperative banks</i>	5	1
7. <i>Non-operational deposits (all counterparties)</i>	2 379 670	1 345 136
8. <i>Unsecured debt</i>	2 228	2 228
9. Secured w wholesale funding		0
10. Additional requirements	1 325 659	300 438
11. <i>Outflows related to derivative exposures and other collateral requirements</i>	21 270	21 270
12. <i>Outflows related to loss of funding on debt products</i>	0	0
13. Credit and liquidity facilities	1 304 389	279 168
14. Other contractual funding obligations	76 684	55 121
15. Other contingent funding obligations	1 102 294	27 061
16. TOTAL CASH OUTFLOWS	8 528 831	1 950 429
CASH – INFLOWS		
17. <i>Secured lending (e.g. reverse repos)</i>	63 994	184
18. <i>Inflows from fully performing exposures</i>	450 817	409 216
19. <i>Other cash inflows</i>	9 793	9 793
EU-19a <i>{Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies}</i>		0
EU-19b <i>{Excess inflows from a related specialised credit institution}</i>		0
20. TOTAL CASH INFLOWS	524 603	419 193
EU-20a <i>Fully exempt inflows</i>	0	0
EU-20b <i>Inflows subject to 90% cap</i>	0	0
EU-20c <i>Inflows subject to 75% cap</i>	524 603	419 193
TOTAL ADJUSTED VALUE		
21. LIQUIDITY BUFFER		2 586 751
22. TOTAL NET CASH OUTFLOWS		1 531 236
23. LIQUIDITY COVERAGE RATIO (%)		170%

II.11. Regional distribution of the Bank's activity, return on assets ratio**Chart 90: Regional distribution of the Bank's activity, return on assets ratio**

Description (in HUF million)	OTP Total year 2019	Branch (Germany) year 2019	Without Branch (Hungary) year 2019
Turnover	508 682	5	508 677
Profit or loss before tax	203 194	7	203 187
Tax on profit or loss	179 371	6	179 365
Public subsidies received	0	0	0
Number of employees on a full time basis	8 441	1	8 440
Return on assets	2.07%		

II.12. Shareholders with significant investment in OTP Bank

The OTP Bank had no shareholders with significant investment on 31st December 2019.

III. OTP Mortgage Bank

Information required to be disclosed regarding OTP Mortgage Bank Ltd. ("OTP Mortgage Bank") is not presented in this chapter separately only in the OTP Group Chapter, if it is the same as OTP Group level publications.

III.1. Corporate governance

Chart 91: The number of directorships of OTP Mortgage Bank's chief executives*

Members of the Board of Directors	Number of directorship (according to CRR Art. 435. paragraph (2))		Members of the Supervisory Board	Number of directorship (according to CRR Art. 435. paragraph (2))	
	outside OTP Group	in OTP Group*		outside OTP Group	in OTP Group*
Antal György KOVÁCS	-	5	Győző NYITRAI	1	4
András BECSEI	1	1	Ágota SELYMESI	-	-
Attila KOVÁCS	-	2	Zoltán KORMOS	-	3
Zoltán ROSKÓ	-	-	*with the exception of directorships held at OTP Mortgage Bank		
Csaba NAGY	-	3			
Ákos Ferenc FISCHL	-	1			
Anna FLOROVA	-	4			

*with the exception of directorships held at OTP Mortgage Bank

*The number of directorships includes the membership of Board of Directors and the Supervisory Board as well

Chart 92: Board members' education data

Board of Directors		Supervisory Board	
Antal György KOVÁCS		Győző NYITRAI	
University of Economics, Budapest	MSc in Economics (1985)	University of Economics, Budapest	MSc in Economics – finance specialization (1997)
András BECSEI			State broker exam (1996)
University of Economics, Budapest	MSc in Economics (2001)	European Federation of Financial Analyst Societies	Investment Analyst Diploma (2000)
Attila KOVÁCS		Ágota SELYMESI	
University of Economics, Budapest	MSc in Economics (2001)	College of Finance and Accounting	BSc in Finance (1973)
Zoltán ROSKÓ		Ministry of Finance, Budapest	Tax advisor (1989)
University of Economics, Budapest	Economics, Law (1995)		Chartered accountant (1995)
Csaba NAGY		Penta Unió Education Centre	Certified Tax expert (International Taxation) (2004)
College of Finance and Accounting	BSc in Economics (1993)	Kormos Zoltán	
Ákos Ferenc FISCHL		University of Economics, Budapest	MSc in Economics (2002)
Szent István University	MSc in Agricultural Engineering (2002)	Control Training Továbbképző Központ Kft.	IT system specialist (2004)
University of Technology and Economics, Budapest	MSc in Real Estate (2006)		
University of Technology and Economics, Budapest	MSc in Construction Industry Judicial Expertise (2009)		
Anna FLOROVA MITKOVA			
G.V. Plehanov University of Economics, Moscow	MSc in Economics (1989)		
University of Economics, Postgraduate Department, Budapest	MSc in Economics with bank management specialization (1996)		

III.2. Regulatory capital and capital requirements

III.2.1. Capital adequacy of OTP Mortgage Bank

The capital requirement calculation of OTP Mortgage Bank for the end of 2019 is based on IFRS and audited data.

OTP Mortgage Bank applied standardized capital calculation method regarding credit and market risk, advanced measurement approach (AMA) regarding the operational risk. OTP Mortgage Bank regulatory capital requirement as of end of December 2019 was HUF 43,895 million, the amount of regulatory capital was HUF 90,897 million. The capital adequacy ratio calculated in line with article 92 of CRR stood at 16.6%.

Chart 93: OTP Mortgage Bank's overview of RWAs

(in HUF million)	RWAs		Minimum capital requirements	
	31.12.2019	31.12.2019	31.12.2019	31.12.2019
Credit risk (excluding CCR)	525 344		42 028	
Of which the standardised approach	525 344		42 028	
CCR	0		0	
Of which mark to market	0		0	
Of which CVA	0		0	
Market risk	0		0	
Of which the standardised approach	0		0	
Operational risk	23 340		1 867	
Of which basic indicator approach	0		0	
Of which advances measurement approach	23 340		1 867	
Total	548 684		43 895	

Note: The credit risk RWA is calculated according to 2017/2395 EU regulation, including the effect of transitional arrangements for mitigating the impact of the introduction of IFRS 9 and the correction in accordance with the Article 1. (7) paragraph b) point

Chart 94: Credit risk exposure and CRM effects on 31st December 2019

(in HUF million)	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWAs	RWA density
Exposures to central governments or central banks	5 099	0	29 575	0	0	0.00%
Exposures to regional governments or local authorities	0	0	0	0	0	0.00%
Exposures to public sector entities	18 921	0	18 921	0	0	0.00%
Exposures to multilateral development banks	0	0	0	0	0	0.00%
Exposures to international organisation	0	0	0	0	0	0.00%
Exposures to institutions	31 809	2 473	31 809	494	395	1.22%
Exposures to corporates	2 259	0	2 259	0	1 844	81.63%
Retail exposures	25 831	32 837	2 101	16 419	13 482	72.80%
Exposures secured by mortgages on immovable property	1 239 278	12 380	1 239 279	6 190	491 001	39.42%
Exposures in default	15 067	318	14 320	159	15 800	109.12%
Exposures associated with particularly high risk	420	0	420	0	630	150.00%
Exposures in the form of covered bonds	0	0	0	0	0	0.00%
Exposures to institutions and corporates with a short-term credit assessment	0	0	0	0	0	0.00%
Exposures in the form of units or shares in collective investment undertakings ('CIUs')	0	0	0	0	0	0.00%
Equity exposures	1 577	0	1 577	0	1 577	100.00%
Other items	615	0	615	0	615	100.00%
Total	1 340 876	48 008	1 340 876	23 262	525 344	38.51%

In calculating credit risk capital requirement OTP Mortgage Bank took into consideration the guarantees of Hungarian central government as credit risk mitigation at the end of 2019.

III.2.2. Information about disclosure requirements related to the regulatory capital in line with Commission Implementing Regulation (EU) No. 1423/2013

Chart 95: Mapping of financial statement categories with regulatory categories

Description (in HUF million)	Carrying values as reported in published financial statements	Carrying values of items				
		Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Cash, amounts due from banks and balances with the National Banks	2 111	2 111	0	0	0	0
Placements with other banks, net of allowance for placement losses	135 963	135 963	0	0	0	0
Repo receivables	0	0	0	0	0	0
Financial assets at fair value through profit or loss	0	0	0	0	0	0
Financial assets at fair value through other comprehensive income	18 922	18 922	0	0	0	19
Loans	1 179 515	1 179 515	0	0	0	0
Securities at amortised cost	0	0	0	0	0	0
Investment properties	0	0	0	0	0	0
Investments in subsidiaries	1 997	1 997	0	0	0	0
Intangible assets	184	0	0	0	0	184
Property and equipment	22	22	0	0	0	0
Right-of-use assets	276	276	0	0	0	0
Derivative financial assets designated as hedge accounting relationships	229	0	0	0	229	0
Deferred tax assets	0	0	0	0	0	0
Other assets	2 070	2 070	0	0	0	0
TOTAL ASSETS	1 341 289	1 340 876	0	0	229	203
Amounts due to banks, the National Governments, deposits from the National Banks and other banks	676 962	0	0	0	0	676 962
Deposits from customers	0	0	0	0	0	0
Repo liabilities	0	0	0	0	0	0
Liabilities from issued securities	569 344	0	0	0	0	569 344
Subordinated bonds and loans	0	0	0	0	0	0
Financial liabilities at fair value through profit or loss	0	0	0	0	0	0
Held for trading derivative financial liabilities	0	0	0	0	0	0
Derivative financial liabilities designated as hedge accounting relationships	822	0	0	0	0	822
Deferred tax liabilities	108	0	0	0	0	108
Leasing liabilities	280	0	0	0	0	280
Other liabilities	9 412	0	0	0	0	9 412
TOTAL LIABILITIES	1 256 928	0	0	0	0	1 256 928

Chart 96: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

Description (in HUF million)	Total	Items subject to			
		Credit risk framework	CCR framework	Securitisation framework	Market risk framework
Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	1 341 289	1 340 876	0	0	229
Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	1 256 928	0	0	0	0
Total net amount under the regulatory scope of consolidation	84 361	0	0	0	0
Off-balance sheet amounts	48 008	23 262	0	0	0
Non deducted from regulatory capital, capital requirement increase elements	0	0	0	0	0
Differences because the transitional arrangements related to IFRS 9 or analogous ECLs*	0	0	0	0	0
Exposure amounts considered for regulatory purposes	1 364 367	1 364 138	0	0	229

* Calculated according to 2017/2395 EU regulation

Due to the COVID 19 pandemia, in order to strengthen the banking system, Hungarian National Bank requests banks to make sure that dividends are neither approved, nor paid until the 30.09.2020. In this document the regulatory capital is presented In line with the request of the National Bank and dividend payment is not taken into account in the regulatory capital³.

Chart 97: OTP Mortgage Bank's regulatory capital on 31st December 2019

Total regulatory capital	31.12.2019	Cross reference to rows of transitional own funds disclosure template
(in HUF million)		
Share capital	37 000	(1)
Retained earnings	22 157	(2)
Accumulated other comprehensive income and other reserves	(1 968)	(3)
Balance sheet profit or loss	27 172	(2)
Intangible assets (-)	(184)	(8)
Prudential filters	(20)	(7)
Deferred tax assets	0	(10)
Other transitional adjustments (1)	6 740	(26)
Common Equity Tier 1 capital	90 897	(29)
Total Tier 1 capital	90 897	(45)
Subordinated debt	0	
Total Tier 2 capital	0	(58)
Total regulatory capital	90 897	(59)

(1) Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds according to 2017/2395 EU regulation.

³ <https://www.mnb.hu/en/pressroom/press-releases/press-releases-2020/the-mnb-takes-several-measures-to-support-the-operation-of-banks> (21.04.2020)

Chart 98: Breakdown of regulatory capital including transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds in accordance with 2017/2395 EU regulation

	(A) 31.12.2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE- REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
Common Equity Tier 1 capital: instruments and reserves (in HUF million)			
1 Capital instruments and the related share premium accounts	37 000	26 (1), 27, 28, 29, EBA list 26 (3)	
of which: share	37 000	EBA list 26 (3)	
2 Retained earnings (1)	49 329	26 (1) (c)	
3 Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	(1 968)	26 (1)	
3a Funds for general banking risk	0	26 (1) (f)	
4 Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	0	486 (2)	
5 Minority interests (amount allowed in consolidated CET1)	0	84, 479, 480	
5a Independently reviewed interim profits net of any foreseeable charge or dividend	0	26 (2)	
6 Common Equity Tier 1 (CET1) capital before regulatory adjustments	84 360		
	(A) 31.12.2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE- REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
Common Equity Tier 1 (CET1) capital: regulatory adjustments (in HUF million)			
7 Additional value adjustments (negative amount)	(20)	34, 105	
8 Intangible assets (net of related tax liability) (negative amount)	(184)	36 (1) (b), 37, 472 (4)	
10 Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	0	36 (1) (c), 38, 472 (5)	
11 Fair value reserves related to gains or losses on cash flow hedges		33 (1) (a)	
12 Negative amounts resulting from the calculation of expected loss amounts		36 (1) (d), 40, 159, 472 (6)	
13 Any increase in equity that results from securitised assets (negative amount)		32 (1)	
14 Gains or losses on liabilities valued at fair value resulting from changes in own credit standing		33 (1) (b)	
15 Defined-benefit pension fund assets (negative amount)		36 (1) (e), 41, 472 (7)	
16 Direct and indirect holdings by an institution of own CET1 instruments (negative amount)		36 (1) (f), 42, 472 (8)	
17 Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		36 (1) (g), 44, 472 (9)	
18 Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36 (1) (h), 43, 45, 46, 49 (1)-(3), 79, 472 (10)	
19 Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1)-(3), 79, 470, 472 (11)	

	(A)	(B)	(C)
Common Equity Tier 1 (CET1) capital: regulatory adjustments (in HUF million) (continuation)	31.12.2019	REGULATION (EU) No 575/2013 ARTICLE REFERENCE	AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
20a Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative		36 (1) (k)	
20b of which: qualifying holdings outside the financial sector (negative amount)		36 (1) (k) (i), 89 to 91 36 (1) (k) (ii)	
20c of which: securitisation positions (negative amount)		243 (1) (b) 244 (1) (b) 258	
20d of which: free deliveries (negative amount)		36 (1) (k) (iii), 379 (3)	
21 Deferred tax assets arising from temporary difference (amount above 10 % threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)		36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	
22 Amount exceeding the 15% threshold (negative amount)		48 (1)	
23 of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities		36 (1) (i), 48 (1) (b), 470, 472 (11)	
25 of which: deferred tax assets arising from temporary difference		36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	
25a Losses for the current financial year (negative amount)		36 (1) (a), 472 (3)	
25b Foreseeable tax charges relating to CET1 items (negative amount)		36 (1) (l)	
26 Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment (2)	6 740		
27 Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)		36 (1) (j)	
28 Total regulatory adjustments to Common Equity Tier 1 (CET1)	6 536		
29 Common Equity Tier 1 (CET1) capital	90 897		

	(A)	(B)	(C)
Additional Tier 1 (AT1) capital: instruments (in HUF million)	31.12.2019	REGULATION (EU) No 575/2013 ARTICLE REFERENCE	AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
30 Capital instruments and the related share premium accounts		51, 52	
31 of which: classified as equity under applicable accounting standards			
32 of which: classified as liabilities under applicable accounting standards			
33 Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1		486 (3)	
34 Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties		85, 86, 480	
35 of which: instruments issued by subsidiaries subject to phase-out		486 (3)	
36 Additional Tier 1 (AT1) capital before regulatory adjustments	0		

Amounts below the thresholds for deduction (before risk-weighting) (in HUF million)	(A) 31.12.2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE- REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
72 Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)	
73 Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		36 (1) (i), 45, 48, 470, 472 (11)	
75 Deferred tax assets arising from temporary difference (amount below 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met)		36 (1) (c), 38, 48, 470, 472 (5)	

Applicable caps on the inclusion of provisions in Tier 2 (in HUF million)	(A) 31.12.2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE- REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
76 Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)		62	
77 Cap on inclusion of credit risk adjustments in T2 under standardised approach		62	
78 Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)		62	
79 Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		62	

Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022) (in HUF million)	(A) 31.12.2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE- REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
80 Current cap on CET1 instruments subject to phaseout arrangements		484 (3), 486 (2) & (5)	
81 Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		484 (3), 486 (2) & (5)	
82 Current cap on AT1 instruments subject to phaseout arrangements		484 (4), 486 (3) & (5)	
83 Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		484 (4), 486 (3) & (5)	
84 Current cap on T2 instruments subject to phaseout arrangements		484 (5), 486 (4) & (5)	
85 Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		484 (5), 486 (4) & (5)	

- (1) Profit for financial year 2019 is included in retained earnings.
- (2) Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds according to 2017/2395 EU regulation.
- (3) Capital buffer is not implemented
- (4) Not relevant capital buffer

Chart 99: The effect of the transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds in accordance with 2017/2395 EU regulation

IFRS 9 effect		31.12.2019
(in HUF million)		
Regulatory capital		
1	Common Equity Tier 1 (CET1) capital	90 897
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	84 157
3	Tier 1 capital	90 897
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	84 157
5	Total capital	90 897
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	84 157
Total risk weighted assets		
7	Total risk weighted assets	548 684
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	548 684
Capital ratios		
9	Common Equity Tier 1 (as a percentage of total risk exposure amount)	16.57%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.34%
11	Tier 1 (as a percentage of total risk exposure amount)	16.57%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.34%
13	Total capital (as a percentage of total risk exposure amount)	16.57%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.34%
Leverage ratio		
15	Total exposure	1 364 310
16	Leverage ratio	6.66%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	6.17%

III.3. Trading book market and counterparty risks (capital requirements)

Chart 100: Trading book positions capital requirement

Description (in HUF million)	RWAs	Capital requirements
Interest rate risk (general and specific)	0	0
Equity risk (general and specific)	0	0
Foreign exchange risk	0	0
Commodity risk	0	0
Options		
Simplified approach	0	0
Delta-plus method	0	0
Scenario approach	0	0
Securitisation (specific risks)	0	0
Total	0	0

III.4. Leverage

Chart 101: Net exposure value to leverage ratio

	in HUF million	Applicable Amount
1	Total assets as per published financial statements	1 341 289
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	0
4	Adjustments for derivative financial instruments	0
5	Adjustment for securities financing transactions (SFTs)	0
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	23 262
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	0
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	0
7	Other adjustments	(241)
8	Leverage ratio total exposure measure	1 364 310

Chart 102: Leverage ratio

	in HUF million	CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	1 340 651
2	(Asset amounts deducted in determining Tier 1 capital)	(203)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	1 340 448
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	118
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	481
EU-5a	Exposure determined under Original Exposure Method	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
11	Total derivatives exposures (sum of lines 4 to 10)	599
SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	0
13	(Net amounts of cash payables and cash receivables of gross SFT assets)	0
14	Counterparty credit risk exposure for SFT assets	0
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	0
15	Agent transaction exposures	0
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	0
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	0
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	48 008
18	(Adjustments for conversion to credit equivalent amounts)	(24 746)
19	Other off-balance sheet exposures (sum of lines 17 and 18)	23 262
Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)		
EU-19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
Capital and total exposure measure		
20	Tier 1 capital	90 897
21	Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	1 364 310
Leverage ratio		
22	Leverage ratio	6.66%
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully phased in
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	0

Note: The exposures are calculated according to 2017/2395 EU regulation, including the effect of transitional arrangements for mitigating the impact of the introduction of IFRS 9 and the correction in accordance with the Article 1. (7) paragraph b) point.

There was no material change in the value of leverage ratio in 2019.

III.5. Credit risk adjustments

III.5.1. Methodology of valuation and provisions

The financial reports of the OTP Mortgage Bank are based on IFRS regulation. Measurement and provision allocation of assets, investments and off-balance sheet liabilities are realized according to frameworks of relevant IFRS/IAS standards.

In its regulations entitled “International Financing Reporting Standards (IFRS) valuation requirements” OTP Mortgage Bank provides detailed regulations pertaining to the measurement and provision recognition of outstanding debts, investments and off-balance sheet liabilities.

The recognized provision level reflects to the foreseeable risks and potential losses. The amount of the recognized impairment is the difference between the book value of the outstanding debt and the expected amount of the recovered debt. OTP Mortgage Bank recognizes risk provision for off-balance sheet (pending, future) liabilities on the basis of their assessment. If the measurement process reveals that the amount of the risk provision exceeds the amount required on the basis of the assessment, the excess amount of the risk provision is released.

At initial recognition the financial assets must be tested based on the business model and the contracted cash flow characteristics, based on which it can be determined according to which measurement method, specified in the IFRS 9 standard, the given asset is to be managed and valued. The assets can be allocated to the following three categories:

- Assets measured at amortized cost
- Assets valued at fair value through other comprehensive income (FVOCI) – IFRS13,
- Assets valued at fair value through profit and loss (FVPL) – IFRS13.

According to the requirements of the IFRS9 standard, upon the initial recognition and on the reporting dates (last calendar day of the reporting month) the assets measured at amortized cost and the assets valued at fair value through other comprehensive income must be allocated to three stages by their credit risk or POCI category:

- Stage 1 category contains the performing deals.
- Those deals, which are performing, but compared to the initial recognition it shows significant increase in credit risk, must be categorized to Stage 2.
- Stage 3 contains the non-performing (credit-impaired) deals.
- Purchased or originated credit impaired assets are financial assets that are impaired already upon the initial recognition. These assets must be classified as POCI.

In case of the Stage 1 deals 12-month credit losses must be calculated by the expectations of the default probability, for Stage 2 and Stage 3 deals lifetime expected losses must be calculated as impairment.

Depending on the item, assessment based on the following aspects:

- client and counterparty rating – financial situation, stability and income generation capability of the client or counterparty affected by the financial and investment service, and any changes in these factors;
- the repayment schedule (overdue days) – patterns of delay on principal and interest payment related to the amortization of the outstanding debt, regular fulfillment of the payment obligation;
- status of restructuring risk contract;
- sovereign risk and changes in the sovereign risk associated with the client (both political risk and transfer risk);
- value, marketability and availability of the securities pledged as collateral and any changes in them;
- marketability of the item (market demand and supply, achievable market prices, share in the issuer’s equity in proportion to the size of the investment),
- future payment obligation, which qualifies as a loss originating from the item,
- significant increase in credit risk compared to the initial recognition.

Probable future losses on the item are determined on a case-by-case basis, in consideration of the above aspects as applicable. If this amount is lower than the amount recognized on the item earlier, it has to be supplemented by the amount of the difference by recognizing a further amount of impairment, or if it is higher, it has to be reduced by the release of the existing amount of impairment.

Delinquent deal: the client doesn't perform his/her payment obligations.

According to the CRR a default shall be considered to have occurred with regard to a particular obligor when either or both of the following events have taken place:

- the institution considers that the obligor is unlikely to pay its credit obligations to the institution, the parent undertaking or any of its subsidiaries in full, without recourse by the institution to actions such as realising security
- the obligor is past due more than 90 days on any material credit obligation to the institution, the parent undertaking or any of its subsidiaries.

If the debts are past due more than 90 days and it derives from non-lending type contracts do not qualify as default event. These exposures are not considered to be impaired.

A credit risk exposure shall be considered as restructured:

- considering the current or future financial difficulties of the client the institution
- provides a concession/allowance in respect of the contract originating the exposure (and this would not be done if the client would not have financial difficulties)

The calculation of credit losses may be carried out on an individual or collective basis.

Portfolio (collective) assessment

The collective assessment based on the following parameters: probability of defaults, cure rate, loss given default. The condition of applying collective assessment is that the assets should be allocable to groups representing similar credit risk based on major credit risk characteristics and their capability to fulfill contractual obligations. The most important variables of the assessment procedure are payment delay, deal/client rating, the restructuring information and the default status.

Upon estimating the future cash flows related to the group(s) of financial assets, the historic credit loss data of the assets representing similar credit risk, the macroeconomic factors and information on the future of financial instruments must be taken into account.

The OTP Mortgage Bank shall measure expected credit losses of a financial asset 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.

Individual assessment

Receivables that are of insignificant amount on a stand-alone basis with objective evidence of impairment or that the risk management functional area subjected to individual assessment based on monitoring information must be measured individually:

- The cash flows expected from the financial instruments must be defined, which has to be based on at least two scenarios.
- Valuation and revaluation of collaterals is crucial, discounting the cash-flows from the sale of collaterals is an important part of individual assessment.
- The defined cash flows must be discounted to the present value.
- The impairment of the financial instrument is taking into account the riskiness of cash flows and individual collateralization.
- The individual cash-flow estimation also has to be forward looking, which has to contain the information about the macroeconomic environment and the future of the financial instruments.
- If there is a significant change in the credit risk of a financial asset, the impairment calculation must be reviewed taking into account the new information and risks.

Changes in impairment of loan portfolio are presented in in the following notes of the financial statement:

- changes of impairment regarding “Placements with other banks” in Note 5.
- changes of impairment regarding “Loans” in Note 7.

Chart 103: Qualified exposures and impairment

(in HUF million)	Accumulated specific / general credit risk adjustment
Opening balance	9 604
Increases due to amounts set aside for estimated loan losses during the period	649
Decreases due to amounts reversed for estimated loan losses during the period	0
Decreases due to amounts taken against accumulated credit risk adjustments	(427)
Transfers between credit risk adjustments	(4 018)
Impact of exchange rate differences	0
Cured from default or non-impaired	0
Other adjustments	0
Closing balance	5 808
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	0
Specific credit risk adjustments directly recorded to the statement of profit or loss	(25)

Chart 104: Changes of non-performing loan exposures

(in HUF million)	Gross carrying value defaulted exposures
1 Opening balance - 31.12.2018	15 259
2 Loans and debt securities that have defaulted since the last reporting period	3 420
3 Returned to non-defaulted status	3 101
4 Amounts written-off	0
5 Other changes*	1 488
6 Closing balance - 31.12.2019 (6 = 1 + 2 - 3 - 4 + 5)	17 065

* Contains the IFRS 9 transitional difference

III.5.2. Exposures to credit risk

The presented RWAs and exposures in this chapter are calculated according to 2017/2395 EU regulation, including the effect of transitional arrangements for mitigating the impact of the introduction of IFRS 9 and the correction in accordance with the Article 1. (7) paragraph b) point.

Chart 105: Net exposures broken down by net exposure classes (before credit risk mitigation)

Exposures (in HUF million)	31.12.2019	2019 Average
Exposures to central governments or central banks	29 575	30 767
Exposures to regional governments or local authorities	0	118
Exposures to public sector entities	18 921	21 294
Exposures to multilateral development banks	0	0
Exposures to international organisation	0	0
Exposures to institutions	32 303	39 286
Exposures to corporates	2 259	909
Retail exposures	18 520	15 214
Exposures secured by mortgages on immovable property	1 245 469	1 178 469
Exposures in default	14 479	15 050
Exposures associated with particularly high risk	420	130
Exposures in the form of covered bonds	0	0
Exposures to institutions and corporates with a short-term credit assessment	0	0
Exposures in the form of units or shares in collective investment undertakings ('CIUs')	0	0
Equity exposures	1 577	1 622
Other items	615	611
Total	1 364 138	1 303 471

Chart 106: Exposures broken down by geographical areas (by the country of obligors) on 31st December 2019

(in HUF million)	Exposures to central governments or central banks	Exposures to regional governments or local authorities	Exposures to public sector entities	Exposures to multilateral development banks	Exposures to international organisation	Exposures to institutions	Exposures to corporates	Retail exposures	Exposures secured by mortgages on immovable property	Exposures in default	Exposures associated with particularly high risk	Exposures in the form of covered bonds	Exposures to institutions and corporates with a short-term credit assessment	Exposures in the form of units or shares in collective investment undertakings ('CIUs')	Equity exposures	Other items	Total
Total	29 575	0	18 921	0	0	32 303	2 259	18 520	1 245 469	14 479	420	0	0	0	1 577	615	1 364 138
Hungary	29 568	0	18 921	0	0	32 303	2 259	18 520	1 245 383	14 479	420	0	0	0	1 577	615	1 364 045
Other country	7	0	0	0	0	0	0	0	86	0	0	0	0	0	0	0	93

Chart 107: Exposure classes broken down by counterparty type on 31st December 2019

(in HUF million)	Exposures to central governments or central banks	Exposures to regional governments or local authorities	Exposures to public sector entities	Exposures to multilateral development banks	Exposures to international organisation	Exposures to institutions	Exposures to corporates	Retail exposures	Exposures secured by mortgages on immovable property	Exposures in default	Exposures associated with particularly high risk	Exposures in the form of covered bonds	Exposures to institutions and corporates with a short-term credit assessment	Exposures in the form of units or shares in collective investment undertakings ('CIUs')	Equity exposures	Other items	Total
Total	29 575	0	18 921	0	0	32 303	2 259	18 520	1 245 469	14 479	420	0	0	0	1 577	615	1 364 138
Governments	5 099	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	5 099
Municipal	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Public sector entities	0	0	18 921	0	0	0	0	0	0	0	0	0	0	0	0	0	18 921
Institutions	0	0	0	0	0	32 303	0	0	0	0	0	0	0	0	0	151	32 454
Corporate	0	0	0	0	0	0	546	0	0	0	0	0	0	0	0	277	823
Corporate SME	0	0	0	0	0	0	1 713	0	0	0	0	0	0	0	0	0	1 713
Retail	24 476	0	0	0	0	0	0	16 227	1 245 469	14 460	0	0	0	0	0	0	1 300 632
Retail SME	0	0	0	0	0	0	0	2 293	0	19	0	0	0	0	0	0	2 312
Equity	0	0	0	0	0	0	0	0	0	0	420	0	0	0	1 577	0	1 997
Other*	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	187	187

* Other, not mentioned items (e. g. tangible assets)

Chart 108: Exposure classes broken down by residual maturity on 31st December 2019

(in HUF million)	On demand	<= 1 year	> 1 year <= 5 year	> 5 year	No stated maturity	Total
Total	0	37 469	187 618	1 136 715	2 336	1 364 138
Exposures to central governments or central banks	0	3 239	4 428	21 908	0	29 575
Exposures to regional governments or local authorities	0	0	0	0	0	0
Exposures to public sector entities	0	0	3	18 918	0	18 921
Exposures to multilateral development banks	0	0	0	0	0	0
Exposures to international organisation	0	0	0	0	0	0
Exposures to institutions	0	31 781	495	27	0	32 303
Exposures to corporates	0	353	73	1 833	0	2 259
Retail exposures	0	22	0	18 498	0	18 520
Exposures secured by mortgages on immovable property	0	2 031	181 422	1 062 016	0	1 245 469
Exposures in default	0	43	921	13 515	0	14 479
Exposures associated with particularly high risk	0	0	0	0	420	420
Exposures in the form of covered bonds	0	0	0	0	0	0
Exposures to institutions and corporates with a short-term credit assessment	0	0	0	0	0	0
Exposures in the form of units or shares in collective investment undertakings ('CIUs')	0	0	0	0	0	0
Equity exposures	0	0	0	0	1 577	1 577
Other items	0	0	276	0	339	615

Chart 109: Aging of past-due exposures

(in HUF million)	Gross carrying values					
	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
Loans	1 273 465	5 573	2 513	5 298	1 969	669
Debt securities	18 941					
Total exposures	1 292 406	5 573	2 513	5 298	1 969	669

Chart 110: Non-performing and forborne exposures

(in HUF million)	Gross carrying amount of performing and non-performing exposures						Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received		
		Of which performing but past due > 30 days and ≤90 days	Of which performing forborne	Of which non-performing			On performing exposures		On non-performing exposures		On non-performing exposures	Of which forborne exposures	
				Of which defaulted	Of which impaired	Of which forborne	Of which forborne	Of which forborne					
Debt securities	18 941						(18)						
Loans and advances	1 289 487	5 088	13	16 874	16 874	16 874	7 534	(3 983)	(169)	(1 807)	(508)	14 851	6 952
Off-balance sheet exposures	48 526		2	378	378	378	0	(458)	0	-60	0	263	0

Note: Exposures according to EBA definition.

Chart 111: Credit quality of exposures by exposure class and instrument on 31st December 2019

(in HUF million)	Gross carrying values of		Specific/General credit risk adjustment	Net values
	Defaulted exposures	Non-defaulted exposures		
Exposures to central governments or central banks	0	28 873	(45)	28 828
Exposures to regional governments or local authorities	0	0	0	0
Exposures to public sector entities	0	18 922	(1)	18 921
Exposures to multilateral development banks	0	0	0	0
Exposures to international organisation	0	0	0	0
Exposures to institutions	0	32 303	0	32 303
Exposures to corporates	3	2 278	(22)	2 259
Retail exposures	17 032	18 616	(1 902)	33 746
Exposures secured by mortgages on immovable property	0	1 249 306	(3 837)	1 245 469
Exposures in default	0	0	0	0
Exposures associated with particularly high risk	0	420	0	420
Exposures in the form of covered bonds	0	0	0	0
Exposures to institutions and corporates with a short-term credit assessment	0	0	0	0
Exposures in the form of units or shares in collective investment undertakings ('CIUs')	0	0	0	0
Equity exposures	0	1 577	0	1 577
Other items	0	615	0	615
Total	17 035	1 352 910	(5 807)	1 364 138

Chart 112: Credit quality of exposures by counterparty types on 31st December 2019

(in HUF million)	Gross carrying values of		Specific/General credit risk adjustment	Net values
	Defaulted exposures	Non-defaulted exposures		
Governments	0	5 100	(1)	5 099
Municipal	0	0	0	0
Public sector entities	0	18 922	(1)	18 921
Institutions	0	32 454	0	32 454
Corporate	3	823	(3)	823
Corporate SME	0	1 731	(18)	1 713
Retail	16 988	1 289 353	(5 709)	1 300 632
Retail SME	44	2 343	(75)	2 312
Equity	0	1 997	0	1 997
Other*	0	187	0	187
Total	17 035	1 352 910	(5 807)	1 364 138

* Other, not mentioned items (e. g. tangible assets)

Chart 113: Credit quality of exposures by geography on 31st December 2019

(in HUF million)	Gross carrying values of		Specific/General credit risk adjustment	Net values
	Defaulted exposures	Non-defaulted exposures		
Total	17 035	1 352 910	(5 807)	1 364 138
Hungary	17 035	1 352 817	(5 808)	1 364 044
Other country	0	93	1	94

Chart 114: Overview of CRM techniques

(in HUF million)	Exposures unsecured - Carrying amount	Exposures to be secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	1 364 408	24 476	0	24 476	0
Total debt securities	0	0	0	0	0
Total exposures	1 364 408	24 476	0	24 476	0
Of which defaulted	14 637	747	0	747	0

Note: The table contains exposures secured by financial collaterals and guarantees. Exposures secured by mortgage collaterals are included in "Exposures unsecured" column.

III.6. Use of External Credit Assessment Institutions

Chart 115: Exposures broken down by credit quality steps (CQS) of obligors

(in HUF million)	Risk weight								Total	Of which unrated
	0%	20%	25%	35%	50%	75%	100%	150%		
Exposures to central governments or central banks	29 574	0	1	0	0	0	0	0	29 575	24 476
Exposures to regional governments or local authorities	0	0	0	0	0	0	0	0	0	0
Exposures to public sector entities	18 921	0	0	0	0	0	0	0	18 921	18 921
Exposures to multilateral development banks	0	0	0	0	0	0	0	0	0	0
Exposures to international organisation	0	0	0	0	0	0	0	0	0	0
Exposures to institutions	31 809	0	0	0	200	0	294	0	32 303	32 103
Exposures to corporates	7	0	0	0	0	0	2 252	0	2 259	2 259
Retail exposures	0	0	0	0	0	18 520	0	0	18 520	18 520
Exposures secured by mortgages on immovable property	0	0	0	1 082 091	41 056	122 322	0	0	1 245 469	1 197 062
Exposures in default	0	0	0	0	0	0	11 836	2 643	14 479	14 479
Exposures associated with particularly high risk	0	0	0	0	0	0	0	420	420	420
Exposures in the form of covered bonds	0	0	0	0	0	0	0	0	0	0
Exposures to institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0	0	0	0
Exposures in the form of units or shares in collective investment undertakings ('CIUs')	0	0	0	0	0	0	0	0	0	0
Equity exposures	0	0	0	0	0	0	1 577	0	1 577	1 577
Other items	0	0	0	0	0	0	615	0	615	615
Total	80 311	0	1	1 082 091	41 256	140 842	16 574	3 063	1 364 138	1 310 432

Note: „Of which unrated” column contains the exposures which do not have external credit ratings

III.7. Capital requirement for operational risk

Capital requirement for operational risk of OTP Mortgage Bank was HUF 1,867 million at the end of 2019, which was determined by advanced measurement approaches.

Chart 116: Operational risk capital requirements on 31st December 2019:

Operational risk capital requirement's breakdown based on methods (in HUF million)	
Basic Indicator Approach	0
Standardised Approach	0
Alternative Standardised Approach	0
Advanced Measurement Approach	1 867
Total	1 867

III.8. Exposures in equities not included in the trading book on 31st December 2019

Chart 117: Exposures in equities not included in the trading book according to IFRS on 31st December 2019

Entity	Balance sheet value (in HUF million)	Listed (Exchanged-traded)
OTP Ingatlanpont Ltd.	1 577	No
OTP Pénzügyi Pont Ltd.	420	No

III.9. Exposure to interest rate risk on positions not included in the trading book

Asset-Liability Directorate measures banking book interest rate risk exposure monthly, and also presents it as part of the consolidated exposure to the management with the same frequency.

The size and direction of the exposure is determined based on sensitivity analysis mainly.

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 were prepared by assuming only the adversing interest rate changes. The main assumptions were as follows:

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

The simulation were prepared by assuming two scenarios:

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

The net interest income in a one year period beginning with January 1, 2019 would be increased by HUF 141 million (scenario 1) and increased by HUF 477 million (scenario 2) as a result of these simulation.

Chart 118: The effects of the parallel shifts of the yield-curves to the net interest income on a one-year period

Description (in HUF million)	Effects to the net interest income in one year period
HUF -0.1% parallel shift	178
HUF 0.1% parallel shift	(178)
EUR -0.1% parallel shift	
USD 0.1% parallel shift	
Total	(178)

III.10. Disclosure of encumbered and unencumbered assets

Chart 119: The encumbered and unencumbered assets in carrying and fair value amounts by broad categories of asset type

(in HUF million)	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution	777 881		505 761	
Equity instruments	0		0	
Debt securities	2 425		21 673	
Other assets	0		5 143	

Chart 120: Collateral received, by broad categories of product type

(in HUF million)	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by the reporting institution	0	0
Equity instruments	0	0
Debt securities	0	0
Other collateral received	0	0
Own debt securities issued other than own covered bonds or ABSs	0	0

Chart 121: Encumbered assets/collateral received and associated liabilities

(in HUF million)	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	572 369	777 881

Information on importance of encumbrance

OTP Mortgage Bank finances its assets mostly (by 66% on 31 December 2019) by issuing mortgage bonds. The collateral for these mortgage bonds is the mortgage portfolio granted from these funds. On 31 December 2019, the carrying amount of the encumbered loan portfolio was HUF 857 billion. The encumbered assets grew by 17,37% in 2019.

In 2018, OTP Mortgage Bank's receivables that can be accepted as collateral exceeded the issued mortgage bond portfolio by 36% on average (in respect of the carrying amounts).

III.11. Liquidity risk

The activity of mortgage banks founded and operating in Hungary is regulated by Act XXX of 1997 on Mortgage Banks and on Mortgage Bonds. OTP Mortgage Bank Ltd. is a specialized credit institution, its most important business activity is retail lending secured by mortgages on real estates located in Hungary. OTP Mortgage Bank is not authorized to collect deposits and it is permitted to engage in derivative transactions for reasons of liquidity and risk management operations only. OTP Mortgage Bank Ltd. defines the following goals in connection with liquidity risk management.

The primary goal is to guarantee the financial obligations at all times: the company has to be able to fulfill its obligations of payments due, in the proper currency, and to perform the necessary transactions to maintain the solvency position. The fulfilment of financial obligations compliant with regulatory requirements regarding liquidity is also essential. Besides securing solvency and complying with legal obligations the secondary purpose is to achieve these goals via the best option while taking profitability into account. The target of the risk management policy of OTP Mortgage Bank is risk-aware operation: it is significant to identify, evaluate and continuously monitor liquidity and other forms of financial risk and to share the information with the management of the company.

The Board of Directors of OTP Mortgage Bank Ltd. approved the report of the Treasury, Issuance and Refinancing Department on financial risks and risk management with resolution no. 9/2020 (28 February 2020).

Chart 122: OTP Mortgage Bank's liquidity coverage ratio

Description	31.12.2019
(in HUF million)	
Liquidity Buffer	18 956
Total Net Liquidity Outflow	1 133
Liquidity Coverage Ratio (%)	1 673%

Declaration on liquidity risk

The Board of Directors of OTP Mortgage Bank makes the below declaration, in accordance with Article 435 of regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR) and guideline no. 9/2017 (VIII.8.) of the National Bank of Hungary.

By its profile and business strategy OTP Mortgage Bank is a specialized credit institution engaged in retail mortgage lending and is regulated by Act XXX of 1997 on Mortgage Banks and on Mortgage Bonds. The Board of Directors believes that the liquidity risk management arrangements of the company are sufficient with regard to the profile and business strategy of the company.

Definition of liquidity risk management policy and regulation of practices regarding evaluation and management of liquidity risk are laid down in OTP Mortgage Bank Ltd's Regulation on liquidity and interest rate risk. It is approved by the Board of Directors of the company and is reviewed at least annually. Being the subsidiary of OTP Bank Plc. OTP Mortgage Bank is a member of OTP Group. OTP Bank has a group-level regulation on interest- and liquidity risk management. According to this liquidity exposure is monitored and managed on a consolidated basis as well.

The department responsible for liquidity risk management within the company is the Treasury, Issuance and Refinancing Department.

The department prepares a quarterly report on the liquidity exposure of the company, the related money and capital market transactions and limit measures for the Management Committee and the Board of Directors. The internal auditor monitors the liquidity risk management operation of the company within its annual program in accordance with the guideline no. 12/2015. (VIII. 24.) of the National Bank of Hungary on the evaluation, management and control of liquidity risk.

OTP Mortgage Bank complied with requirements defined by the regulatory framework and met limits with regard to liquidity risk defined by internal regulations, the Board of Directors believes that the liquidity risk exposure of the company complies with the profile of a specialized credit institution and the liquidity risk management policy of the company.

III.12. Geographical distribution of the activity, return on assets ratio

Chart 123: Geographical distribution of the activity, return on assets ratio

Description (in HUF million)	Hungary year 2019
Turnover	30 617
Profit or loss before tax	27 596
Tax on profit or loss	4 191
Public subsidies received	0
Number of employees on a full time basis	35
Return on assets	2.13%

IV. OTP Building Society

Information required to be disclosed regarding OTP Building Society Ltd. ("OTP Building Society") is not presented in this chapter separately only in the OTP Group Chapter, if it is the same as OTP Group level publications.

IV.1. Corporate Governance

Chart 124: The number of directorships of OTP Building Society's chief executives*

Members of the Board of Directors	Number of directorships (according to CRR Art. 435. paragraph (2))		Member of Supervisory Board	Number of directorships (according to CRR Art. 435. paragraph (2))	
	outside OTP Group	in OTP Group*		outside OTP Group	in OTP Group*
Antal György KOVÁCS	-	5	Beáta SUKOVICH	-	-
Attila KOVÁCS	-	2	Ilona Dr. ÁDÁM ISTVÉNNÉ dr. KÖRNYEI	-	-
Csaba NAGY	-	3	Dr. Tamás GUDRA	1	-
Anna FLOROVA MITKOVA	-	4	József WINDHEIM	1	2
Árpád SRANKÓ	-	2			
András BECSEI	1	1			

*with the exception of directorships held at OTP Building Society

*The number of directorships includes the membership of Board of Directors and the Supervisory Board as well

Chart 125: Board members' education data

Board of Directors		Supervisory Board	
Antal György KOVÁCS		Beáta SUKOVICH	
University of Economics, Budapest	MSc in Economics (1985)	University of Miskolc	MSc in Economics (2002)
Attila KOVÁCS		Economics, Law (2006)	
University of Economics, Budapest	MSc in Economics (2001)	Ilona Dr. ÁDÁM ISTVÉNNÉ dr. KÖRNYEI	
Csaba NAGY		University of Economics, Budapest	MSc in Economics (teacher) (1970)
College of Finance and Accounting, Hungary	BSc in Economics (1993)	University doctor (1978)	
Anna FLOROVA MITKOVA		Dr. Tamás GUDRA	
G.V. Plehanov University of Economics, Moscow	MSc in Economics (1989)	College of Commerce, Catering and Tourism	BSc in Economics (1993)
University of Economics, Postgraduate Department, Budapest	MSc in Economics with bank management specialization (1996)	Ministry of Finance, Budapest	Chartered accountant (1997)
Árpád SRANKÓ		József WINDHEIM	
University of Economics, Budapest	MSc in Economics (2004)	Janus Pannonius University	MSc in Economics (1983)
András BECSEI		Economics, Law (1996)	
University of Economics, Budapest	MSc in Economics (2001)		

IV.2. Regulatory capital and capital requirements

IV.2.1. Capital adequacy of OTP Building Society

The capital requirement calculation of OTP Building Society is based on IFRS and audited data on 31st December 2019.

OTP Building Society applied standardized capital calculation method regarding credit and market risk and advanced measurement approach (AMA) regarding the operational risk. OTP Building Society regulatory capital requirement was HUF 3,307 million as of end of December 2019 the amount of regulatory capital was HUF 31,316 million. The capital adequacy ratio calculated in line with article 92 of CRR stood at 75.76%.

Chart 126: OTP Building Society's overview of RWAs

(in HUF million)	RWAs		Minimum capital requirements	
	31.12.2019	31.12.2019	31.12.2019	31.12.2019
Credit risk (excluding CCR)	35 717		2 857	
Of which the standardised approach	35 717		2 857	
CCR	0		0	
Of which mark to market	0		0	
Of which CVA	0		0	
Market risk	0		0	
Of which the standardised approach	0		0	
Operational risk	5 616		449	
Of which basic indicator approach	0		0	
Of which advances measurement approach	5 616		449	
Total	41 333		3 307	

Note: The credit risk RWA is calculated according to 2017/2395 EU regulation, including the effect of transitional arrangements for mitigating the impact of the introduction of IFRS 9 and the correction in accordance with the Article 1. (7) paragraph b) point

Chart 127: Credit risk exposure and CRM effects on 31st December 2019

(in HUF million)	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWAs	RWA density
Exposures to central governments or central banks	270 535	0	270 535	0	0	0.00%
Exposures to regional governments or local authorities	119	0	119	0	24	20.17%
Exposures to public sector entities	0	0	0	0	0	0.00%
Exposures to multilateral development banks	0	0	0	0	0	0.00%
Exposures to international organisation	0	0	0	0	0	0.00%
Exposures to institutions	41 383	0	41 383	0	0	0.00%
Exposures to corporates	825	0	825	0	808	97.94%
Retail exposures	41	242	41	121	121	74.69%
Exposures secured by mortgages on immovable property	31 593	0	31 593	0	23 700	75.02%
Exposures in default	314	0	314	0	407	129.62%
Exposures associated with particularly high risk	0	0	0	0	0	0.00%
Exposures in the form of covered bonds	89 986	0	89 986	0	10 412	11.57%
Exposures to institutions and corporates with a short-term credit assessment	0	0	0	0	0	0.00%
Exposures in the form of units or shares in collective investment undertakings ('CIUs')	0	0	0	0	0	0.00%
Equity exposures	0	0	0	0	0	0.00%
Other items	235	10	235	10	245	100.00%
Total	435 031	252	435 031	131	35 717	8.21%

IV.2.2. Information about disclosure requirements related to the regulatory capital in line with Commission Implementing Regulation (EU) No. 1423/2013

Chart 128: Mapping of financial statement categories with regulatory categories

Description	Carrying values as reported in published financial statements	Carrying values of items				
		Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
(in HUF million)						
Cash, amounts due from banks and balances with the National Bank of Hungary	285	285	0	0	0	0
Placements with other banks, net of allowance for placement losses	41 099	41 099	0	0	0	0
Repo receivables	0	0	0	0	0	0
Financial assets at fair value through profit or loss	0	0	0	0	0	0
Financial assets at fair value through other comprehensive income	51 832	51 832	0	0	0	33
Loans	32 552	32 552	0	0	0	0
Securities at amortised cost	308 500	308 500	0	0	0	0
Investment properties	0	0	0	0	0	0
Investments in subsidiaries	0	0	0	0	0	0
Intangible assets	140	0	0	0	0	140
Property and equipment	12	12	0	0	0	0
Right-of-use assets	128	128	0	0	0	0
Derivative financial assets designated as hedge accounting relationships	0	0	0	0	0	0
Deferred tax assets	0	0	0	0	0	0
Other assets	348	348	0	0	0	0
TOTAL ASSETS	434 896	434 756	0	0	0	173
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	0	0	0	0	0	0
Deposits from customers	391 944	0	0	0	0	391 944
Repo liabilities	0	0	0	0	0	0
Liabilities from issued securities	0	0	0	0	0	0
Subordinated bonds and loans	0	0	0	0	0	0
Financial liabilities at fair value through profit or loss	0	0	0	0	0	0
Held for trading derivative financial liabilities	0	0	0	0	0	0
Derivative financial liabilities designated as hedge accounting relationships	0	0	0	0	0	0
Deferred tax liabilities	1 530	0	0	0	0	1 530
Leasing liabilities	129	0	0	0	0	129
Other liabilities	5 611	0	0	0	0	5 611
TOTAL LIABILITIES	399 214	0	0	0	0	399 214

Chart 129: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

Description (in HUF million)	Total	Items subject to			
		Credit risk framework	CCR framework	Securitisation framework	Market risk framework
Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)	434 896	434 756	0	0	0
Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	399 214	0	0	0	0
Total net amount under the regulatory scope of consolidation	35 682	0	0	0	0
Off-balance sheet amounts	252	131	0	0	0
Non deducted from regulatory capital, capital requirement increase elements	0				
Differences because the transitional arrangements related to IFRS 9 or analogous ECLs*	275	275	0	0	0
Exposure amounts considered for regulatory purposes	435 162	435 162	0	0	0

* Calculated according to 2017/2395 EU regulation

Due to the COVID 19 pandemia, in order to strengthen the banking system, Hungarian National Bank requests banks to make sure that dividends are neither approved, nor paid until the 30.09.2020. In this document the regulatory capital is presented in line with the request of the National Bank and dividend payment is not taken into account in the regulatory capital⁴.

Chart 130: OTP Building Society's regulatory capital

Total regulatory capital (in HUF million)	31.12.2019	Cross reference to rows of own funds disclosure template
Share capital	2 000	(1)
Retained earnings	10 102	(2)
Accumulated other comprehensive income and	15 879	(3)
Balance sheet profit or loss	3 169	(2)
Intangible assets (-)	(140)	(8)
Prudential filters	(33)	(7)
Deferred tax assets	0	(10)
Other transitional adjustments (1)	338	(26)
Common Equity Tier 1 capital	31 316	(29)
Total Tier 1 capital	31 316	(45)
Subordinated debt	0	
Total Tier 2 capital	0	(58)
Total regulatory capital	31 316	(59)

(1) Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds according to 2017/2395 EU regulation.

⁴ <https://www.mnb.hu/en/pressroom/press-releases/press-releases-2020/the-mnb-takes-several-measures-to-support-the-operation-of-banks> (21.04.2020)

Chart 131: Breakdown of regulatory capital including transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds in accordance with 2017/2395 EU regulation

	(A) 31.12.2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
Common Equity Tier 1 capital: instruments and reserves (in HUF million)			
1 Capital instruments and the related share premium accounts	2 000	26 (1), 27, 28, 29, EBA list 26 (3)	
of which: share	2 000	EBA list 26 (3)	
2 Retained earnings (1)	13 270	26 (1) (c)	
3 Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	15 879	26 (1)	
3a Funds for general banking risk		26 (1) (f)	
4 Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1		486 (2)	
5 Minority interests (amount allowed in consolidated CET1)		84, 479, 480	
5a Independently reviewed interim profits net of any foreseeable charge or dividend	0	26 (2)	
6 Common Equity Tier 1 (CET1) capital before regulatory adjustments	31 149		
Common Equity Tier 1 (CET1) capital: regulatory adjustments (in HUF million)			
7 Additional value adjustments (negative amount)	(33)	34, 105	
8 Intangible assets (net of related tax liability) (negative amount)	(140)	36 (1) (b), 37, 472 (4)	
10 Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	0	36 (1) (c), 38, 472 (5)	
11 Fair value reserves related to gains or losses on cash flow hedges		33 (1) (a)	
12 Negative amounts resulting from the calculation of expected loss amounts		36 (1) (d), 40, 159, 472 (6)	
13 Any increase in equity that results from securitised assets (negative amount)		32 (1)	
14 Gains or losses on liabilities valued at fair value resulting from changes in own credit standing		33 (1) (b)	
15 Defined-benefit pension fund assets (negative amount)		36 (1) (e), 41, 472 (7)	
16 Direct and indirect holdings by an institution of own CET1 instruments (negative amount)		36 (1) (f), 42, 472 (8)	
17 Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		36 (1) (g), 44, 472 (9)	
18 Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36 (1) (h), 43, 45, 46, 49 (1)-(3), 79, 472 (10)	
19 Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)	

Common Equity Tier 1 (CET1) capital: regulatory adjustments (in HUF million) (continuation)	(A) 31.12.2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
20a Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative		36 (1) (k)	
20b of which: qualifying holdings outside the financial sector (negative amount)		36 (1) (k) (i), 89 to 91	
20c of which: securitisation positions (negative amount)		36 (1) (k) (ii) 243 (1) (b) 244 (1) (b) 258	
20d of which: free deliveries (negative amount)		36 (1) (k) (iii), 379 (3)	
21 Deferred tax assets arising from temporary difference (amount above 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)		36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	
22 Amount exceeding the 15% threshold (negative amount)		48 (1)	
23 of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities		36 (1) (i), 48 (1) (b), 470, 472 (11)	
25 of which: deferred tax assets arising from temporary difference		36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	
25a Losses for the current financial year (negative amount)		36 (1) (a), 472 (3)	
25b Foreseeable tax charges relating to CET1 items (negative amount)		36 (1) (l)	
26 Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment (2)	338		
27 Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)		36 (1) (j)	
28 Total regulatory adjustments to Common Equity Tier 1 (CET1)	166		
29 Common Equity Tier 1 (CET1) capital	31 316		

Additional Tier 1 (AT1) capital: instruments (in HUF million)	(A) 31.12.2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
30 Capital instruments and the related share premium accounts		51, 52	
31 of which: classified as equity under applicable accounting standards			
32 of which: classified as liabilities under applicable accounting standards			
33 Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1		486 (3)	
34 Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties		85, 86, 480	
35 of which: instruments issued by subsidiaries subject to phase-out		486 (3)	
36 Additional Tier 1 (AT1) capital before regulatory adjustments	0		

	(A)	(B)	(C)
Additional Tier 1 (AT1) capital: regulatory adjustments (in HUF million)	31.12.2019	REGULATION (EU) No 575/2013 ARTICLE REFERENCE	AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
37 Direct and indirect holdings by an institution of own AT1 instruments (negative amount)		52 (1) (b), 56 (a), 57, 475 (2)	
38 Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		56 (b), 58, 475 (3)	
39 Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		56 (c), 59, 60, 79, 475 (4)	
40 Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		56 (d), 59, 79, 475 (4)	
42 Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)		56 (e)	
43 Total regulatory adjustments to Additional Tier 1 (AT1) capital	0		
44 Additional Tier 1 (AT1) capital	0		
45 Tier 1 capital (T1 = CET1 + AT1)	31 316		

	(A)	(B)	(C)
Tier 2 (T2) capital: instruments and provisions (in HUF million)	31.12.2019	REGULATION (EU) No 575/2013 ARTICLE REFERENCE	AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
46 Capital instruments and the related share premium accounts		62, 63	
47 Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2		486 (4)	
48 Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party		87, 88, 480	
49 of which: instruments issued by subsidiaries subject to phase-out		486 (4)	
50 Credit risk adjustments		62 (c) & (d)	
51 Tier 2 (T2) capital before regulatory adjustment	0		

	(A) 31.12.2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
Tier 2 (T2) capital: regulatory adjustments (in HUF million)			
52 Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)		63 (b) (i), 66 (a), 67, 477 (2)	
53 Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount)		66 (b), 68, 477 (3)	
54 Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)		66 (c), 69, 70, 79, 477 (4)	
55 Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)		66 (d), 69, 79, 477 (4)	
57 Total regulatory adjustments to Tier 2 (T2) capital	0		
58 Tier 2 (T2) capital	0		
59 Total capital (TC = T1 + T2)	31 316		
60 Total risk weighted assets	41 333		

	(A) 31.12.2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
Capital ratios and buffers (in HUF million)			
61 Common Equity Tier 1 (as a percentage of total risk exposure amount)	75.76%	92 (2) (a), 465	
62 Tier 1 (as a percentage of total risk exposure amount)	75.76%	92 (2) (b), 465	
63 Total capital (as a percentage of total risk exposure amount)	75.76%	92 (2) (c)	
64 Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of total risk exposure amount)	6.375%	CRD 128, 129, 130, 131 and 133	
65 of which: capital conservation buffer requirement	2.500%		
66 of which: countercyclical buffer requirement (3)			
67 of which: systemic risk buffer requirement (3)			
67a of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer (4)		CRD 131	
68 Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	67.76%	CRD 128	

Amounts below the thresholds for deduction (before risk-weighting) (in HUF million)	(A) 31.12.2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
72 Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)	
73 Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		55 36 (1) (i), 45, 48, 470, 472 (11)	
75 Deferred tax assets arising from temporary difference (amount below 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met)		36 (1) (c), 38, 48, 470, 472 (5)	

Applicable caps on the inclusion of provisions in Tier 2 (in HUF million)	(A) 31.12.2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
76 Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)		62	
77 Cap on inclusion of credit risk adjustments in T2 under standardised approach		62	
78 Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)		62	
79 Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		62	

Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022) (in HUF million)	(A) 31.12.2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
80 Current cap on CET1 instruments subject to phase-out arrangements		484 (3), 486 (2) & (5)	
81 Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		484 (3), 486 (2) & (5)	
82 Current cap on AT1 instruments subject to phase-out arrangements		484 (4), 486 (3) & (5)	
83 Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		484 (4), 486 (3) & (5)	
84 Current cap on T2 instruments subject to phase-out arrangements		484 (5), 486 (4) & (5)	
85 Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		484 (5), 486 (4) & (5)	

- (1) Profit for financial year 2019 is included in retained earnings.
- (2) Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds according to 2017/2395 EU regulation.
- (3) Capital buffer is not implemented
- (4) Not relevant capital buffer

Chart 132: The effect of the transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds in accordance with 2017/2395 EU regulation

IFRS 9 effect		31.12.2019
(in HUF million)		
Regulatory capital		
1	Common Equity Tier 1 (CET1) capital	31 316
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	30 977
3	Tier 1 capital	31 316
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	30 977
5	Total capital	31 316
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	30 977
Total risk weighted assets		
7	Total risk weighted assets	41 333
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	41 237
Capital ratios		
9	Common Equity Tier 1 (as a percentage of total risk exposure amount)	75.76%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	75.12%
11	Tier 1 (as a percentage of total risk exposure amount)	75.76%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	75.12%
13	Total capital (as a percentage of total risk exposure amount)	75.76%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	75.12%
Leverage ratio		
15	Total exposure	435 130
16	Leverage ratio	7.20%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	7.12%

IV.3. Trading book market and counterparty risks (capital requirements)

Chart 133: Trading book positions capital requirement

Description (in HUF million)	RWAs	Capital requirements
Interest rate risk (general and specific)	0	0
Equity risk (general and specific)	0	0
Foreign exchange risk	0	0
Commodity risk	0	0
Options	0	0
Simplified approach	0	0
Delta-plus method	0	0
Scenario approach	0	0
Securitisation (specific risks)	0	0
Total	0	0

IV.4. Leverage

Chart 134: Net exposure value to leverage ratio

	in HUF million	Applicable Amount
1	Total assets as per published financial statements	434 896
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure	0
4	Adjustments for derivative financial instruments	0
5	Adjustment for securities financing transactions (SFTs)	0
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	131
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	0
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	0
7	Other adjustments	103
8	Leverage ratio total exposure measure	435 130

Chart 135: Leverage ratio

	in HUF million	CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	435 171
2	(Asset amounts deducted in determining Tier 1 capital)	(172)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	434 999
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	0
5	Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method)	0
EU-5a	Exposure determined under Original Exposure Method	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
11	Total derivatives exposures (sum of lines 4 to 10)	0
SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	0
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	Counterparty credit risk exposure for SFT assets	0
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	0
15	Agent transaction exposures	0
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	0
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	0
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	252
18	(Adjustments for conversion to credit equivalent amounts)	(121)
19	Other off-balance sheet exposures (sum of lines 17 and 18)	131
Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)		
EU-19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
Capital and total exposure measure		
20	Tier 1 capital	31 316
21	Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	435 130
Leverage ratio		
22	Leverage ratio	7.20%
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully phased in
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	0

Note: The exposures are calculated according to 2017/2395 EU regulation, including the effect of transitional arrangements for mitigating the impact of the introduction of IFRS 9 and the correction in accordance with the Article 1. (7) paragraph b) point.

There was no material change in the value of leverage ratio in 2019.

IV.5. Credit risk adjustments

IV.5.1. Methods of valuations and provisions

The financial reports of the OTP Building Society are based on IFRS regulation. Measurement and provision allocation of assets, investments and off-balance sheet liabilities are realized according to frameworks of relevant IFRS/IAS standards.

In its regulations entitled “International Financing Reporting Standards (IFRS) valuation requirements” OTP Building Society provides detailed regulations pertaining to the measurement and provision recognition of outstanding debts, investments and off-balance sheet liabilities.

The recognized provision level reflects to the foreseeable risks and potential losses. The amount of the recognized impairment is the difference between the book value of the outstanding debt and the expected amount of the recovered debt. OTP Building Society recognizes risk provision for off-balance sheet (pending, future) liabilities on the basis of their assessment. If the measurement process reveals that the amount of the risk provision exceeds the amount required on the basis of the assessment, the excess amount of the risk provision is released.

At initial recognition the financial assets must be tested based on the business model and the contracted cash flow characteristics, based on which it can be determined according to which measurement method, specified in the IFRS 9 standard, the given asset is to be managed and valued. The assets can be allocated to the following three categories:

- Assets measured at amortized cost
- Assets valued at fair value through other comprehensive income (FVOCI) – IFRS13,
- Assets valued at fair value through profit and loss (FVPL) – IFRS13.

According to the requirements of the IFRS9 standard, upon the initial recognition and on the reporting dates (last calendar day of the reporting month) the assets measured at amortized cost and the assets valued at fair value through other comprehensive income must be allocated to three stages by their credit risk or POCI category:

- Stage 1 category contains the performing deals.
- Those deals, which are performing, but compared to the initial recognition it shows significant increase in credit risk, must be categorized to Stage 2.
- Stage 3 contains the non-performing (credit-impaired) deals.
- Purchased or originated credit impaired assets are financial assets that are impaired already upon the initial recognition. These assets must be classified as POCI.

In case of the Stage 1 deals 12-month credit losses must be calculated by the expectations of the default probability, for Stage 2 and Stage 3 deals lifetime expected losses must be calculated as impairment.

Depending on the item, assessment based on the following aspects:

- client and counterparty rating – financial situation, stability and income generation capability of the client or counterparty affected by the financial and investment service, and any changes in these factors;
- the repayment schedule (overdue days) – patterns of delay on principal and interest payment related to the amortization of the outstanding debt, regular fulfillment of the payment obligation;
- status of restructuring risk contract;
- sovereign risk and changes in the sovereign risk associated with the client (both political risk and transfer risk);
- value, marketability and availability of the securities pledged as collateral and any changes in them;
- marketability of the item (market demand and supply, achievable market prices, share in the issuer’s equity in proportion to the size of the investment),
- future payment obligation, which qualifies as a loss originating from the item,
- significant increase in credit risk compared to the initial recognition.

Probable future losses on the item are determined on a case-by-case basis, in consideration of the above aspects as applicable. If this amount is lower than the amount recognized on the item earlier, it has to be supplemented by the amount of the difference by recognizing a further amount of impairment, or if it is higher, it has to be reduced by the release of the existing amount of impairment.

Delinquent deal: the client doesn't perform his/her payment obligations.

According to the CRR a default shall be considered to have occurred with regard to a particular obligor when either or both of the following events have taken place:

- the institution considers that the obligor is unlikely to pay its credit obligations to the institution, the parent undertaking or any of its subsidiaries in full, without recourse by the institution to actions such as realising security
- the obligor is past due more than 90 days on any material credit obligation to the institution, the parent undertaking or any of its subsidiaries.

If the debts are past due more than 90 days and it derives from non-lending type contracts do not qualify as default event. These exposures are not considered to be impaired.

A credit risk exposure shall be considered as restructured:

- considering the current or future financial difficulties of the client the institution
- provides a concession/allowance in respect of the contract originating the exposure (and this would not be done if the client would not have financial difficulties)

The calculation of credit losses may be carried out on an individual or collective basis.

Portfolio (collective) assessment

The collective assessment based on the following parameters: probability of defaults, cure rate, loss given default. The condition of applying collective assessment is that the assets should be allocable to groups representing similar credit risk based on major credit risk characteristics and their capability to fulfill contractual obligations. The most important variables of the assessment procedure are payment delay, deal/client rating, the restructuring information and the default status.

Upon estimating the future cash flows related to the group(s) of financial assets, the historic credit loss data of the assets representing similar credit risk, the macroeconomic factors and information on the future of financial instruments must be taken into account.

The OTP Building Society shall measure expected credit losses of a financial asset 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.

Individual assessment

Receivables that are of insignificant amount on a stand-alone basis with objective evidence of impairment or that the risk management functional area subjected to individual assessment based on monitoring information must be measured individually:

- The cash flows expected from the financial instruments must be defined, which has to be based on at least two scenarios.
- Valuation and revaluation of collaterals is crucial, discounting the cash-flows from the sale of collaterals is an important part of individual assessment.
- The defined cash flows must be discounted to the present value.
- The impairment of the financial instrument is taking into account the riskiness of cash flows and individual collateralization.
- The individual cash-flow estimation also has to be forward looking, which has to contain the information about the macroeconomic environment and the future of the financial instruments.
- If there is a significant change in the credit risk of a financial asset, the impairment calculation must be reviewed taking into account the new information and risks.

Changes in impairment of loan portfolio are presented in in the following notes of the financial statement:

- changes of impairment regarding “Securities at amortised cost” in Note 9.
- changes of impairment regarding “Loans” in Note 7.

Chart 136: Qualified exposures and impairment

(in HUF million)	Accumulated specific / general credit risk adjustment
Opening balance	569
Increases due to amounts set aside for estimated loan losses during the period	41
Decreases due to amounts reversed for estimated loan losses during the period	0
Decreases due to amounts taken against accumulated credit risk adjustments	(1)
Transfers between credit risk adjustments	3
Impact of exchange rate differences	0
Cured from default or non-impaired	0
Other adjustments	0
Closing balance	612
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	0
Specific credit risk adjustments directly recorded to the statement of profit or loss	0

Chart 137: Changes of non-performing loan exposures

	(in HUF million)	Gross carrying value defaulted exposures
1	Opening balance - 31.12.2018	21
2	Loans and debt securities that have defaulted since the last reporting period	37
3	Returned to non-defaulted status	0
4	Amounts written-off	0
5	Other changes*	285
6	Closing balance - 31.12.2019 (6 = 1 + 2 - 3 - 4 + 5)	343

* Contains the IFRS 9 transitional difference

IV.5.2. Exposures to credit risk

The presented RWAs and exposures in this chapter are calculated according to 2017/2395 EU regulation, including the effect of transitional arrangements for mitigating the impact of the introduction of IFRS 9 and the correction in accordance with the Article 1. (7) paragraph b) point.

Chart 138: Net exposures broken down by net exposure classes (before credit risk mitigation)

Exposures (in HUF million)	31.12.2019	2019 Average
Exposures to central governments or central banks	270 535	264 573
Exposures to regional governments or local authorities	119	84
Exposures to public sector entities	0	0
Exposures to multilateral development banks	0	0
Exposures to international organisation	0	0
Exposures to institutions	41 383	32 698
Exposures to corporates	825	647
Retail exposures	162	141
Exposures secured by mortgages on immovable property	31 593	31 790
Exposures in default	314	198
Exposures associated with particularly high risk	0	14
Exposures in the form of covered bonds	89 986	83 468
Exposures to institutions and corporates with a short-term credit assessment	0	0
Exposures in the form of units or shares in collective investment undertakings ('CIUs')	0	0
Equity exposures	0	0
Other exposures	245	2 189
Total	435 162	415 802

Chart 139: Exposures broken down by geographical areas (by the country of obligors) on 31st December 2019

(in HUF million)	Exposures to central governments or central banks	Exposures to regional governments or local authorities	Exposures to public sector entities	Exposures to multilateral development banks	Exposures to international organisation	Exposures to institutions	Exposures to corporates	Retail exposures	Exposures secured by mortgages on immovable property	Exposures in default	Exposures associated with particularly high risk	Exposures in the form of covered bonds	Exposures to institutions and corporates with a short-term credit assessment	Exposures in the form of units or shares in collective investment undertakings ('CIUs')	Equity exposures	Other items	Total
Total	270 535	119	0	0	0	41 383	825	162	31 593	314	0	89 986	0	0	0	245	435 162
Hungary	270 535	119	0	0	0	41 383	825	162	31 593	314	0	89 986	0	0	0	245	435 162

Chart 140: Exposure classes broken down by counterparty type on 31st December 2019

(in HUF million)	Exposures to central governments or central banks	Exposures to regional governments or local authorities	Exposures to public sector entities	Exposures to multilateral development banks	Exposures to international organisation	Exposures to institutions	Exposures to corporates	Retail exposures	Exposures secured by mortgages on immovable property	Exposures in default	Exposures associated with particularly high risk	Exposures in the form of covered bonds	Exposures to institutions and corporates with a short-term credit assessment	Exposures in the form of units or shares in collective investment undertakings ('CIUs')	Equity exposures	Other items	Total
Total	270 535	119	0	0	0	41 383	825	162	31 593	314	0	89 986	0	0	0	245	435 162
Governments	270 535	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	270 535
Municipal	0	119	0	0	0	0	0	0	0	0	0	0	0	0	0	0	119
Public sector entities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Institutions	0	0	0	0	0	41 383	0	0	0	0	0	89 986	0	0	0	0	131 369
Corporate	0	0	0	0	0	0	752	0	23	0	0	0	0	0	0	0	775
Corporate SME	0	0	0	0	0	0	73	0	0	0	0	0	0	0	0	0	73
Retail	0	0	0	0	0	0	0	162	31 570	314	0	0	0	0	0	0	32 046
Retail SME	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Equity	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other*	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	245	245

* Other, not mentioned items (e. g. tangible assets)

Chart 141: Exposure classes broken down by residual maturity on 31st December 2019

(in HUF million)	On demand	<= 1 year	> 1 year <= 5 year	> 5 year	No stated maturity	Total
Total	0	72 268	126 767	236 010	117	435 162
Exposures to central governments or central banks	0	26 821	98 221	145 493	0	270 535
Exposures to regional governments or local authorities	0	0	0	119	0	119
Exposures to public sector entities	0	0	0	0	0	0
Exposures to multilateral development banks	0	0	0	0	0	0
Exposures to international organisation	0	0	0	0	0	0
Exposures to institutions	0	41 098	0	285	0	41 383
Exposures to corporates	0	79	369	377	0	825
Retail exposures	0	0	128	34	0	162
Exposures secured by mortgages on immovable property	0	1 080	11 088	19 425	0	31 593
Exposures in default	0	5	71	238	0	314
Exposures associated with particularly high risk	0	0	0	0	0	0
Exposures in the form of covered bonds	0	3 185	16 762	70 039	0	89 986
Exposures to institutions and corporates with a short-term credit assessment	0	0	0	0	0	0
Exposures in the form of units or shares in collective investment undertakings ('CIUs')	0	0	0	0	0	0
Equity exposures	0	0	0	0	0	0
Other items	0	0	128	0	117	245

Chart 142: Aging of past-due exposures

(in HUF million)	Gross carrying values					
	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
Loans	32 588	76	37	44	15	24
Debt securities	360 712	0	0	0	0	0
Total exposures	393 300	76	37	44	15	24

Chart 143: Non-performing and forborne exposures

(in HUF million)	Gross carrying amount of performing and non-performing exposures						Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
		Of which performing but past due > 30 days and <=90 days	Of which performing forborne	Of which non-performing			On performing exposures		On non-performing exposures		On non-performing exposures	Of which forborne exposures
				Of which defaulted	Of which impaired	Of which forborne	Of which forborne	Of which forborne				
Debt securities	360 712	0	0	0	0	0	379	0	0	0	0	0
Loans and advances	32 784	84	3	343	343	343	0	(159)	1	(73)	0	268
Off-balance sheet exposures	252		0	0	0	0	0	(1)	0	0	0	0

Note: Exposures according to EBA definition.

Chart 144: Credit quality of exposures by exposure class and instrument on 31st December 2019

(in HUF million)	Gross carrying values of		Specific/General credit risk adjustment	Net values
	Defaulted exposures	Non-defaulted exposures		
Central governments or central banks	0	270 626	(91)	270 535
Regional governments or local authorities	0	119	0	119
Public sector entities	0	0	0	0
Multilateral development banks	0	0	0	0
International organisation	0	0	0	0
Institutions	0	41 383	0	41 383
Corporates	0	833	(8)	825
Retail	343	163	(30)	476
Secured by mortgages on immovable property	0	31 646	(53)	31 593
Exposures in default	0	0	0	0
Items associated with particularly high risk	0	0	0	0
Covered bonds	0	90 085	(99)	89 986
Institutions and corporates with a short-term credit assessment	0	0	0	0
Collective investments undertakings	0	0	0	0
Equity exposures	0	0	0	0
Other exposures	0	245	0	245
Total	343	435 100	(281)	435 162

Chart 145: Credit quality of exposures by counterparty types on 31st December 2019

(in HUF million)	Gross carrying values of		Specific/General credit risk adjustment	Net values
	Defaulted exposures	Non-defaulted exposures		
Governments	0	270 626	(91)	270 535
Municipal	0	119	0	119
Public sector entities	0	0	0	0
Institutions	0	131 468	(99)	131 369
Corporate	0	782	(7)	775
Corporate SME	0	73	0	73
Retail	343	31 787	(84)	32 046
Retail SME	0	0	0	0
Equity	0	0	0	0
Other*	0	245	0	245
Total	343	435 100	(281)	435 162

* Other, not mentioned items (e. g. tangible assets)

Chart 146: Credit quality of exposures by geography on 31st December 2019

(in HUF million)	Gross carrying values of		Specific/General credit risk adjustment	Net values
	Defaulted exposures	Non-defaulted exposures		
Total	343	435 100	(281)	435 162
Hungary	343	435 100	(281)	435 162

Chart 147: Overview of CRM techniques

(in HUF million)	Exposures unsecured - Carrying amount	Exposures to be secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	435 283	0	0	0	0
Total debt securities	0	0	0	0	0
Total exposures	435 283	0	0	0	0
Of which defaulted	314	0	0	0	0

Note: The table is content the exposures secured by financial guarantees, collateral. The exposures secured by real estate are in the "Exposures unsecured – Carrying amount" column.

IV.6. Use of External Credit Assessment Institutions

Chart 148: Exposures broken down by credit quality steps (CQS) of obligors

(in HUF million)	Risk weight						Total	Of which unrated
	0%	20%	50%	75%	100%	150%		
Exposures to central governments or central banks	270 535	0	0	0	0	0	270 535	0
Exposures to regional governments or local authorities	0	119	0	0	0	0	119	119
Exposures to public sector entities	0	0	0	0	0	0	0	0
Exposures to multilateral development banks	0	0	0	0	0	0	0	0
Exposures to institutions	41 383	0	0	0	0	0	41 383	41 383
Exposures to corporates	0	0	0	0	825	0	825	825
Retail exposures	0	0	0	162	0	0	162	162
Exposures secured by mortgages on immovable property	0	0	0	31 571	22	0	31 593	31 593
Exposures in default	0	0	0	0	127	187	314	314
Exposures associated with particularly high risk	0	0	0	0	0	0	0	0
Exposures in the form of covered bonds	69 162	0	20 824	0	0	0	89 986	89 986
Exposures in institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0	0
Exposures in the form of units or shares in collective investment undertakings ('CIUs')	0	0	0	0	0	0	0	0
Equity exposures	0	0	0	0	0	0	0	0
Other items	0	0	0	0	245	0	245	245
Total	381 080	119	20 824	31 733	1 219	187	435 162	164 627

Note: „Of which unrated” column contains the exposures which do not have external credit ratings

IV.7. Capital requirement for operational risk

Capital requirement for operational risk of OTP Building Society amounted to HUF 449 million on 31st December 2019, which was determined by advanced measurement approaches.

Chart 149: Operational risk capital requirements on 31st December 2019

Operational risk capital requirement's breakdown based on methods (in HUF million)	
Basic Indicator Approach	0
Standardised Approach	0
Alternative Standardised Approach	0
Advanced Measurement Approach	449
Total	449

IV.8. Exposures in equities not included in the trading book on 31st December 2019

There is no exposures, which are in equities not included in the trading book.

IV.9. Exposure to interest rate risk on positions not included in the trading book

Asset-Liability Directorate measures banking book interest rate risk exposure monthly, and also presents it as part of the consolidated exposure to the management with the same frequency.

The size and direction of the exposure is determined based on sensitivity analysis mainly.

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 were prepared by assuming only the adversing interest rate changes. The main assumptions were as follows:

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

The simulation was prepared by assuming two scenarios:

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

The net interest income in a one year period beginning with January 1, 2020 would be increased by HUF 35 million (scenario 1) and HUF 113 million (scenario 2) as a result of these simulation.

Chart 150: The effects of the parallel shifts of the yield-curves to the net interest income on a one-year period

Description (in HUF million)	Effects to the net interest income in one year period
HUF -0.1% parallel shift	(49)

IV.10. Disclosure of encumbered and unencumbered assets

Chart 151: The encumbered and unencumbered assets in carrying and fair value amounts by broad categories of asset type

(in HUF million)	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution	0		416 510	
Equity instruments	0		0	
Debt securities	0		348 037	
Other assets	0		4 294	

Chart 152: Collateral received, by broad categories of product type

(in HUF million)	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by the reporting institution	0	0
Equity instruments	0	0
Debt securities	0	0
Other collateral received	0	0
Own debt securities issued other than own covered bonds or ABSs	0	0

Chart 153: Encumbered assets/collateral received and associated liabilities

(in HUF million)	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	0	0

In addition to its equity capital, OTP Building Society's assets are wholly financed from customer deposits, therefore it does not have encumbered assets.

IV.11. Liquidity risk

The activity of home savings and loan associations founded and operating in Hungary are in Act CXIII of 1996 on Home Savings and Loan Associations. The principle function of OTP Building Society is to manage deposits and disburse loans pursuant to an agreement in the territory of Hungary. The OTP Building Society defines the following purposes connected with the liquidity risk management.

The primary purpose is to guarantee the performance of outstanding financial obligations: the company has to be able to comply the obligations of payment at the expiration date, with correct currency, and it has to perform the necessary transactions to maintain the solvency position at all times. Besides this the fulfilment of liquidity obligations specified in law is significant also. Besides securing solvency and complying with legal obligations the secondary purpose is to achieve these goals via the best way from the possible solutions from a profitability point of view. The purpose of risk management politics of OTP Building Society is the risk-aware operation: it is significant to identify, value and continuous monitor the liquidity and other kind of financial risks of commercial activities and to share the information of monitoring with the management of the company. The OTP Building Society is the subsidiary of the OTP Bank Plc. and the member of the OTP Group. The OTP Bank Plc. has a group-valid regulation about interest- and liquidity risk management. Based on this regulation the OTP Group is monitoring and managing the liquidity risk in Group level.

OTP Building Society Ltd's "Regulation on liquidity and interest rate risk" – approved by the Managing Committee - contains the relevant regulations in connection with the liquidity risk management policy, risk valuation and managing of liquidity risk. The department responsible for liquidity risk management within the company is the Finance and Accounting and Risk Management Department. The responsible department reporting directly to the management regarding the company's liquidity risk exposure, the related money and capital market transactions and limit measures.

The OTP Building Society Ltd's internal auditor controlling the operation of the company's liquidity risk management proceedings in accordance with the guideline no. 12/2015. (VIII. 24.) of the Central Bank of Hungary.

As the OTP Building Society Ltd complied with requirements of the internal regulations regarding to the liquidity limits, thus the Managing Committee declared that the adequacy if liquidity risk management arrangements of the company as it is in accordance with the company's profile and its' liquidity risk management policy.

Chart 154: OTP Building Society's liquidity coverage ratio

Description	31.12.2019
(in HUF million)	
Liquidity Buffer	277 080
Total Net Liquidity Outflow	4 232
Liquidity Coverage Ratio (%)	6 547%

IV.12. Regional distribution of the activity, return on assets ratio

Chart 155: Regional distribution of the activity, return on assets ratio

Description (in HUF million)	Hungary
Turnover	4 822
Profit or loss before tax	3 044
Tax on profit or loss	351
Public subsidies received	0
Number of employees on a full time basis	10
Return on assets	0.77

V. Merkantil Bank

Information required to be disclosed regarding Merkantil Bank Ltd. ("Merkantil Bank") is not presented in this chapter separately only in the OTP Group Chapter, if it is the same as OTP Group level publications.

V.1. Corporate Governance

Chart 156: The number of directorships of Merkantil Bank's chief executives*

Members of the Board of Directors	Number of directorships (according to CRR Art. 435. paragraph (2))		Members of the Supervisory Board	Number of directorships (according to CRR Art. 435. paragraph (2))	
	outside OTP Group	in OTP Group*		outside OTP Group	in OTP Group*
dr. László UTASSY	-	2	dr. Ferenc ECSEDI	-	3
Péter KÖNTÖS	-	1	Ágota SELYMESI	-	1
Tibor CSONKA	-	3	Zsuzsanna SZABÓ	-	-
Ibolya dr. RAJMONNÉ VERES	-	1	dr. Tamás SUCHMAN	-	1
dr. Bálint CSERE	-	2	dr. Ilona TÖRÖK	-	2
Csaba ELEK	-	-			

*with the exception of directorships held at Merkantil Bank

*with the exception of directorships held at Merkantil Bank

*The number of directorships includes the membership of Board of Directors and the Supervisory Board as well

Chart 157: Board members' education data

Board of Directors		Supervisory Board	
dr. László UTASSY		dr. Ferenc ECSEDI	
ELTE University, Faculty of law , Budapest	MA in Law (1978)	University of Horticulture	MSc in Food Engineering (1970)
	Legal advisor (1980)	University of Economics, Budapest	MSc in Economics (1980)
Péter KÖNTÖS			University doctor (economics) (1989)
University of Economics, Budapest	MSc in Economics (1979)	University of Horticulture and Food Industry	University doctor (food science) (1988)
Post-graduate School of Economics	Complex Company Planning Analyst (1985)	University of Szeged, Faculty of Law and Political Sciences	MA in Law (2000)
Tibor CSONKA		Corvinus University of Budapest	MBA (2008)
Szent István University, Gödöllő	MSc in Agricultural Economics (2002)	Ágota SELYMESI	
dr. Ibolya RAJMONNÉ VERES		College of Finance and Accounting, Budapest	BSc in Finance (1973)
College of Szolnok	BSc in Economics (2001)	Ministry of Finance, Budapest	Tax adviser (1989)
University of Economics, Budapest	Economist in Project Management (2004)		Chartered accountant (1995)
dr. Bálint CSERE		Penta Unió Education Centre	International tax adviser (2004)
ELTE University, Faculty of Law , Budapest	MA in Law (2000)	Zsuzsanna SZABÓ	
Csaba ELEK		University of Economics, Budapest	MSc in Economics (1978)
College of Finance and Accounting, Budapest	BSc in Finance (1986)	dr. Tamás SUCHMAN	
		Janus Pannonius University, Faculty of Law , Pécs	MA in Law (1981)
		Budapest Technical University	Urbanist (1986)
		dr. Ilona TÖRÖK	
		Janus Pannonius University Faculty of Law , Pécs	MA in Law (1999)

V.2. Regulatory capital and capital requirements

V.2.1. Capital adequacy of Merkantil Bank

The capital requirement calculation of Merkantil Bank on 31st December 2019 is based on IFRS and audited data.

Merkantil Bank applied standardized capital calculation method regarding credit and market risk and advanced measurement approach (AMA) regarding the operational risk. Merkantil Bank's regulatory capital requirement was HUF 22,688 million at the end of December 2019, the amount of regulatory capital was HUF 49,656 million. The capital adequacy ratio calculated in line with article 92 of CRR stood at 17.51%.

Chart 158: Merkantil Bank's overview of RWAs

(in HUF million)	RWAs	Minimum capital requirements
	31.12.2019	31.12.2019
Credit risk (excluding CCR)	267 243	21 379
Of which the standardised approach	267 243	21 379
CCR	0	0
Of which mark to market	0	0
Of which CVA	0	0
Market risk	2 874	230
Of which the standardised approach	2 874	230
Operational risk	13 486	1 079
Of which basic indicator approach	0	0
Of which advanced measurement approach	13 486	1 079
Total	283 603	22 688

Note: The credit risk RWA is calculated according to 2017/2395 EU regulation, including the effect of transitional arrangements for mitigating the impact of the introduction of IFRS 9 and the correction in accordance with the Article 1. (7) paragraph b) point

Chart 159: Credit risk exposure and CRM effects on 31st December 2019

(in HUF million)	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
Central governments or central banks	52 970	0	52 970	0	0	0.00%
Regional government or local authorities	51	0	51	0	10	20.00%
Public sector entities	208	0	208	0	192	92.34%
Multilateral development banks	0	0	0	0	0	
International organisations	0	0	0	0	0	
Institutions	71 434	0	71 434	0	1 273	1.78%
Corporates	167 191	28 106	167 191	4 847	129 954	75.54%
Retail	184 817	0	184 817	0	119 891	64.87%
Secured by mortgages on immovable property	0	0	0	0	0	
Exposures in default	5 262	7	5 262	1	6 259	118.90%
Higher-risk categories	0	0	0	0	0	
Covered bonds	0	0	0	0	0	
Institutions and corporates with a short-term credit assessment	0	0	0	0	0	
Collective investments undertakings	0	0	0	0	0	
Equity	6 402	0	6 402	0	8 616	134.59%
Other items	928	323	928	162	1 048	96.21%
Total	489 263	28 436	489 263	5 010	267 243	54.07%

V.2.2. Information about disclosure requirements related to the regulatory capital in line with Commission Implementing Regulation (EU) No. 1423/2013

Chart 160: Differences between accounting (IFRS) and regulatory (CRR) scopes of consolidation and the mapping of financial statement categories with regulatory risk categories

Description	Carrying values as reported in published financial statements	Carrying values of items				
		Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
(in million HUF)						
Cash, amounts due from banks and balances with the National Banks	40 794	40 794	0	0	0	0
Placements with other banks, net of allowance for placement losses	6 000	6 000	0	0	0	0
Financial assets at fair value through profit or loss	1 632	0	1 632	0	1 632	0
Securities available-for-sale	10	10	0	0	0	0
Loans, net of allowance for loan losses	74 853	74 853	0	0	0	0
Finance lease receivables	281 138	281 138	0	0	0	0
Associates and other investments	6 402	6 402	0	0	0	0
Securities held-to-maturity	75 124	75 124	0	0	0	0
Property and equipment	92	92	0	0	0	0
Intangible assets	1 008		0	0	0	1 008
Right-of-use assets	146	146	0	0	0	0
Investment properties	127	127	0	0	0	0
Deferred tax	610	610	0	0	0	0
Other assets	3 463	3 463	0	0	0	0
TOTAL ASSETS	491 399	488 759	1 632	0	1 632	1 008
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	420 076	0	0	0	0	420 076
Deposits from customers	10 425	0	0	0	0	10 425
Liabilities from issued securities	404	0	0	0	0	404
Non held for trading derivative financial liabilities	112	0	0	0	0	112
Leasing liabilities	147	0	0	0	0	147
Other liabilities	9 084	0	0	0	0	9 084
Subordinated bonds and loans	5 001	0	0	0	0	5 001
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	445 249	0	0	0	0	445 249

Chart 161: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

Description (in HUF million)	Total	Items subject to			
		Credit risk framework	CCR framework	Securitisation framework	Market risk framework
Assets carrying value amount under the scope of regulatory consolidation (as per template EU L11)	491 399	488 759	1 632	0	1 632
Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU L11)	445 249	0	0	0	0
Total net amount under the regulatory scope of Off-balance-sheet amounts	46 150	0	0	0	0
Differences because the transitional arrangements related to IFRS 9 or analogous ECLs*	28 428	5 009	0	0	0
	506	506	0	0	0
Exposure amounts considered for regulatory purposes	495 905	494 273	1 632	0	1 632

*According to 2017/2395 EU regulation

Due to the COVID 19 pandemia, in order to strengthen the banking system, Hungarian National Bank requests banks to make sure that dividends are neither approved, nor paid until the 30.09.2020. In this document the regulatory capital is presented in line with the request of the National Bank and dividend payment is not taken into account in the regulatory capital⁵.

Chart 162: Merkantil Bank's regulatory capital

Total regulatory capital (in HUF million)	31.12.2019	Cross reference to rows of transitional own funds disclosure template
Share capital	2 000	(1)
Retained earnings	32 417	(2)
Accumulated other comprehensive income and other reserves	3 488	(3)
Balance sheet profit or loss	8 244	(2)
Intangible assets (-)	(998)	(8)
Prudential filters	0	(7)
Deferred tax assets	0	(10)
Other transitional adjustments (1)	504	(26)
Common Equity Tier 1 capital	45 656	(29)
Total Tier 1 capital	45 656	(45)
<i>Subordinated debt</i>	5 000	
Of which: eligible in regulatory capital	4 000	
Total Tier 2 capital	4 000	(58)
Of which: general provision	0	
Total regulatory capital	49 656	(59)

(1) Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds according to 2017/2395 EU regulation.

⁵ <https://www.mnb.hu/en/pressroom/press-releases/press-releases-2020/the-mnb-takes-several-measures-to-support-the-operation-of-banks> (21.04.2020)

Chart 163: Breakdown of regulatory capital including transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds in accordance with 2017/2395 EU regulation

Common Equity Tier 1 capital: instruments and reserves (in HUF million)	(A) 31.12.2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
1 Capital instruments and the related share premium accounts	2 000	26 (1), 27, 28, 29, EBA list 26 (3)	
of which: share	2 000	EBA list 26 (3)	
2 Retained earnings (1)	40 661	26 (1) (c)	
3 Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	3 488	26 (1)	
3a Funds for general banking risk		26 (1) (f)	
4 Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1		486 (2)	
5 Minority interests (amount allowed in consolidated CET1)		84, 479, 480	
5a Independently reviewed interim profits net of any foreseeable charge or dividend		26 (2)	
6 Common Equity Tier 1 (CET1) capital before regulatory adjustments	46 150		

Common Equity Tier 1 (CET1) capital: regulatory adjustments (in HUF million)	(A) 31.12.2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
7 Additional value adjustments (negative amount)		34, 105	
8 Intangible assets (net of related tax liability) (negative amount)	(998)	36 (1) (b), 37, 472 (4)	
10 Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)		36 (1) (c), 38, 472 (5)	
11 Fair value reserves related to gains or losses on cash flow hedges		33 (a)	
12 Negative amounts resulting from the calculation of expected loss amounts		36 (1) (d), 40, 159, 472 (6)	
13 Any increase in equity that results from securitised assets (negative amount)		32 (1)	
14 Gains or losses on liabilities valued at fair value resulting from changes in own credit standing		33 (1) (b)	
15 Defined-benefit pension fund assets (negative amount)		36 (1) (e), 41, 472 (7)	
16 Direct and indirect holdings by an institution of own CET1 instruments (negative amount)		36 (1) (f), 42, 472 (8)	
17 Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		36 (1) (g), 44, 472 (9)	
18 Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)	
19 Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1)-(3), 79, 470, 472 (11)	

Common Equity Tier 1 (CET1) capital: regulatory adjustments (continuation) (in HUF million)	(A) 31.12.2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
20a Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative		36 (1) (k)	
20b of which: qualifying holdings outside the financial sector (negative amount)		36 (1) (k) (i), 89-91	
		36 (1) (k) (ii)	
20c of which: securitisation positions (negative amount)		243 (1) (b)	
		244 (1) (b)	
		258	
20d of which: free deliveries (negative amount)		36 (1) (k) (iii), 379 (3)	
21 Deferred tax assets arising from temporary difference (amount above 10 % threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)		36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	
22 Amount exceeding the 15% threshold (negative amount)		48 (1)	
23 of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities		36 (1) (j), 48 (1) (b), 470, 472 (11)	
25 of which: deferred tax assets arising from temporary difference		36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	
25a Losses for the current financial year (negative amount)		36 (1) (a), 472 (3)	
25b Foreseeable tax charges relating to CET1 items (negative amount)		36 (1) (l)	
26 Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment (2)	504		
27 Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)		36 (1) (j)	
28 Total regulatory adjustments to Common Equity Tier 1 (CET1)	(494)		
29 Common Equity Tier 1 (CET1) capital	45 656		

Additional Tier 1 (AT1) capital: instruments (in HUF million)	(A) 31.12.2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
30 Capital instruments and the related share premium accounts		51, 52	
31 of which: classified as equity under applicable accounting standards			
32 of which: classified as liabilities under applicable accounting standards			
33 Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1		486 (3)	
34 Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties		85, 86, 480	
35 of which: instruments issued by subsidiaries subject to phase-out		486 (3)	
36 Additional Tier 1 (AT1) capital before regulatory adjustments	0		

Additional Tier 1 (AT1) capital: regulatory adjustments (in HUF million)	(A) 31.12.2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
37 Direct and indirect holdings by an institution of own AT1 instruments (negative amount)		52 (1) (b), 56 (a), 57, 475 (2)	
38 Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		56 (b), 58, 475 (3)	
39 Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		56 (c), 59, 60, 79, 475 (4)	
40 Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		56 (d), 59, 79, 475 (4)	
42 Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)		56 (e)	
43 Total regulatory adjustments to Additional Tier 1 (AT1) capital	0		
44 Additional Tier 1 (AT1) capital	0		
45 Tier 1 capital (T1 = CET1 + AT1)	45 656		
Tier 2 (T2) capital: instruments and provisions (in HUF million)	(A) 31.12.2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
46 Capital instruments and the related share premium accounts	4 000	62, 63	
47 Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2		486 (4)	
48 Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party		87, 88, 480	
49 of which: instruments issued by subsidiaries subject to phase-out		486 (4)	
50 Credit risk adjustments		62 (c) & (d)	
51 Tier 2 (T2) capital before regulatory adjustment	4 000		

Tier 2 (T2) capital: regulatory adjustments (in HUF million)	(A) 31.12.2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
52 Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)		63 (b) (i), 66 (a), 67, 477 (2)	
53 Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount)		66 (b), 68, 477 (3)	
54 Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)		66 (c), 69, 70, 79, 477 (4)	
55 Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)		66 (d), 69, 79, 477 (4)	
57 Total regulatory adjustments to Tier 2 (T2) capital	0		
58 Tier 2 (T2) capital	4 000		
59 Total capital (TC = T1 + T2)	49 656		
60 Total risk weighted assets	283 603		

Capital ratios and buffers (in HUF million)	(A) 31.12.2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
61 Common Equity Tier 1 (as a percentage of total risk exposure amount)	16.10%	92 (2) (a), 465	
62 Tier 1 (as a percentage of total risk exposure amount)	16.10%	92 (2) (b), 465	
63 Total capital (as a percentage of total risk exposure amount)	17.51%	92 (2) (c)	
64 Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of total risk exposure amount)	6.375%	CRD 128, 129, 130	
65 of which: capital conservation buffer requirement	2.500%		
66 of which: countercyclical buffer requirement (3)			
67 of which: systemic risk buffer requirement (3)			
67a of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer (4)		CRD 131	
68 Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	8.10%	CRD 128	

Amounts below the thresholds for deduction (before risk-weighting) (in HUF million)	(A) 31.12.2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
72 Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		36 (1) (h), 45, 46, 472 (10) 10 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)	
73 Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	1 476	36 (1) (i), 45, 48, 470, 472 (11)	
75 Deferred tax assets arising from temporary difference (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)		36 (1) (c), 38, 48, 470, 472 (5)	

Applicable caps on the inclusion of provisions in Tier 2 (in HUF million)	(A) 31.12.2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
76 Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)		62	
77 Cap on inclusion of credit risk adjustments in T2 under standardised approach		62	
78 Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)		62	
79 Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		62	

Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022) (in HUF million)	(A) 31.12.2019	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
80 Current cap on CET1 instruments subject to phase-out arrangements		484 (3), 486 (2) & (5)	
81 Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		484 (3), 486 (2) & (5)	
82 Current cap on AT1 instruments subject to phase-out arrangements		484 (4), 486 (3) & (5)	
83 Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		484 (4), 486 (3) & (5)	
84 Current cap on T2 instruments subject to phase-out arrangements		484 (5), 486 (4) & (5)	
85 Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		484 (5), 486 (4) & (5)	

- (1) Profit for financial year 2019 is included in retained earnings.
- (2) Transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds according to 2017/2395 EU regulation.
- (3) Capital buffer is not implemented
- (4) Not relevant capital buffer

Chart 164: The effect of the transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds in accordance with 2017/2395 EU regulation

IFRS 9 effect		31.12.2019
(in HUF million)		
Regulatory capital		
1	Common Equity Tier 1 (CET1) capital	45 656
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	45 152
3	Tier 1 capital	45 656
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	45 152
5	Total capital	49 656
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	49 152
Total risk weighted assets		
7	Total risk weighted assets	283 603
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	283 124
Capital ratios		
9	Common Equity Tier 1 (as a percentage of total risk exposure amount)	16.10%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.95%
11	Tier 1 (as a percentage of total risk exposure amount)	16.10%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.95%
13	Total capital (as a percentage of total risk exposure amount)	17.51%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	17.36%
Leverage ratio		
15	Total exposure	497 652
16	Leverage ratio	9.17%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	9.07%

V.3. Trading book market and counterparty risks (capital requirements)

Chart 165: Trading book positions capital requirement

Description (in HUF million)	RWAs	Capital requirements
Interest rate risk (general and specific)	1 349	108
Equity risk (general and specific)	0	0
Foreign exchange risk	1 524	122
Commodity risk	0	0
Options	0	0
Simplified approach	0	0
Delta-plus method	0	0
Scenario approach	0	0
Securitisation (specific risks)	0	0
Total	2 874	230

Chart 166: Analysis of CCR exposure by approach

Description (in HUF million)	Notional	Replacement cost/current market value	Potential future credit exposure	EEPE (Effective Expected Positive)	Multiplier	EAD post CRM	RWAs
Mark to market		1 677	564			2 242	0
Original exposure	0					0	0
Standardised approach		0			0	0	0
IMM (for derivatives and SFTs)				0	0	0	0
<i>Of which securities financing transactions</i>				0	0	0	0
<i>Of which derivatives and long settlement transactions</i>				0	0	0	0
<i>Of which from contractual cross-product netting</i>				0	0	0	0
Financial collateral simple method (for SFTs)						0	0
Financial collateral comprehensive method (for SFTs)						0	0
VaR for SFTs						0	0
Total							0

Chart 167: CVA capital charge

Description (in HUF million)	Exposure value	RWAs
Total portfolios subject to the advanced method	0	0
VaR component (including the 3 x multiplier)	0	0
SVaR component (including the 3 x multiplier)	0	0
All portfolios subject to the standardised method	0	0
Based on the original exposure method	0	0
Total subject to the CVA capital charge	0	0

Chart 168: CCR exposures by regulatory portfolio and risk

Exposure classes (in HUF million)	Risk weight											Total	Of which unrated	
	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Egyéb			
Central governments or central banks	388	0	0	0	0	0	0	0	0	0	0	0	388	0
Regional government or local authorities	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Public sector entities	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Multilateral development banks	0	0	0	0	0	0	0	0	0	0	0	0	0	0
International organisations	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Institutions	1 853	0	0	0	0	0	0	0	0	0	0	0	1 853	0
Corporates	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Retail	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other items	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	2 242	0	0	0	0	0	0	0	0	0	0	0	2 242	0

V.4. Leverage

Chart 169: Net exposure value to leverage ratio

	in HUF million	Applicable Amount
1	Total assets as per published financial statements	491 399
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	0
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	0
4	Adjustments for derivative financial instruments	2 241
5	Adjustment for securities financing transactions (SFTs)	0
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	5 010
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	0
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	0
7	Other adjustments	(998)
8	Leverage ratio total exposure measure	497 652

Chart 170: Leverage ratio

	in HUF million	CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	491 399
2	(Asset amounts deducted in determining Tier 1 capital)	(998)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	490 401
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	1 677
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	564
EU-5a	Exposure determined under Original Exposure Method	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
11	Total derivative exposures (sum of lines 4 to 10)	2 241
SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	0
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	Counterparty credit risk exposure for SFT assets	0
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	0
15	Agent transaction exposures	0
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	0
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	0
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	28 436
18	(Adjustments for conversion to credit equivalent amounts)	(23 426)
19	Other off-balance sheet exposures (sum of lines 17 and 18)	5 010
Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)		
EU-19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	0
Capital and total exposure measure		
20	Tier 1 capital	45 656
21	Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	497 652
Leverage ratio		
22	Leverage ratio	9.17%
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	0
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	0

Note: The exposures are calculated according to 2017/2395 EU regulation, including the effect of transitional arrangements for mitigating the impact of the introduction of IFRS 9 and the correction in accordance with the Article 1. (7) paragraph b) point.

V.5. Credit risk adjustments

V.5.1. Methods of valuations and provisions

The financial reports of the Merkantil Bank are based on IFRS regulation. Measurement and provision allocation of assets, investments and off-balance sheet liabilities are realized according to frameworks of relevant IFRS/IAS standards.

In its regulations entitled “International Financing Reporting Standards (IFRS) valuation requirements” Merkantil Bank provides detailed regulations pertaining to the measurement and provision recognition of outstanding debts, investments and off-balance sheet liabilities.

The recognized provision level reflects to the foreseeable risks and potential losses. The amount of the recognized impairment is the difference between the book value of the outstanding debt and the expected amount of the recovered debt. Merkantil Bank recognizes risk provision for off-balance sheet (pending, future) liabilities on the basis of their assessment. If the measurement process reveals that the amount of the risk provision exceeds the amount required on the basis of the assessment, the excess amount of the risk provision is released.

At initial recognition the financial assets must be tested based on the business model and the contracted cash flow characteristics, based on which it can be determined according to which measurement method, specified in the IFRS 9 standard, the given asset is to be managed and valued. The assets can be allocated to the following three categories:

- Assets measured at amortized cost
- Assets valued at fair value through other comprehensive income (FVOCI) – IFRS13,
- Assets valued at fair value through profit and loss (FVPL) – IFRS13.

According to the requirements of the IFRS9 standard, upon the initial recognition and on the reporting dates (last calendar day of the reporting month) the assets measured at amortized cost and the assets valued at fair value through other comprehensive income must be allocated to three stages by their credit risk or POCI category:

- Stage 1 category contains the performing deals.
- Those deals, which are performing, but compared to the initial recognition it shows significant increase in credit risk, must be categorized to Stage 2.
- Stage 3 contains the non-performing (credit-impaired) deals.
- Purchased or originated credit impaired assets are financial assets that are impaired already upon the initial recognition. These assets must be classified as POCI.

In case of the Stage 1 deals 12-month credit losses must be calculated by the expectations of the default probability, for Stage 2 and Stage 3 deals lifetime expected losses must be calculated as impairment.

Depending on the item, assessment based on the following aspects:

- client and counterparty rating – financial situation, stability and income generation capability of the client or counterparty affected by the financial and investment service, and any changes in these factors;
- the repayment schedule (overdue days) – patterns of delay on principal and interest payment related to the amortization of the outstanding debt, regular fulfillment of the payment obligation;
- status of restructuring risk contract;
- sovereign risk and changes in the sovereign risk associated with the client (both political risk and transfer risk);
- value, marketability and availability of the securities pledged as collateral and any changes in them;
- marketability of the item (market demand and supply, achievable market prices, share in the issuer’s equity in proportion to the size of the investment),
- future payment obligation, which qualifies as a loss originating from the item,
- significant increase in credit risk compared to the initial recognition.

Probable future losses on the item are determined on a case-by-case basis, in consideration of the above aspects as applicable. If this amount is lower than the amount recognized on the item earlier, it has to be

supplemented by the amount of the difference by recognizing a further amount of impairment, or if it is higher, it has to be reduced by the release of the existing amount of impairment.

Delinquent deal: the client doesn't perform his/her payment obligations.

According to the CRR a default shall be considered to have occurred with regard to a particular obligor when either or both of the following events have taken place:

- the institution considers that the obligor is unlikely to pay its credit obligations to the institution, the parent undertaking or any of its subsidiaries in full, without recourse by the institution to actions such as realising security
- the obligor is past due more than 90 days on any material credit obligation to the institution, the parent undertaking or any of its subsidiaries.

If the debts are past due more than 90 days and it derives from non-lending type contracts do not qualify as default event. These exposures are not considered to be impaired.

A credit risk exposure shall be considered as restructured:

- considering the current or future financial difficulties of the client the institution
- provides a concession/allowance in respect of the contract originating the exposure (and this would not be done if the client would not have financial difficulties)

The calculation of credit losses may be carried out on an individual or collective basis.

Portfolio (collective) assessment

The collective assessment based on the following parameters: probability of defaults, cure rate, loss given default. The condition of applying collective assessment is that the assets should be allocable to groups representing similar credit risk based on major credit risk characteristics and their capability to fulfill contractual obligations. The most important variables of the assessment procedure are payment delay, deal/client rating, the restructuring information and the default status.

Upon estimating the future cash flows related to the group(s) of financial assets, the historic credit loss data of the assets representing similar credit risk, the macroeconomic factors and information on the future of financial instruments must be taken into account.

The Merkantil Bank shall measure expected credit losses of a financial asset 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.

Individual assessment

Receivables that are of insignificant amount on a stand-alone basis with objective evidence of impairment or that the risk management functional area subjected to individual assessment based on monitoring information must be measured individually:

- The cash flows expected from the financial instruments must be defined, which has to be based on at least two scenarios.
- Valuation and revaluation of collaterals is crucial, discounting the cash-flows from the sale of collaterals is an important part of individual assessment.
- The defined cash flows must be discounted to the present value.
- The impairment of the financial instrument is taking into account the riskiness of cash flows and individual collateralization.
- The individual cash-flow estimation also has to be forward looking, which has to contain the information about the macroeconomic environment and the future of the financial instruments.
- If there is a significant change in the credit risk of a financial asset, the impairment calculation must be reviewed taking into account the new information and risks.

Chart 171: Qualified exposures and impairment

(in HUF million)	Accumulated specific / general credit risk adjustment
Opening balance	13 237
Increases due to amounts set aside for estimated loan losses during the period	3 008
Decreases due to amounts reversed for estimated loan losses during the period	(3 439)
Decreases due to amounts taken against accumulated credit risk adjustments	0
Transfers between credit risk adjustments	0
Impact of exchange rate differences	0
Business combinations, including acquisitions and disposals of subsidiaries	0
Other adjustments	(2 587)
Derecognition of financial instruments (w rite-offs)	(2 587)
Closing balance	10 219
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	0
Specific credit risk adjustments directly recorded to the statement of profit or loss	0

Chart 172: Changes of non-performing loan exposures

(in HUF million)	Description	Gross carrying value defaulted exposures
Opening balance - 31.12.2018		14 171
	Loans and debt securities that have defaulted since the last reporting period	5 221
	Returned to non-defaulted status	(2 589)
	Amounts written-off	(2 559)
	Other changes*	(974)
Closing balance - 31.12.2019		13 270

* Contains the IFRS 9 transitional difference

V.5.2. Exposures to credit risk

The presented RWAs and exposures in this chapter are calculated according to 2017/2395 EU regulation, including the effect of transitional arrangements for mitigating the impact of the introduction of IFRS 9 and the correction in accordance with the Article 1. (7) paragraph b) point.

Chart 173: Net exposures broken down by net exposure classes (before credit risk mitigation)

Exposures (in HUF million)	31.12.2019	2019 Average
Exposures to central governments or central banks	52 970	33 626
Exposures to regional governments or local authorities	51	69
Exposures to public sector entities	208	230
Exposures to multilateral development banks	0	0
Exposures to institutions	71 434	72 130
Exposures to corporates	172 038	157 790
Retail exposures	184 817	175 850
Exposures secured by mortgages on immovable property	0	6
Exposures in default	5 264	4 388
Exposures associated with particularly high risk	0	0
Exposures in the form of covered bonds	0	0
Exposures in the form of units or shares in collective investment undertakings ('CIUs')	0	0
Equity exposures	6 402	6 222
Other items	1 090	1 107
Total	494 274	451 417

Chart 174: Exposures broken down by geographical areas (by the country of obligors) on 31st December 2019

(in HUF million)	Exposures to central governments or central banks	Exposures to regional governments or local authorities	Exposures to public sector entities	Exposures to multilateral development banks	Exposures to institutions	Exposures to corporates	Retail exposures	Exposures secured by mortgages on immovable property	Exposures in default	Exposures associated with particularly high risk	Exposures in the form of covered bonds	Exposures in the form of units or shares in collective investment undertakings ('CIUs')	Equity exposures	Other items	Total
Total	52 970	51	208	0	71 434	172 038	184 817	0	5 264	0	0	0	6 402	1 090	494 274
Hungary	52 970	51	208	0	71 434	168 091	184 817	0	5 264	0	0	0	6 402	1 090	490 326
Bulgaria	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Croatia	0	0	0	0	0	1 645	0	0	0	0	0	0	0	0	1 645
Romania	0	0	0	0	0	2 303	0	0	0	0	0	0	0	0	2 303

Chart 175: Exposure classes broken down by counterparty type on 31st December 2019

(in HUF million)	Exposures to central governments or central banks	Exposures to regional governments or local authorities	Exposures to public sector entities	Exposures to multilateral development banks	Exposures to institutions	Exposures to corporates	Retail exposures	Exposures secured by mortgages on immovable property	Exposures in default	Exposures associated with particularly high risk	Exposures in the form of covered bonds	Exposures in the form of units or shares in collective investment undertakings ('CIUs')	Equity exposures	Other items	Total
Total	52 970	51	208	0	71 434	172 038	184 817	0	5 264	0	0	0	6 402	1 090	494 274
Governments	52 970	0	0	0	0	0	0	0	0	0	0	0	0	0	52 970
Municipal	0	51	0	0	0	0	0	0	0	0	0	0	0	0	51
Public sector entities	0	0	208	0	0	0	0	0	0	0	0	0	0	0	208
Institutions	0	0	0	0	71 434	0	0	0	0	0	0	0	0	0	71 434
Corporate	0	0	0	0	0	172 038	0	0	3 329	0	0	0	0	0	175 368
Corporate SME	0	0	0	0	0	93 992	0	0	0	0	0	0	0	0	93 992
Retail	0	0	0	0	0	0	184 817	0	1 934	0	0	0	0	0	186 752
Retail SME	0	0	0	0	0	0	104 841	0	0	0	0	0	0	0	104 841
Equity	0	0	0	0	0	0	0	0	0	0	0	0	6 402	0	6 402
Other*	0	0	0	0	0	0	0	0	0	0	0	0	0	1 090	1 090

* Other, non-credit risk items; collective, investment funds; high risk items

Chart 176: Exposure classes broken down by residual maturity on 31st December 2019

(in HUF million)	On demand	<= 1 year	> 1 year <= 5 year	> 5 year	No stated maturity	Total
Total	0	36 072	249 136	40 247	168 818	494 274
Central governments or central banks	0	0	0	0	52 970	52 970
Regional governments or local authorities	0	1	28	4	17	51
Public sector entities	0	12	176	0	20	208
Institutions	0	0	1	0	71 433	71 434
Corporates	0	25 720	98 766	11 310	36 242	172 038
Retail	0	9 168	146 915	28 584	151	184 817
Secured by mortgages on immovable property	0	0	0	0	0	0
Exposures in default	0	1 171	3 250	350	494	5 264
Items associated with particularly high risk	0	0	0	0	0	0
Covered bonds	0	0	0	0	0	0
Equity exposures	0	0	0	0	6 402	6 402
Other exposures	0	0	0	0	1 090	1 090

Chart 177: Ageing of past-due exposures

(in HUF million)	Gross carrying values					> 1 year
	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	
Loans	354 209	3 707	777	696	388	6 286
Debt securities						
Total exposures	354 209	3 707	777	696	388	6 286

Chart 178: Non-performing and forborne exposures

(in HUF million)	Gross carrying amount of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
	Of which performing but past due > 30 days and ≤ 90 days	Of which performing forborne	Of which non-performing				On performing exposures		On non-performing exposures		On non-performing exposures	Of which forborne exposures	
			Of which defaulted	Of which impaired	Of which forborne		Of which forborne		Of which forborne				
Debt securities	0	0	0	0	0	0	0	0	0	0	0	0	0
Loans and advances	366 064	3 713	43	13 270	13 270	13 270	3 919	1 647	6	8 425	3 145	3 971	64
Off-balance sheet exposures	0		0	0	0	0	0	0	0	0	0	0	0

Note: Exposures according to EBA definition.

Chart 179: Collateral obtained by taking possession and execution processes

(in HUF million)	Collateral obtained by taking possession	
	Value at initial recognition	Accumulated negative changes
1 Property, plant and equipment (PP&E)		
2 Other than PP&E	295	(7)
3 Residential immovable property		
4 Commercial immovable property		
5 Movable property (auto, shipping, etc)	295	(7)
6 Equity and debt instruments		
7 Other		
8 Total	295	(7)

Chart 180: Credit Quality of exposures by exposure class and instrument 31st December 2019

(in HUF million)	Gross carrying values of		Specific/General credit risk adjustment	Net values
	Defaulted exposures	Non-defaulted exposures		
Exposures to central governments or central banks	0	52 970	0	52 970
Exposures to regional governments or local authorities	0	51	0	51
Exposures to public sector entities	0	209	1	208
Exposures to multilateral development banks	0	0	0	0
Exposures to institutions	0	71 434	0	71 434
Exposures to corporates	0	172 688	649	172 038
Retail exposures	0	185 814	997	184 817
Exposures secured by mortgages on immovable property	0	0	0	0
Exposures in default	13 270	419	8 425	5 264
Exposures associated with particularly high risk	0	0	0	0
Exposures in the form of covered bonds	0	0	0	0
Exposures in the form of units or shares in collective investment undertakings ('CIUs')	0	0	0	0
Equity exposures	0	6 402	0	6 402
Other items	0	1 090	0	1 090
Total	13 270	491 076	10 072	494 274

Chart 181: Credit quality of exposures by counterparty types on 31st December 2019

(in HUF million)	Gross carrying values of		Specific/General credit risk adjustment	Net values
	Defaulted exposures	Non- defaulted exposures		
Governments	0	52 970	0	52 970
Municipal	0	51	0	51
Public sector entities	0	209	1	208
Institutions	0	71 434	0	71 434
Corporate	4 162	172 733	1 527	175 368
Corporate SME	3 460	91 713	1 181	93 992
Retail	9 108	186 188	8 544	186 752
Retail SME	1 259	104 856	1 275	104 841
Equity	0	6 402	0	6 402
Other*	0	1 090	0	1 090
Total	13 270	491 076	10 072	494 273

* Other, non-credit risk items; collective, investment funds; high risk items

Chart 182: Credit quality of exposures by geography on 31st December 2019

(in HUF million)	Gross carrying values of		Specific/General credit risk adjustment	Net values
	Defaulted exposures	Non- defaulted exposures		
Total	13 270	491 076	10 072	494 274
Hungary	13 270	487 109	10 053	490 326
Bulgaria	0	0	0	0
Croatia	0	1 653	8	1 645
Romania	0	2 314	11	2 303

Chart 183: Overview of CRM techniques

(in HUF million)	Exposures unsecured - Carrying amount	Exposures to be secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	28 364	337 700	337 700	0	0
Total debt securities				0	0
Total exposures	28 364	337 700	337 700	0	0
Of which defaulted	5 250	8 020	8 020	0	0

V.6. Use of External Credit Assessment Institutions

Chart 184: Exposures broken down by credit quality steps (CQS) of obligors

(in HUF million)	Risk weight							Total	Of which unrated
	0%	20%	50%	75%	100%	150%	250%		
Exposures to central governments or central banks	52 970	0	0	0	0	0	0	52 970	0
Exposures to regional governments or local authorities	0	51	0	0	0	0	0	51	0
Exposures to public sector entities	0	20	0	0	188	0	0	208	0
Exposures to multilateral development banks	0	0	0	0	0	0	0	0	0
Exposures to institutions	70 160	0	0	0	1 273	0	0	71 434	0
Exposures to corporates	19 705	0	0	0	152 334	0	0	172 038	0
Retail exposures	0	0	0	184 817	0	0	0	184 817	0
Exposures secured by mortgages on immovable property	0	0	0	0	0	0	0	0	0
Exposures in default	0	0	0	0	3 274	1 990	0	5 264	0
Exposures associated with particularly high risk	0	0	0	0	0	0	0	0	0
Exposures in the form of covered bonds	0	0	0	0	0	0	0	0	0
Exposures in the form of units or shares in collective investment undertakings ('CIUs')	0	0	0	0	0	0	0	0	0
Equity exposures	0	0	0	0	4 926	0	1 476	6 402	0
Other items	41	0	0	0	1 048	0	0	1 090	0
Total	142 877	71	0	184 817	163 043	1 990	1 476	494 274	0

V.7. Capital requirement for operational risk

Capital requirements for operational risk of Merkantil Bank amounted to HUF 1,079 million on 31st December 2019, which was determined by advanced measurement approach.

Chart 185: Operational risk capital requirements on 31st December 2019:

Operational risk capital requirement's breakdown based on methods (in HUF million)	
Standardised Approach	0
Alternative Standardised Approach	0
Advanced Measurement Approach	1 079
Total	1 079

V.8. Exposures in equities not included in the trading book on 31st December 2019

Chart 186: Exposures in equities not included in the trading book according to IFRS on 31st December 2019

Number	Entity	Balance sheet value (in HUF million)	Listed (Exchanged-traded)
1	DSK Leasing AD	209	No
2	Garantiqa Credit Guarantee Closed Co. Ltd.	10	No
3	Merkantil Lease Service LLC	625	No
4	OTP Property Leasing Ltd.	50	No
5	NIMO 2002 Ltd.	1 477	No
6	OTP Bank Romania S.A.	0	No
7	OTP Leasing d.d.	116	No
8	OTP Leasing Romania IFN S.A.	596	No
9	OTP Travel Ltd.	2 614	No
10	SPLC Property Management Ltd.	210	No
11	OTP Lizing d.o.o.	505	No

V.9. Exposure to interest rate risk on positions not included in the trading book

Asset-Liability Directorate measures banking book interest rate risk exposure monthly, and also presents it as part of the consolidated exposure to the management with the same frequency.

The size and direction of the exposure is determined based on sensitivity analysis mainly.

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 were prepared by assuming only the adverse interest rate changes. The main assumptions were as follows:

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

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

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

The net interest income in a one year period after January 1, 2020 would be decreased by HUF 22 million (scenario 1) and HUF 84 million (scenario 2) as a result of these simulation.

Furthermore, the effects of an instant 10 bp parallel shift of the HUF, EUR and CHF 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 analyzed. The results can be summarized as follows (HUF million):

Chart 187: The effects of an instant 10 bp parallel shift of the HUF, EUR and CHF 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

Description (in HUF million)	Effects to the net interest income (1Year period)
HUF -0.1% parallel shift	(28)
EUR -0.1% parallel shift	(1)
CHF -0.1% parallel shift	0
Total	(29)

V.10. Disclosure of encumbered and unencumbered assets

Chart 188: The encumbered and unencumbered assets in carrying and fair value amounts by broad categories of asset type

(in HUF million)	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution	76 388		415 011	
Equity instruments	0		0	0
Debt securities	62 867	59 457	12 257	12 637
Other assets	0		13 521	

Chart 189: Collateral received, by broad categories of product type

(in HUF million)	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by the reporting institution	0	59 457
Equity instruments	0	0
Debt securities	0	59 457
Other collateral received	0	0
Own debt securities issued other than own covered bonds or ABSs	0	0

Chart 190: Encumbered assets/collateral received and associated liabilities

(in HUF million)	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	58 532	76 388

The encumbrances of Merkantil Bank Ltd.'s assets and collaterals received mostly arise from the funds granted by the MNB's Funding for Growth Scheme. The collateral for the central bank funding (the MNB's Funding for Growth Scheme) is partly the loans refinanced by the funds, and in part the mortgage bonds issued by OTP Mortgage Bank, which are in Merkantil Bank Ltd.'s books. The encumbrances caused by derivative deals largely arise from CIRS transactions, the market value of which may fluctuate depending on the foreign exchange rate.

In respect of the items recognized under other assets in the balance sheet, Merkantil Bank Ltd. does not consider its cash balance, intangible assets, tangible assets, or inventories subject to encumbrance.

V.11. Liquidity risk

The Merkantil Bank Ltd. was established in 1988 as a specialized credit institution, dealing with bill of exchange and factoring. In 1992 the bank started the vehicle financing business. During the privatisation in 1996 OTP Bank acquired 100% ownership of the company. For the time being it's most important financial activity is vehicle and equipment leasing. Majority of the liabilities are from the mother company, collection of deposits is limited. It is permitted to engage in derivative transactions only for reasons of liquidity and risk management operations and for hedging purposes. The Merkantil Bank Ltd. defines the following purposes connected with the liquidity risk management.

The primary purpose is to guarantee the performance of outstanding financial obligations: the company has to be able to comply the obligations of payment at the expiration date, with correct currency, and it has to perform the necessary transactions to maintain the solvency position at all times. Besides this the fulfilment of liquidity obligations specified in law is significant also. Besides securing solvency and complying with legal obligations the secondary purpose is to achieve these goals via the best way from the possible solutions from a profitability point of view. The purpose of risk management politics of Merkantil Bank is the risk-aware operation: it is significant to identify, value and continuous monitor the liquidity and other kind of financial risks of commercial activities and to share the information of monitoring with the management of the company. The Merkantil Bank is the subsidiary of the OTP Bank Plc. and the member of the OTP Group. The OTP Bank Plc. has a group-valid regulation about interest- and liquidity risk management. Based on this regulation the OTP Group is monitoring and managing the liquidity risk in Group level.

Merkantil Bank Ltd's "Regulation on liquidity" – approved by the Managing Committee - contains the relevant regulations in connection with the liquidity management policy. The department responsible for liquidity risk management within the company is the Treasury. The responsible department reporting directly to the management regarding the company's liquidity risk exposure, the related money and capital market transactions.

The Merkantil Bank Ltd's internal auditor controlling the operation of the company's liquidity risk management proceedings in accordance with the guideline no. 12/2015. (VIII. 24.) of the Central Bank of Hungary.

As the Merkantil Bank Ltd complied with requirements of the supervisory entity's liquidity measures and the internal regulations, thus the Managing Committee declared that the adequacy of liquidity risk management arrangements of the company as it is in accordance with the company's profile and its' liquidity management policy.

Chart 191: Merkantil's liquidity coverage ratio

Description	31.12.2019
(in HUF million)	
Liquidity Buffer	94 078
Total Net Liquidity Outflow	5 532
Liquidity Coverage Ratio (%)	1 701%

V.12. Regional distribution of the activity, return on assets ratio

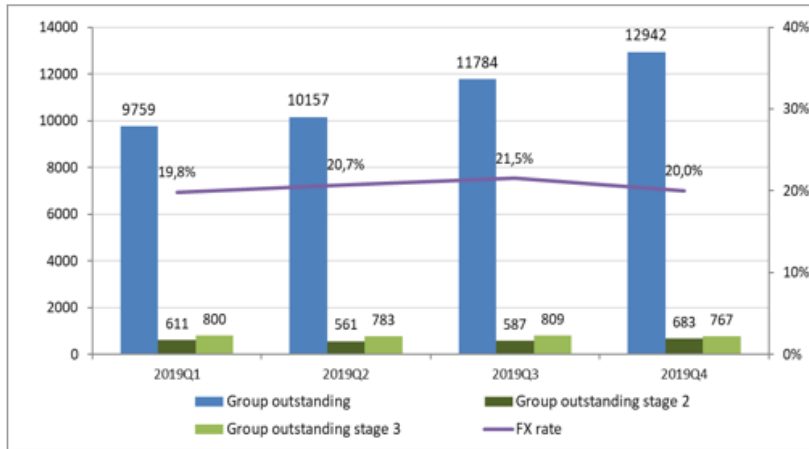
Chart 192: Regional distribution of the activity, return on assets ratio

Description (in HUF million)	Hungary year 2019
Turnover	20 601
Profit or loss before tax	8 810
Tax on profit or loss	950
Public subsidies received	0
Number of employees on a full time basis	261
Return on assets	1.8%

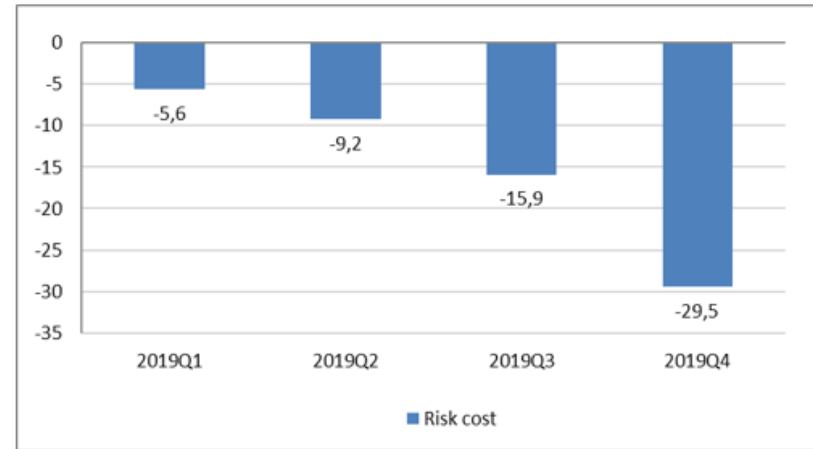
VI. Appendix

VI.1. OTP Group's risk profile

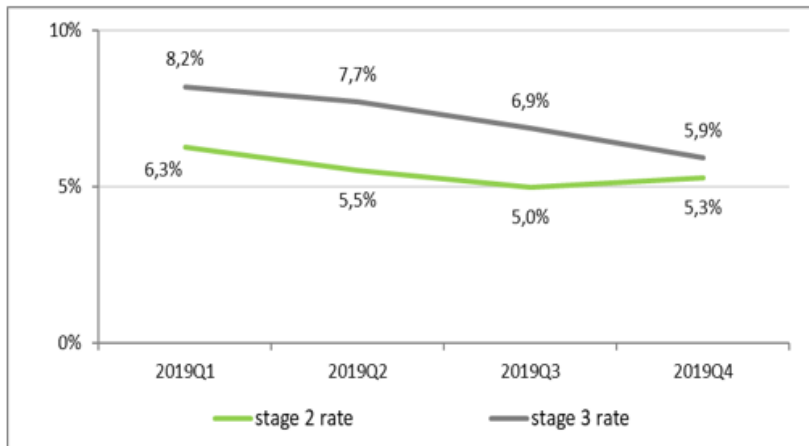
Closing volume (Bn HUF)



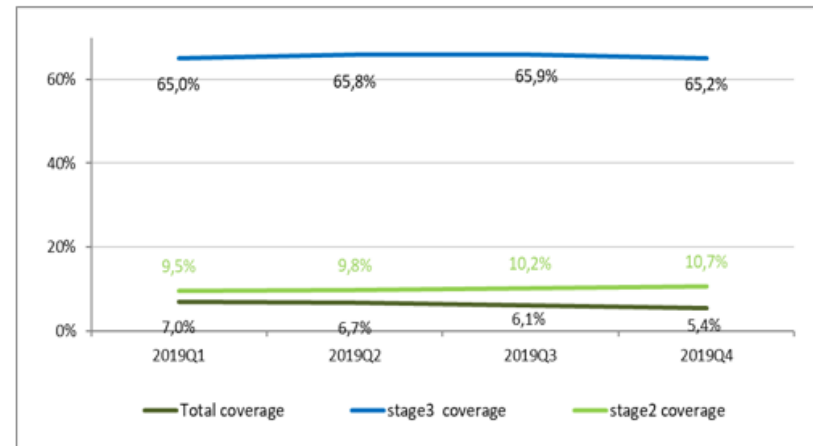
Cumulated risk cost (Bn HUF)



Stage2 and Stage3 rate



Coverage



VI.2. Declaration about the appropriatenes of risk management

Declarations

- 1) OTP Bank Plc. declares – regarding article 435. (1) e) of CRR – that the applied risk management system is adequate with regard to the OTP Group’s profile and strategy.

This statement based on the declaration on OTP Bank Group’s Strategy for Risk Assumption regarding 2020-2022 made by the Board of Directors on 10th December 2019 (ref. IG 2019/220).

- 2) Based on the above information OTP Bank Plc. declares – relating to article 435. (1) f) of CRR – that OTP Group’s risk profile is consistent with the risk appetite of the group determined by OTP Bank Group’s Strategy for Risk Assumption.

The Board of Directors was informed about the quality of the Group’s portfolio (2019Q3) on 10th December 2019.

VI.3. Declaration of the appropriateness of the liquidity risk management framework

The Declaration of the appropriateness of the liquidity risk management framework has been approved by Asset Liability Committee (Decision number: 2019/45/3.)

Declaration

The liquidity risk management framework applied by OTP Bank Ltd. explores the risk exposure derived from the risk profile of the institution in a fully comprehensive way. The internal regulation on liquidity risk management contains in detail the organizational units involved in the risk managements process and the tasks, responsibilities and authorities of these units. Considering the findings regulatory audits the liquidity risk management methodology and risk management strategy are revised and approved by the Asset Liability Committee (ALCO) on annual basis.

The responsible organizational unit prepares liquidity risk related standard reports for ALCO on a monthly basis. The report contains an ex post assessment on the changes of the risk profile and the evolution of liquidity reserves available to absorb potential liquidity shocks and the level of standard liquidity risk indicators.

The following table contains the key liquidity risk indicators and their limits as of the end of 2019:

Risk indicator	31.12.2019 fact	Limit
Foreign Currency Equilibrium Ratio (regulatory)	3.4%	maximum 15%
Foreign Exchange Funding Adequacy Ratio (regulatory)	171%	minimum 100%
Mortgage Financing Adequacy Ratio (regulatory)	26.4%	minimum 20%
Liquidity Coverage Ratio (regulatory)	144%	minimum 100%
Interbank Funding Ratio (regulatory)	9.1%	maximum 30%
Primary liquidity reserves (internal)	2 587 Mrd Ft	969 Mrd Ft
Operative liquidity reserves (internal)	2 449 Mrd Ft	1 110 Mrd Ft

The free liquidity reserves of the Bank exceed permanently and significantly both the standard regulatory requirements and the potential liquidity needs calculated by the internal model which considers the specific risk profile of the institution, thus the harmony between risk appetite and risk profile is ensured.