

OTP Bank Plc.

*Consolidated Financial Statements
and
Independent Auditor's Report*

December 31, 2020

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of OTP Bank Plc.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of OTP Bank Plc. (the “Bank”) and its subsidiaries (the “Group”) for the year 2020 which comprise the consolidated statement of financial position as at December 31, 2020 – which shows total assets of HUF 23,335,841 million –, the related consolidated statement of profit or loss and the consolidated statement of comprehensive income – which shows a net profit for the period of HUF 259,636 million –, consolidated statement of changes in equity, and the consolidated statement of cash-flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2020 and of its consolidated financial performance and its consolidated cash-flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (the “EU IFRS”), and the consolidated financial statements were prepared in all material respects in accordance with the provisions of the effective Hungarian Act C of 2000 on Accounting (the “Accounting Act”) relevant to the entities preparing consolidated financial statements in accordance with EU IFRS.

Basis for Opinion

We conducted our audit in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits. Our responsibilities under these standards are further described in the “*The Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements*” section of our report.

We are independent of the Group in compliance with the relevant effective Hungarian regulations and the “Rules of conduct (ethical rules) of the auditor profession and the disciplinary process” of the Chamber of Hungarian Auditors and, in respect of matters not regulated therein, the Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (the IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the same ethical requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the matter
Calculation of expected credit losses on corporate and retail loans	
<p>(See notes 11., 31., and 36.1. to the consolidated financial statements for the details)</p> <p>As described in the notes to the consolidated financial statements, the impairment losses have been determined in accordance with IFRS 9 <i>Financial Instruments</i>, which requires significant judgment to determine the expected credit losses (“ECLs”). At the year-end, the Group reported total gross loans of HUF 12,504,385 million and loss allowance on loans of HUF 829,543 million. The determination of the ECL of loans is considered a key audit matter, as it requires application of professional judgement and use of subjective assumptions by management in case of both the application of portfolio based collective impairment models, and determination of individual specific loan loss provision. The most significant assumptions applied in determining the provision are the following:</p> <ul style="list-style-type: none"> - the interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Group’s expected credit loss model; - IFRS 9 credit risk staging methodology and application, including the identification of exposures with a significant deterioration in credit quality; - model used for impairment calculations reflecting the characteristics of the portfolio, such as valuation of collateral, probability of default, recovery rates and macroeconomic factors; - the application of assumptions, where there was limited or incomplete data; and - estimation of future cash-flows expected to be realized, including application of scenarios and scenario weights. <p>The COVID-19 pandemic has resulted in an increase in the uncertainty of assumptions underlying the economic outlook. This combined with varying</p>	<p>Our response as auditors included:</p> <ul style="list-style-type: none"> - testing and assessment of the modelling techniques and methodology applied by the Group in order to estimate ECLs, and evaluation of its compliance with the requirements of IFRS 9; - evaluating the design and testing of the operating effectiveness of internal controls over timely identification of exposures with significant increase in credit risk and monitoring of credit impaired exposures and calculating, and recording of allowance for expected credit losses; - assessing the collective model methodology and testing the calculations in terms of risk parameters (probability of default – PD, loss given default – LGD, expected credit loss – ECL, and macroeconomic factors) applied by the collective models including involving our credit risk specialists; - involving our credit risk specialists to assist us in re-performing the calculation of the allowance and independently assessing the appropriateness of the assumptions used, the methodologies and policies applied; - assessing on a sample basis, whether the staging and impairment triggers are captured appropriately and whether the estimation of the allowance is reasonable; - sample based testing of individual allowance, including the assessment of valuation of collateral and estimation of expected future cash-flows, application of different scenarios and scenario weights and forming an independent view of the adequacy of the ECL; - assessing the requirement for additional allowances considering the Group’s ECL model, particularly in light of the extreme volatility in

<p>government responses, has raised the complexity of assessing and monitoring customers' financial health, necessitating an elevated level of judgement required by the Group in calculating the ECL.</p>	<p>economic scenarios caused by the current COVID-19 pandemic and government responses;</p> <ul style="list-style-type: none"> - testing of loan facilities to customers in industries significantly impacted by the pandemic; - performing loan portfolio analysis to identify unexpected or anti-trend movements in the loan portfolio regarding stage migration and loss allowance movements; and - assessing the adequacy of the disclosures in the consolidated financial statements.
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Other Information

Other information comprises the information included in the section called “Management’s Analysis” of the annual report and the consolidated business report of the Group which we obtained prior to the date of this auditor’s report, and the sections called “Message to the shareholders”, “Corporate Governance” and “Macroeconomic and financial environment in 2020” of the annual report, which is expected to be made available to us after that date, but does not include the consolidated financial statements and our independent auditor’s report thereon. Management is responsible for the other information and for the preparation of the consolidated business report in accordance with the relevant provisions of the Accounting Act and other regulations. Our opinion on the consolidated financial statements provided in the section of our independent auditor’s report entitled "Opinion" does not apply to the other information.

Our responsibility in connection with our audit of the consolidated financial statements is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Furthermore, in accordance with the Accounting Act, our responsibilities regarding the consolidated business report also include reviewing the consolidated business report to assess whether the consolidated business report was prepared in accordance with the relevant provisions of the Accounting Act and other regulations, if any, including the assessment whether the consolidated business report complies with the requirements of Section 95/B (2) e) and f) of the Accounting Act, and to express an opinion on the above and on whether the consolidated business report is consistent with the consolidated financial statements. Furthermore, in accordance with the Accounting Act we shall make a statement whether the information referred to in Section 95/B. (2) a)-d), g) and h) has been provided in the consolidated business report, and whether the consolidated business report contains the non-financial statement provided for in Section 134 (5).

In our opinion, the consolidated business report of the Group for 2020 corresponds to the consolidated financial statements of the Group for 2020 and the relevant provisions of the Accounting Act in all material respects. The information referred to in Section 95/B. (2) a)-d), g) and h) of the Accounting Act has been provided and the consolidated business report contains the non-financial statement provided for in Section 134 (5).

As the Group is not subject to additional requirements under any other regulation in connection with the consolidated business report, we have not formulated an opinion on this matter.

In addition to the above, based on the information obtained about the Group and its environment, we must report on whether we became aware of any material misstatements in the other information and, if so, on the nature of such material misstatements. We have nothing to report in this regard.

When we read the sections of the annual report, which had not yet been made available to us at the date of this report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

The Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives during the audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue, on the basis of the above, an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits will always detect a material misstatement when it exists. Misstatements can arise from fraud or error, and they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events

or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify the opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the notes to the consolidated financial statements, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in the Group's internal control that we identify during the audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In compliance with Article 10 (2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of the Auditor and the Period of Engagement

We were appointed as the auditors of OTP Bank Plc. on April 30, 2020 and our uninterrupted engagement has lasted for 28 years.

Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of OTP Bank Plc., which we issued on March 17, 2021 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Group. In addition, there are no other non-audit services, which were provided by us to the OTP Bank Plc. and its controlled undertakings which have not been disclosed in the consolidated business report.

The engagement partner on the audit resulting in this independent auditor's report is the statutory registered auditor signing this report.

Budapest, March 17, 2021



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Horváth Tamás

on behalf of Deloitte Auditing and Consulting Ltd.
and as statutory registered auditor

Deloitte Auditing and Consulting Ltd.
1068 Budapest, Dózsa György út 84/C.
Registration number: 000083

Registration number of statutory registered auditor: 003449



OTP BANK PLC.

***CONSOLIDATED FINANCIAL STATEMENTS
IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING
STANDARDS AS ADOPTED BY THE EUROPEAN UNION AND
INDEPENDENT AUDITORS' REPORT***

***FOR THE YEAR ENDED
31 DECEMBER 2020***

TABLE OF CONTENT

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020.....	4
CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2020 ...	5
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020.....	6
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020	7
CONSOLIDATED STATEMENT OF CASH-FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020.....	8
NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS	10
1.1. General information.....	10
1.2. Basis of Accounting.....	10
NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	12
2.1. Basis of Presentation.....	12
2.2. Foreign currency translation	12
2.3. Principles of consolidation.....	13
2.4. Accounting for acquisitions	13
2.5. Securities at amortized cost	14
2.6. Financial assets at fair value through profit or loss	14
2.7. Hedge accounting	16
2.8. Offsetting	17
2.9. Embedded derivatives.....	17
2.10. Securities at fair value through other comprehensive income	17
2.11. Loans, placements with other banks, repo receivables and loss allowance for loan and placements and repo receivable losses.....	18
2.12. Modified assets	19
2.13. Purchased or originated credit impaired financial assets	19
2.14. Loss allowance	20
2.15. Sale and repurchase agreements, security lending.....	22
2.16. Associates and other investments	22
2.17. Property and equipment, Intangible assets.....	23
2.18. Inventories	23
2.19. Financial liabilities.....	24
2.20. Leases	24
2.21. Investment properties.....	25
2.22. Share capital	25
2.23. Treasury shares	25
2.24. Non-current assets held-for-sale and discontinued operations.....	26
2.25. Interest income and income similar to interest income and interest expense	26
2.26. Fees and Commissions	26
2.27. Dividend income.....	27
2.28. Income tax	27
2.29. Banking tax.....	27
2.30. Off-balance sheet commitments and contingent liabilities	27
2.31. Share-based payment	28

2.32.	Employee benefits	28
2.33.	Consolidated Statement of Cash-flows	28
2.34.	Segment reporting.....	28
2.35.	Comparative figures.....	28
NOTE 3:	SIGNIFICANT ACCOUNTING ESTIMATES AND DECISIONS IN THE APPLICATION OF ACCOUNTING POLICIES	32
3.1.	Loss allowances on financial instruments exposed to credit risk.....	32
3.2.	Valuation of instruments without direct quotations	32
3.3.	Provisions	32
3.4.	Impairment on goodwill	33
3.5.	Business model	33
NOTE 4:	IMPACT OF CORONA VIRUS (COVID-19).....	34
NOTE 5:	CASH, AMOUNTS DUE FROM BANKS AND BALANCES WITH THE NATIONAL BANKS (in HUF mn).....	41
NOTE 6:	PLACEMENTS WITH OTHER BANKS, NET OF LOSS ALLOWANCE FOR PLACEMENTS (in HUF mn)	41
NOTE 7:	REPO RECEIVABLES (in HUF mn)	42
NOTE 8:	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn).....	43
NOTE 9:	SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (in HUF mn).....	46
NOTE 10:	SECURITIES AT AMORTIZED COST (in HUF mn)	48
NOTE 11:	LOANS AT AMORTIZED COST AND AT FAIR VALUE (in HUF mn)	50
NOTE 12:	ASSOCIATES AND OTHER INVESTMENTS (in HUF mn)	52
NOTE 13:	PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn)	53
NOTE 14:	INVESTMENT PROPERTIES (in HUF mn).....	60
NOTE 15:	POSITIVE FAIR VALUE OF DERIVATIVE FINANCIAL ASSETS DESIGNATED AS HEDGE ACCOUNTING (in HUF mn).....	62
NOTE 16:	OTHER ASSETS (in HUF mn).....	62
NOTE 17:	AMOUNTS DUE TO BANKS, THE NATIONAL GOVERNMENTS, DEPOSITS FROM THE NATIONAL BANKS AND OTHER BANKS (in HUF mn)	63
NOTE 18:	REPO LIABILITIES (in HUF mn)	64
NOTE 19:	FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn)	64
NOTE 20:	DEPOSITS FROM CUSTOMERS (in HUF mn).....	65
NOTE 21:	LIABILITIES FROM ISSUED SECURITIES (in HUF mn)	66
NOTE 22:	DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING (in HUF mn)	71
NOTE 23:	NEGATIVE FAIR VALUE OF DERIVATIVE FINANCIAL LIABILITIES DESIGNATED AS HEDGE ACCOUNTING (in HUF mn).....	71
NOTE 24:	OTHER LIABILITIES (in HUF mn)	71
NOTE 25:	SUBORDINATED BONDS AND LOANS (in HUF mn)	73
NOTE 26:	SHARE CAPITAL (in HUF mn).....	75
NOTE 27:	RETAINED EARNINGS AND RESERVES (in HUF mn)	75
NOTE 28:	TREASURY SHARES (in HUF mn)	78
NOTE 29:	NON-CONTROLLING INTEREST (in HUF mn)	78
NOTE 30:	INTEREST INCOME, INCOME SIMILAR TO INTEREST INCOME AND EXPENSE (in HUF mn).....	79

NOTE 31:	LOSS ALLOWANCES / IMPAIRMENT AND PROVISIONS (in HUF mn)	80
NOTE 32:	NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn)	81
NOTE 33:	OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn).....	83
NOTE 34:	INCOME TAXES (in HUF mn).....	85
NOTE 35:	LEASE (in HUF mn).....	87
NOTE 36:	FINANCIAL RISK MANAGEMENT (in HUF mn)	90
36.1.	Credit risk	90
36.2.	Maturity analysis of assets, liabilities and liquidity risk	105
36.3.	Net foreign currency position and foreign currency risk	110
36.4.	Interest rate risk management	110
36.5.	Market risk.....	115
36.6.	Capital management	118
NOTE 37:	RECLASSIFICATION AND TRANSFER OF FINANCIAL INSTRUMENTS.....	120
	(in HUF mn)	120
NOTE 38:	OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn).....	121
NOTE 39:	SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn)	123
NOTE 40:	RELATED PARTY TRANSACTIONS (in HUF mn)	128
NOTE 41:	ACQUISITION (in HUF mn).....	131
NOTE 42:	SIGNIFICANT SUBSIDIARIES AND ASSOCIATES (in HUF mn).....	136
NOTE 43:	TRUST ACTIVITIES (in HUF mn).....	137
NOTE 44:	CONCENTRATION OF ASSETS AND LIABILITIES.....	138
NOTE 45:	EARNINGS PER SHARE (in HUF mn).....	138
NOTE 46:	NET GAIN OR LOSS REALIZED ON FINANCIAL INSTRUMENTS (in HUF mn)	140
NOTE 47:	FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn).....	142
NOTE 48:	SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS	158
	(in HUF mn)	158
NOTE 49:	DISCONTINUED OPERATIONS (in HUF mn)	162
NOTE 50:	SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2020	163
NOTE 51:	POST BALANCE SHEET EVENTS	163



OTP BANK PLC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020
(in HUF mn)

	Note	2020	2019
Cash, amounts due from banks and balances with the National Banks	5.	2,432,312	1,784,378
Placements with other banks, net of loss allowance for placements	6.	1,148,743	342,922
Repo receivables	7.	190,849	67,157
Financial assets at fair value through profit or loss	8.	234,007	251,990
Securities at fair value through other comprehensive income	9.	2,136,709	2,426,779
Securities at amortized cost	10.	2,624,920	1,968,072
Loans at amortized cost and mandatorily at fair value through profit or loss	11.	12,477,447	10,909,799
Finance lease receivables	35.	1,051,140	969,263
Associates and other investments	12.	52,443	20,822
Property and equipment	13.	322,766	320,430
Intangible assets and goodwill	13.	239,004	242,219
Right-of-use assets	35.	46,283	52,950
Investment properties	14.	38,601	41,560
Derivative financial assets designated as hedge accounting	15.	6,820	7,463
Deferred tax assets	34.	22,317	26,543
Current income tax receivables		38,936	12,769
Other assets	16.	266,474	214,580
Assets classified as held for sale / discontinued operations	49.	<u>6,070</u>	<u>462,071</u>
TOTAL ASSETS		<u>23,335,841</u>	<u>20,121,767</u>
Amounts due to banks, the National Governments, deposits from the National Banks and other banks	17.	1,185,315	812,911
Repo liabilities	18.	117,991	488
Financial liabilities designated at fair value through profit or loss	19.	34,131	30,862
Deposits from customers	20.	17,890,863	15,171,308
Liabilities from issued securities	21.	464,213	393,167
Derivative financial liabilities held for trading	22.	104,823	86,743
Derivative financial liabilities designated as hedge accounting	23.	11,341	10,709
Leasing liabilities	35.	48,451	54,194
Deferred tax liabilities	34.	25,990	29,195
Current income tax payable		27,684	35,928
Other liabilities	24.	607,737	592,540
Subordinated bonds and loans	25.	274,704	249,938
Liabilities directly associated with assets classified as held for sale / discontinued operations	49.	<u>5,486</u>	<u>362,496</u>
TOTAL LIABILITIES		<u>20,798,729</u>	<u>17,830,479</u>
Share capital	26.	28,000	28,000
Retained earnings and reserves	27.	2,629,076	2,319,263
Treasury shares	28.	(124,080)	(60,931)
Non-controlling interest	29.	<u>4,116</u>	<u>4,956</u>
TOTAL SHAREHOLDERS' EQUITY		<u>2,537,112</u>	<u>2,291,288</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>23,335,841</u>	<u>20,121,767</u>

Budapest, 17 March 2021


 Dr. Sándor Csányi
 Chairman and Chief Executive Officer

The accompanying notes to consolidated financial statements on pages 10 to 163 form an integral part of these Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards as adopted by EU. 4



OTP BANK PLC.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR
ENDED 31 DECEMBER 2020
(in HUF mn)

	Note	2020	2019
CONTINUING OPERATIONS			
Interest income calculated using the effective interest method	30.	841,901	762,639
Income similar to interest income	30.	<u>135,986</u>	<u>133,497</u>
Interest income and income similar to interest income		<u>977,887</u>	<u>896,136</u>
Interest expense		<u>(195,216)</u>	<u>(197,095)</u>
NET INTEREST INCOME		782,671	699,041
Loss allowance on loans, placements and on repo receivables	31.	(200,315)	(44,605)
from this: gain / (loss) from derecognition of impaired financial assets		1,978	(15,137)
Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit of loss		(3,262)	(4,376)
(Loss allowance) / Release of loss allowance on securities at fair value through other comprehensive income and on securities at amortized cost	31.	(7,309)	9
Provision for commitments and guarantees given	31.	(8,662)	(7,995)
Release of impairment of assets subject to operating lease and of investment properties	31.	<u>878</u>	<u>280</u>
Risk cost total		<u>(218,670)</u>	<u>(56,687)</u>
NET INTEREST INCOME AFTER RISK COST		<u>564,001</u>	<u>642,354</u>
Income from fees and commissions	32.	486,529	447,084
Expense from fees and commissions	32.	<u>(88,896)</u>	<u>(72,903)</u>
Net profit from fees and commissions		397,633	374,181
Foreign exchange gains, net		19,204	6,782
Gains on securities, net		16,106	11,611
from this: gain from derecognition of securities at amortized cost		1,402	714
Loss on financial assets /liabilities measured at fair value through profit or loss		(2,396)	(849)
Dividend income		527	7,955
Other operating income	33.	33,461	111,093
Other operating expense	33.	<u>(39,447)</u>	<u>(44,758)</u>
Net operating income		27,455	91,834
Personnel expenses	33.	(308,642)	(276,754)
Depreciation and amortization	13.	(92,761)	(77,048)
Goodwill impairment	13.	-	(4,887)
Other general expenses	33.	<u>(306,264)</u>	<u>(282,528)</u>
Other administrative expenses		<u>(707,667)</u>	<u>(641,217)</u>
PROFIT BEFORE INCOME TAX		<u>281,422</u>	<u>467,152</u>
Income tax expense	34.	<u>(27,376)</u>	<u>(49,902)</u>
NET PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		<u>254,046</u>	<u>417,250</u>
From this, attributable to:			
Non-controlling interest		<u>220</u>	<u>341</u>
Owners of the company		<u>253,826</u>	<u>416,909</u>
DISCONTINUED OPERATIONS			
Gains from disposal of subsidiary classified as held for sale	49.	<u>199</u>	-
Gains / (Loss) from discontinued operations	49.	<u>5,391</u>	<u>(4,668)</u>
PROFIT FROM CONTINUING AND DISCONTINUED OPERATION		<u>259,636</u>	<u>412,582</u>
Earnings per share (in HUF)			
From continuing operations			
Basic	45.	<u>982</u>	<u>1,594</u>
Diluted	45.	<u>982</u>	<u>1,593</u>
From continuing and discontinued operations			
Basic	45.	<u>1,004</u>	<u>1,576</u>
Diluted	45.	<u>1,003</u>	<u>1,575</u>

The accompanying notes to consolidated financial statements on pages 10 to 163 form an integral part of these Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards as adopted by EU.

OTP BANK PLC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR
THE YEAR ENDED 31 DECEMBER 2020
(in HUF mn)

	Note	2020	2019
NET PROFIT FOR THE YEAR		259,636	412,582
Items that may be reclassified subsequently to profit or loss:			
Fair value adjustment of securities at fair value through other comprehensive income		(3,175)	26,164
Deferred tax related to fair value adjustment of securities at fair value through other comprehensive income		918	(2,915)
Derivative financial instruments designated as cash flow hedge		(2)	11
Net investment hedge in foreign operations		(9,440)	(2,776)
Deferred tax related to net investment hedge in foreign operations	27.	849	250
Foreign currency translation difference		68,593	79,440
Items that will not be reclassified subsequently to profit or loss:			
Fair value changes of equity instruments at fair value through other comprehensive income		(2,890)	7,619
Deferred tax related to equity instruments at fair value through other comprehensive income	27.	383	(644)
Remeasurement of net defined benefit asset / (liability)		143	(173)
Deferred tax related to remeasurement of net defined benefit asset / (liability)	27.	1	12
Subtotal		<u>55,380</u>	<u>106,988</u>
NET COMPREHENSIVE INCOME		<u>315,016</u>	<u>519,570</u>
From this, attributable to:			
Non-controlling interest		(223)	768
Owners of the company		<u>315,239</u>	<u>518,802</u>

OTP BANK PLC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020
(in HUF mn)

	Note	Share capital	Capital reserve	Retained earnings and other reserves ¹	Treasury shares	Total attributable to shareholders ²	Non-controlling interest	Total
Balance as at 1 January 2019		<u>28,000</u>	<u>52</u>	<u>1,864,152</u>	<u>(67,999)</u>	<u>1,824,205</u>	<u>2,452</u>	<u>1,826,657</u>
Net profit for the year		-	-	412,241	-	412,241	341	412,582
Other Comprehensive Income		-	-	106,561	-	106,561	427	106,988
Total comprehensive income		-	-	<u>518,802</u>	-	<u>518,802</u>	<u>768</u>	<u>519,570</u>
Increase due to business combinations		-	-	-	-	-	1,736	1,736
Share-based payment	39.	-	-	3,547	-	3,547	-	3,547
Dividend for the year 2018		-	-	(61,320)	-	(61,320)	-	(61,320)
Correction due to MRP ²		-	-	376	-	376	-	376
Sale of Treasury shares	28.	-	-	-	15,956	15,956	-	15,956
Treasury shares - loss on sale	28.	-	-	(5,012)	-	(5,012)	-	(5,012)
Treasury shares - acquisition	28.	-	-	-	(8,888)	(8,888)	-	(8,888)
Payments to ICES holders	27.	-	-	(1,334)	-	(1,334)	-	(1,334)
Balance as at 31 December 2019		<u>28,000</u>	<u>52</u>	<u>2,319,211</u>	<u>(60,931)</u>	<u>2,286,332</u>	<u>4,956</u>	<u>2,291,288</u>
Balance as at 1 January 2020		<u>28,000</u>	<u>52</u>	<u>2,319,211</u>	<u>(60,931)</u>	<u>2,286,332</u>	<u>4,956</u>	<u>2,291,288</u>
Net profit for the year		-	-	259,416	-	259,416	220	259,636
Other Comprehensive Income		-	-	55,823	-	55,823	(443)	55,380
Total comprehensive income		-	-	<u>315,239</u>	-	<u>315,239</u>	<u>(223)</u>	<u>315,016</u>
Purchasing of non-controlling interest		-	-	-	-	-	(382)	(382)
Decrease due to discontinued operation	49.	-	-	-	-	-	(235)	(235)
Share-based payment	39.	-	-	3,394	-	3,394	-	3,394
Sale of Treasury shares	28.	-	-	-	22,773	22,773	-	22,773
Treasury shares - loss on sale	28.	-	-	(3,967)	-	(3,967)	-	(3,967)
Treasury shares - acquisition	28.	-	-	-	(85,922)	(85,922)	-	(85,922)
Payments to ICES holders	27.	-	-	(4,853)	-	(4,853)	-	(4,853)
Balance as at 31 December 2020		<u>28,000</u>	<u>52</u>	<u>2,629,024</u>	<u>(124,080)</u>	<u>2,532,996</u>	<u>4,116</u>	<u>2,537,112</u>

¹ See details in Note 27, where the Retained earnings and other reserves category contains the capital reserve, share-based payment reserve and option reserve.
² Based on MRP's Articles of Association, dividend on members' shares paid back to the Founder i.e. OTP Bank.

OTP BANK PLC.
CONSOLIDATED STATEMENT OF CASH-FLOWS FOR THE YEAR
ENDED 31 DECEMBER 2020
(in HUF mn)

OPERATING ACTIVITIES	Note	2020	2019
Net profit for the year			
(attributable to the owners of the company)		259,416	412,241
Net accrued interest		(9,040)	(6,590)
Dividend income		(527)	(7,958)
Depreciation and amortization	13.	98,385	78,864
Goodwill impairment	13.	-	4,887
Loss allowance / (Release of loss allowance) on securities	9.,10.	7,309	(10)
Loss allowance on loans and placements and on repo receivables	6.,11.	251,440	57,058
(Release of loss allowance) / Loss allowance on investments	12.	(381)	3,342
Release of loss allowance on investment properties	14.	(741)	(123)
Impairment on tangible and intangible assets	13.	51	2,078
Loss allowance on other assets	16.	7,416	6,258
Provision on off-balance sheet			
commitments and contingent liabilities	24.	14,792	3,767
Share-based payment	3.,39.	3,394	3,547
Unrealized losses on fair value change of securities held for trading		762	6,975
Unrealized (gains) / losses on fair value change of derivative financial instruments		(25,068)	14,232
(Gain) / Loss on discontinued operations		(5,391)	6,032
Net changes in assets and liabilities in operating activities			
Net decrease / (increase) in financial assets			
at fair value through profit or loss	8.	24,406	(30,651)
Net decrease / (increase) in compulsory reserves			
at the National Banks	5.	17,839	(48,081)
Net increase in loans at amortized cost before loss allowance			
for loans and in loans at fair value	11.	(1,534,658)	(1,402,625)
Net (increase) / decrease in other assets			
before loss allowance	16.	(88,225)	7,037
Net increase in deposits from customers	20.	2,374,251	1,476,678
Cash payments for the interest portion of the lease liability	35.	(1,592)	(1,604)
Net increase in other liabilities	24.	60,723	169,290
Income tax paid	34.	<u>(37,729)</u>	<u>(30,170)</u>
Net Cash Provided by Operating Activities		<u>1,416,832</u>	<u>724,474</u>

OTP BANK PLC.
CONSOLIDATED STATEMENT OF CASH-FLOWS FOR THE YEAR
ENDED 31 DECEMBER 2020
(in HUF mn)
[continued]

	Note	2020	2019
INVESTING ACTIVITIES			
(Increase) / Decrease in placement with other banks, before loss allowance for placements	6.	(929,815)	203,483
Purchase of securities at fair value through other comprehensive income	9.	(1,864,934)	(2,392,184)
Proceeds from sale of securities at fair value through other comprehensive income	9.	2,147,495	2,258,296
Net increase in investments	12.	(31,112)	(3,908)
Dividends received		399	6,096
Purchase of securities at amortized cost	10.	(6,655,496)	(4,749,976)
Redemption of securities at amortized cost	10.	6,020,315	4,600,424
Purchase of property, equipment and intangible assets	13.	(136,130)	(267,652)
Proceeds from disposals of property, equipment and intangible assets	13.	67,988	31,612
Net increase in investment properties before loss allowance	14.	(1,924)	(3,022)
Net change in cash and cash equivalents from discontinued operation	49.	5,544	-
Net cash paid for acquisition	41.	-	(38,410)
Net Cash Used in Investing Activities		<u>(1,377,670)</u>	<u>(355,241)</u>
FINANCING ACTIVITIES			
Net increase / (decrease) in amounts due to banks, the National Governments, deposits from the National Banks and other banks and repo liabilities	17.	488,795	(239,947)
Net increase / (decrease) in financial liabilities designated at fair value through profit or loss	19.	4,647	(6,833)
Cash received from issuance of securities	21.	149,105	9,732
Cash used for redemption of issued securities	21.	(78,487)	(31,969)
Cash payments for the principal portion of the lease liability	35.	(16,856)	(12,440)
Increase in subordinated bonds and loans	25.	24,766	140,387
Payments to ICES holders	27.	(4,853)	(1,334)
Sale of Treasury shares	28.	18,806	10,943
Purchase of Treasury shares	28.	(85,922)	(8,888)
Dividends paid	27.	(10)	(61,307)
Net Cash Provided by / (Used in) Financing Activities		<u>499,991</u>	<u>(201,656)</u>
Cash and cash equivalents at the beginning of the year	5.	<u>1,049,737</u>	<u>819,979</u>
Foreign currency translation		69,036	79,034
Net change in cash and cash equivalent		539,153	167,577
Adjustment due to discontinued operation		16,851	(16,853)
Cash and cash equivalents at the end of the year	5.	<u>1,674,777</u>	<u>1,049,737</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

1.1. General information

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

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

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

These Consolidated Financial Statements were approved by the Board of Directors and authorised for issue on 17 March 2021.

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

	2020	2019
Domestic and foreign private and institutional investors	97%	99%
Employees	1%	1%
Treasury shares	<u>2%</u>	-
Total	<u>100%</u>	<u>100%</u>

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

The Bank and its subsidiaries (“Entities of the Group”, together the “Group”) provide a full range of commercial banking services through a wide network of 1,530 branches in the following countries Hungary, Bulgaria, Serbia, Croatia, Russia, Romania, Ukraine, Albania, Montenegro, Moldova and Slovenia, as well as provides other services in the Netherlands, Cyprus and Malta.

The number of the active employees without long-term breaks, and with part-time employees taken into account proportionately, at the Group:

	2020	2019
The number of employees at the Group	38,626	39,971
The average number of employees at the Group	39,943	40,795

1.2. Basis of Accounting

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

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

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

Due to the fact that the Bank is listed on international and national stock exchanges, the Bank is obliged to present its financial statements in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union (the “EU”).

Certain adjustments have been made to the Entities’ statutory accounts in order to present the Consolidated Financial Statements of the Group in accordance with all standards and interpretations approved by the International Accounting Standards Board (“IASB”).

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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

1.2. Basis of Accounting [continued]

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

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

- **Amendments to References to the Conceptual Framework in IFRS Standards** – adopted by EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” - Definition of Material** – adopted by EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement”, IFRS 7 “Financial Instruments: Disclosures” – Interest rate Benchmark Reform** – adopted by EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IFRS 16 “Leases” – Covid 19-Related Rent Concessions** adopted by EU on 9 October 2020 (effective for annual periods beginning on or after 1 June 2020),
- **Amendments to IFRS 3 “Business Combinations”** – adopted by EU on 21 April 2020 (effective for annual periods beginning on or after 1 January 2020).

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

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

At the date of authorization of these financial statements there are new standards, amendments to the existing standards nor interpretations which are issued by IASB and adopted by the EU which are not yet effective:

- **Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 “Interest Rate Benchmark Reform – Phase 2** adopted by EU on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 4 “Insurance Contracts” deferral of IFRS 9** adopted by EU on 15 December 2020 (effective for annual periods beginning on or after 1 January 2021).

The Group does not adopt these new standards and amendments to existing standards before their effective date. The Group anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the consolidated financial statements of the Group in the period of initial application.

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

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

- **IFRS 17 “Insurance Contracts” including amendments to IFRS 17** (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IFRS 3 “Business Combinations”; IAS 16 “Property, Plant and Equipment”; IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” - Annual Improvements** (effective for annual periods beginning on or after 1 January 2022),
- **Amendments to IAS 1 “Presentation of Financial Statements” - Classification of Liabilities as Current or Non-Current** (effective for annual periods beginning on or after 1 January 2023),
- **Amendments to IAS 1 “Presentation of Financial Statements” and IFRS Practice Statement 2 – Disclosure of Accounting policies** (effective for annual periods beginning on or after 1 January 2023),

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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

1.2. Basis of Accounting [continued]

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

- Amendments to IAS 8 “Accounting policies, Changes in Accounting Estimates and Errors” – Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded).

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of Presentation

These Consolidated Financial Statements have been prepared under the historical cost convention with the exception of certain financial instruments, which are recorded at fair value. Revenues and expenses are recorded in the period in which they are earned or incurred. The Group does not offset assets and liabilities or income and expenses unless it is required or permitted by an IFRS standard.

The presentation of Consolidated Financial Statements in conformity with IFRS as adopted by the EU requires the Management of the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Future changes in economic conditions, business strategies, regulatory requirements, accounting rules and other factors could result in a change in estimates that could have a material impact on future financial statements.

2.2. Foreign currency translation

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

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.2. Foreign currency translation [continued]

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

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

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss.

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

2.3. Principles of consolidation

As the ultimate parent, OTP Bank is preparing Consolidated Financial Statements of the Group.

These Consolidated Financial Statements combine the assets, liabilities, equity, income, expenses and cash flows of the Bank and of those subsidiaries of the Bank in which the Bank exercises control.

All intra-group transactions are consolidated fully on a line-by-line basis while under equity method other consolidation rules are applied. Determination of the entities which are involved into the consolidation procedures based on the determination of the Group's Control over another entity. The control exists when the Bank has power over the investee, is able to use this power and is exposed or has right to variable returns. Consolidation of a subsidiary should begin from the date when the Group obtains control and cease when the Group loses control. Therefore, income and expenses of a subsidiary should be included in the Consolidated Financial Statements from the date the Group gains control of the subsidiary until the date when the Group ceases to have control of the subsidiary.

The list of the major fully consolidated subsidiaries, the percentage of issued capital owned by the Bank and the description of their activities is provided in Note 42.

2.4. Accounting for acquisitions

Business combinations are accounted for using acquisition method. Any goodwill arising on acquisition is recognized in the Consolidated Statement of Financial Position and accounted for as indicated below.

The acquisition date is the date on which the acquirer effectively obtains control over the acquiree. Before this date, it should be presented as Advance for investments within Other assets.

Goodwill, which represents the residual cost of the acquisition after obtaining the control over the acquiree in the fair value of the identifiable assets acquired and liabilities assumed is held as an intangible asset and recorded at cost less any accumulated impairment losses in the Consolidated Financial Statements. The Group tests goodwill for impairment by comparing its recoverable amount with its carrying amount, and recognising any excess of the carrying amount over the recoverable amount an impairment loss. The recoverable amount of goodwill is the higher of its fair value less costs of disposal and its value in use.

If the Group loses control of a subsidiary, derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost and recognizes any difference as a gain or loss on the sale attributable to the parent in Statement of Profit or Loss on Net income from discontinued operation.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.4. Accounting for acquisitions [continued]

Goodwill acquired in a business combination is tested for impairment annually or more frequently if events or changes in circumstances indicate. The goodwill is allocated to the cash-generating units that are expected to benefit from the synergies of the combinations.

The Group calculates the fair value of identified assets and liabilities assumed on discounted cash-flow model. The 3 year period explicit cash-flow model serves as a basis for the impairment test by which the Group defines the impairment need on goodwill based on the strategic factors and financial data of its cash-generating units.

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

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

2.5. Securities at amortized cost

The Group measures at amortized cost those securities which are held for contractual cash collecting purposes, and contractual terms of these securities give rise to cash flows that are solely payment of principal and interest on the principal amount outstanding. The Group initially recognizes these securities at fair value. Securities at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. The amortisation of any discount or premium on the acquisition of a security at amortized cost is part of the amortized cost and is recognized as interest income so that the revenue recognized in each period represents a constant yield on the investment. Securities at amortized cost are accounted for on a trade date basis. Such securities comprise mainly securities issued by the Hungarian and foreign Governments, corporate bonds and discounted treasury bills.

2.6. Financial assets at fair value through profit or loss

2.6.1. Securities held for trading

Investments in securities are accounted for on a trade date basis and are initially measured at fair value. Securities held for trading are measured at subsequent reporting dates at fair value, so unrealized gains and losses on held for trading securities are recognized in profit or loss and included in the Consolidated Statement of Profit or Loss for the period. The Group holds held for trading securities within the business model to obtain short-term gains, consequently realized and unrealized gains and losses are recognized in the net operating income, while interest income is recognized in income similar to interest income. The Group applies the FIFO¹ inventory valuation method for securities held for trading.

Such securities consist of equity instruments, shares in investment funds, Hungarian and foreign government bonds, discounted treasury bills and other securities.

2.6.2. Financial assets designated as fair value through profit or loss

The Group may - at initial recognition - irrevocable designate a financial asset as measured at fair value through profit or loss that would otherwise be measured at fair value through other comprehensive income or at amortized cost.

The Group may use fair value designation only in the following cases:

- if the classification eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases ('accounting mismatch')

The use of the fair value designation is based only on direct decision of management of the Group.

¹ First In First Out

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

2.6.3. Derivative financial instruments

In the normal course of business, the Group is a party to contracts for derivative financial instruments, which represent a low initial investment compared to the notional value of the contract and their value depends on value of underlying asset and are settled in the future. The derivative financial instruments used include interest rate forward or swap agreements and currency forward or swap agreements and options. These financial instruments are used by the Group both for trading purposes and to hedge interest rate risk and currency exposures associated with its transactions in the financial markets.

Derivative financial instruments are accounted for on a trade date basis and are initially measured at fair value and at subsequent reporting dates also at fair value. Fair values are obtained from quoted market prices, discounted cash-flow models and option pricing models as appropriate. The Group adopts multi curve valuation approach for calculating the net present value of future cash-flows – based on different curves used for determining forward rates and used for discounting purposes. It shows the best estimation of such derivative deals that are collateralised as the Group has almost all of its open derivative transactions collateralised. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss and are included in the Consolidated Statement of Profit or Loss for the period. Each derivative deal is determined as asset when fair value is positive and as liability when fair value is negative.

Certain derivative transactions, while providing effective economic hedges under the risk management policy of the Group, do not qualify for hedge accounting under the specific rules of IFRS 9 and are therefore treated as derivatives held for trading with fair value gains and losses charged directly to the Consolidated Statement of Profit or Loss.

Foreign currency contracts

Foreign currency contracts are agreements to exchange specific amounts of currencies at a specified rate of exchange, at a spot date (settlement occurs two days after the trade date) or at a forward date (settlement occurs more than two days after the trade date). The notional amount of these forward contracts does not represent the actual market or credit risk associated with these contracts.

Foreign currency contracts are used by the Group for risk management and trading purposes. The risk management foreign currency contracts of the Group were used to hedge the exchange rate fluctuations of loans and deposits to credit institutions denominated in foreign currency.

Foreign exchange swaps and interest rate swaps

The Group enters into foreign exchange swap and interest rate swap (“IRS”) transactions. The swap transaction is an agreement concerning the swap of certain financial instruments, which usually consists of spot and one or more forward contracts.

IRS transactions oblige two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount (the base of the interest calculation). Notional principal is the amount upon which interest rates are applied to determine the payment streams under IRS transactions. Such notional principal amounts often are used to express the volume of these transactions but are not actually exchanged between the counterparties.

IRS transactions are used by the Group for risk management and trading purposes.

Cross-currency interest rate swaps

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

2.6.3 Derivative financial instruments [continued]

Equity and commodity swaps

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

Forward rate agreements (FRA)

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

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

Foreign exchange options

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

2.7. Hedge accounting

Derivative financial instruments designated as a fair-value hedge

Changes in the fair value of derivatives that are designated and qualify as hedging instruments in fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the Consolidated Statement of Profit or Loss along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. Changes in the fair value of hedging instrument in fair value hedges is charged directly to the Consolidated Statement of Profit or Loss.

The conditions of hedge accounting applied by the Bank are the following: formally designated as hedge relationship, proper hedge documentation is prepared, effectiveness test is performed and based on it the hedge is qualified as effective.

The Group implemented hedge accounting rules prescribed by IFRS 9 in 2018.

Derivative financial instruments designated as cash flow hedge

Changes in fair value of derivatives that are designated and qualify as hedging instrument in cash-flow hedges and that prove to be highly effective in relation to the hedged risk are recognized in their effective portion as reserve in Other Comprehensive Income. The ineffective element of the changes in fair value of hedging instrument is charged directly to the Consolidated Statement of Profit or Loss.

The Group terminates the hedge relationship if the hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting. In case of cash-flow hedges – in line with the standard -hedge accounting is still applied by the Group as long as the underlying asset is derecognized.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.7. Hedge accounting [continued]

Net investment hedge in foreign operations

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, shall be accounted for similarly to cash flow hedges.

On disposal of the foreign operation, the cumulative value of any gains and losses recognized in Other Comprehensive Income is transferred to the Consolidated Statement of Profit or Loss.

2.8. Offsetting

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

2.9. Embedded derivatives

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

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

As long as a hybrid contract contains a host that is a financial asset the general accounting rules for classification, recognition and measurement of financial assets are applicable for the whole contract and no embedded derivative is separated.

Derivatives that are required to be separated are measured at fair value at initial recognition and subsequently. If the Group is unable to measure the embedded derivative separately either at acquisition or at the end of a subsequent financial reporting period, the Group shall designate the entire hybrid contract as at fair value through profit or loss. The Group shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the Bank first becomes a party to the contract.

2.10. Securities at fair value through other comprehensive income

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

Debt instruments

Investments in debt securities are accounted for on a trade date basis and are initially measured at fair value. Securities at fair value through other comprehensive income are measured at subsequent reporting dates at fair value. Unrealized gains and losses on securities at fair value through other comprehensive income are recognized directly in Other Comprehensive Income, except for interest and foreign exchange gains/losses on monetary items, unless such financial asset at fair value through other comprehensive income is part of an effective hedge. Such gains and losses are reported when realized in Consolidated Statement of Profit or Loss for the applicable period. The Group applies the FIFO¹ inventory valuation method for securities at fair value through other comprehensive income.

¹ First In First Out

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.10. Securities at fair value through other comprehensive income [continued]

Debt instruments [continued]

For debt securities at fair value through other comprehensive income the loss allowance is calculated based on expected credit loss model. The expected credit loss is accounted for against Other Comprehensive Income. Securities at fair value through other comprehensive income are remeasured at fair value based on quoted prices or amounts derived from cash-flow models. In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of future cash-flows and the fair value of any unquoted equity instruments are calculated using the EPS ratio.

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

Fair value through other comprehensive income option for equity instruments

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

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

The use of the fair value option is based only on direct decision of management of the Group.

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

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

Those Loans and placements with other banks and repo receivables that are accounted at amortized cost, stated at the principal amounts outstanding (including accrued interest), net of allowance for loan or placement losses, respectively.

Transaction fees and charges adjust the carrying amount at initial recognition and are included in effective interest calculation.

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

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

Initially financial assets shall be recognized at fair value which is usually equal to transaction value in case of loans and placements. However, when the amounts are not equal, the initial fair value difference should be recognized. This difference is amortized with effective interest rate.

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

The Group recognizes a loss allowance for expected credit losses on a financial asset at each reporting date. The loss allowance for a financial asset equals to 12-month expected credit loss or equals to the lifetime expected credit losses. The maximum period over which expected credit losses shall be measured is the maximum contractual period over which the Group is exposed to credit risk.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

If the credit risk on a financial asset has not increased significantly since initial recognition then 12-month expected credit losses, otherwise (in case of significant credit risk increase) lifetime expected credit losses should be calculated. The expected credit loss is the present value of the difference between the contractual cash flows that are due to the Group under the contract and the cash flows that the Group expects to receive.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered to be remote. The loan is written off against the related account "Loss allowance on loans, placements and on repo receivables / from this: gain / loss from derecognition" in the Consolidated Statement of Profit or Loss.

The Group applies partial or full write-off for loans based on the definitions and prescriptions of financial instruments in accordance with IFRS 9. If the Group has no reasonable expectations regarding a financial asset (loan) to be recovered, it will be written off partially or fully at the time of emergence.

The gross amount and impairment loss of the loans shall be written off in the same amount to the estimated maximum recovery amount while the net carrying value remains unchanged. In those cases when on the previously partially or fully written-off loans or placements, which perhaps were derecognized from the books no having been reasonable expectations later nevertheless recoveries could be determined then it will be reversal of loss allowance in the Consolidated Statement of Profit or Loss on "Income from recoveries of written-off, but legally existing loans".

2.12. Modified assets

If the net present value of the contracted cash flows changes due to the modification of the contractual terms and it is not qualified as derecognition, modification gain or loss should be calculated and accounted for in the consolidated statement of profit or loss.

Among the possible contract amendments, the Group considers as a derecognition and a new recognition when the discounted present value – discounted at the original effective interest rate – of the cash flows under the new terms is at least 10 per cent different from the discounted present value of the remaining cash flows. In case of derecognition and new recognition the unamortized fees of the derecognized asset should be presented as Income similar to interest income. The newly recognized financial asset is initially measured at fair value and is placed in stage 1 if the derecognized financial asset was in stage 1 or stage 2 portfolio. The newly recognized financial asset will be purchased or originated credit impaired financial asset ("POCI") if the derecognized financial asset was in stage 3 portfolio or it was POCI.

The modification gain or loss shall be calculated at each contract amendments unless they are handled as a derecognition and new recognition. In case of modification the Group recalculates the gross carrying amount of the financial asset. To do this, the new contractual cash flows should be discounted using the financial asset's original effective interest rate (or credit-adjusted effective interest rate for POCI financial asset). Any costs or fees incurred adjust the carrying amount of the modified financial asset are amortized over the remaining term of the modified financial asset.

2.13. Purchased or originated credit impaired financial assets

Purchased or originated financial assets are credit-impaired on initial recognition. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.

A purchased credit-impaired asset is likely to be acquired at a deep discount. In unusual circumstances, it may be possible that an entity originates a credit-impaired asset, for example, following a substantial modification of a distressed financial asset that resulted in the derecognition of the original financial asset.

In the case of POCI financial assets, interest income is always recognized by applying the credit-adjusted effective interest rate.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.13. Purchased or originated credit impaired financial assets [continued]

For POCI financial assets, in subsequent reporting periods an entity is required to recognize:

- the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance,
- the impairment gain or loss which is the amount of any change in lifetime expected credit losses.

An impairment gain is recognized (with the parallel increase of the net amortized cost of receivable) if due to the favourable changes after initial recognition the lifetime expected credit loss estimation is becoming lower than the original estimated credit losses at initial recognition.

The POCI qualification remains from initial recognition to derecognition in the Group's books.

2.14. Loss allowance

Loss allowance for loans and placements with other banks and repo receivables is recognized by the Group based on the expected credit loss model in accordance with IFRS 9. Based on the three stage model the recognized loss allowance equals to 12-month expected credit loss from the initial recognition. On financial assets with significantly increased credit risk or credit impaired financial assets (based on objective evidences) the recognized loss allowance is the lifetime expected credit loss.

In case of purchased or originated credit impaired financial assets loss allowance is recognized in amount of lifetime expected credit loss since initial recognition. Impairment gain in the Consolidated Statement of Profit or Loss is recognized if lifetime expected credit loss for purchased or originated credit impaired financial assets at measurement date are less than the estimated credit loss at initial recognition.

Loss allowance for loans and placements with other banks and repo receivables represent Management assessment for potential losses in relation to these activities.

Impairment losses on credit and placement losses are determined at a level that provides coverage for individually identified credit losses. For loans for which it is not possible to determine the amount of the individually identified credit loss in the absence of objective evidence, a collective impairment loss is recognized. With this, the Bank reduces the carrying amount of financial asset portfolios with similar credit risk characteristics to the amount expected to be recovered based on historical experience.

At subsequent measurement the Group recognizes impairment gain or loss through "Impairment gain on POCI loans" in the Consolidated Statement of Profit or Loss as an amount of expected credit losses or reversal that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized in accordance with IFRS 9.

If a financial asset, for which previously there were no indicators of significant increase in credit risk (i.e. classified in Stage 1) is subsequently classified in Stage 2 or Stage 3 then loss allowance is adjusted to lifetime expected credit loss. If a financial asset, which previously was classified in Stage 2 or Stage 3 is subsequently classified in Stage 1 then loss allowance is adjusted to the level of 12 month expected credit loss.

Classification into risk classes

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

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.14. Loss allowance [continued]

Classification into risk classes [continued]

In the case of trade receivables and contract assets the Group applies the simplified approach and calculates only lifetime expected credit loss. Simplified approach is the following:

- for the past 3 years the average annual balance of receivables under simplified approach is calculated,
- the written-off receivables under simplified approach are determined in the past 3 years,
- the loss allowance ratio will be the sum of the written-off amounts divided by the sum of the average balances,
- the loss allowance is multiplied by the end-of-year balance and it will be the actual loss allowance on these receivables,
- loss allowance should be recalculated annually.

Stage 1: financial instruments for which the events and conditions specified in respect of Stage 2 and Stage 3 do not exist on the reporting date.

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

- The client delays more than 90 days. This is considered a hard trigger.
- There is reasonable probability that the client will not pay all of its obligation. This condition is examined on the basis of probability criteria of default.

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

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

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

A financial instrument is non-performing and it is allocated to Stage 3 when any of the following events or conditions exists on the reporting date:

- defaulted (based on the group level default definition),
- classified as non-performing forborne (based on the group level forborne definition),
- the monitoring classification of corporate and municipal clients above different thresholds defined on group level (including but not limited to):
 - breaching of contracts,
 - significant financial difficulties of the debtor (like capital adequacy, liquidity, deterioration of the instrument quality),
 - bankruptcy, liquidation, debt settlement processes against debtor,

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.14. Loss allowance [continued]

Classification into risk classes [continued]

- forced strike-off started against debtor,
- termination of loan contract by the bank,
- occurrence of fraud event,
- termination of the active market of the financial instrument.
-

If the exposure is no longer considered as credit impaired, the Group allocates this exposure to Stage 2.

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

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

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

An entity shall measure expected credit losses of a financial instrument in a way that reflects:

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

2.15. Sale and repurchase agreements, security lending

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on the Consolidated Statement of Financial Position and the consideration received is recorded in Other liabilities or Amounts due to banks, the National Governments, deposits from the National Banks and other banks. Conversely, debt or equity securities purchased under a commitment to resell are not recognized in the Consolidated Statement of Financial Position and the consideration paid is recorded either in Placements with other banks or Deposits from customers. Interest is accrued based on the effective interest method evenly over the life of the repurchase agreement.

In the case of security lending transactions the Group doesn't recognize or derecognize the securities because believes that the transferor retains substantially all the risks and rewards of the ownership of the securities. Only a financial liability or financial receivable is recognized for the consideration amount.

2.16. Associates and other investments

Companies where the Bank has the ability to exercise significant influence are accounted for using the equity method. Subsidiaries and associated companies that were not accounted for using the equity method and other investments where the Bank does not hold a significant interest are recorded according to IFRS 9.

Under the equity method, the investment is initially recognized at cost, and the carrying amount is adjusted subsequently for:

- the Group's share of the post-acquisition profits or losses of the investee, which are recognized in the Group's profit or loss; and
- the distributions received from the investee, which reduce the carrying amount of the investment.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.16. Associates and other investments [continued]

The Group's share of the profits or losses of the investee, or other changes in the investee's equity, is determined on the basis of its proportionate ownership interest. The Group recognizes its share of the investee's income and losses based on the percentage of the equity interest owned by the Group.

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

2.17. Property and equipment, Intangible assets

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

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

Intangible assets	
Software	3.33%-52.63%
Property rights	1.25%-50.0%
Property	0.1%-33.3%
Office equipment and vehicles	1-50%
Vehicle	5.63% - 48%

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

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

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

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

The Group may conclude contracts for purchasing property, equipment and intangible assets, where the purchase price is settled in foreign currency. By entering into such agreements, firm commitment in foreign currency due on a specified future date arises at the Group.

Reducing the foreign currency risk caused by firm commitment, forward foreign currency contracts may be concluded to ensure the amount payable in foreign currency on a specified future date on one hand and to eliminate the foreign currency risk arising until settlement date of the contract on the other hand.

In the case of an effective hedge the realized profit or loss of the hedging instrument is stated as the part of the cost of the hedged asset as it has arisen until recognizing the asset.

2.18. Inventories

The inventories shall be measured at the lower of cost and net realisable value. The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The Group uses generally FIFO formulas to the measurement of inventories.

Inventories shall be removed from books when they are sold, unusable or destroyed. When inventories are sold, the carrying amount of those inventories shall be recognized as an expense in the period in which the related revenue is recognized.

Repossessed assets are classified as inventories.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.19. Financial liabilities

The financial liabilities are presented within financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost.

The Group at initial recognition measures financial liabilities at fair value plus or minus – in the case of a financial liability not at fair value through profit or loss – transaction costs that are directly attributable to the acquisition or issue of the financial liability.

Financial liabilities at fair value through profit or loss are either financial liabilities held for trading or they are designated upon initial recognition as at fair value through profit or loss.

In connection to the derivative financial liabilities measured at fair value through profit or loss, the Group presents the amount of change in their fair value originated from the changes of market conditions and business environment.

The Group designated some financial liabilities upon initial recognition to measure at fair value through profit or loss. This classification eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases (“accounting mismatch”).

In the case of financial liabilities measured at amortized cost fees and commissions related to the origination of the financial liability are recognized through profit or loss during the maturity of the instrument using effective interest method. In certain cases the Group repurchases a part of financial liabilities (mainly issued securities or subordinated bonds) and the difference between the carrying amount of the financial liability and the amount paid for it is recognized in the net profit or loss for the period and included in other operating income.

2.20. Leases

The Group as a lessor

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Lease classification is made at the inception date and is reassessed only if there is a lease modification.

Finance leases

At the commencement date, a lessor derecognizes the assets held under a finance lease in its statement of financial position and present them as a receivable at an amount equal to the net investment in the lease. The lessor shall use the interest rate implicit in the lease to measure the net investment in the lease. Direct costs such as commissions are included in the initial measurement of the finance lease receivables.

The Group as a lessor recognizes finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the Group’s net investment in the lease. The Group applies the lease payments relating to the period against the gross investment in the lease to reduce both the principal and the unearned finance income.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease.

Operating leases

The Group as a lessor recognizes lease payments from operating leases as income on either a straight-line basis or another systematic basis.

The depreciation policy for depreciable underlying assets subject to operating leases is consistent with the Group’s normal depreciation policy for similar assets. The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

The Group as a lessee

The Group recognizes a right-of-use asset and a lease liability at the commencement of the lease term except for short-term leases and leases, where the underlying asset is of low value (less than USD 5,000). For these leases, the Group recognizes the lease payments as an expense on either a straight-line basis over the lease term or another systematic basis if that basis is more representative of the pattern of the lessee’s benefit.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.20. Leases [continued]

The Group as a lessee [continued]

Deferred tax implication if the Group is lessee: At inception of the lease, there is no net lease asset or liability, no tax base and, therefore, no temporary difference. Subsequently, as depreciation on the right-of-use asset initially exceeds the rate at which the debt reduces, a net liability arises resulting in a deductible temporary difference on which a deferred tax asset should be recognized if recoverable. Assuming that the lease liability is not repaid in advance, the total discounted cash outflows should equal the total rental payments deductible for income tax purposes.

Right-of-use asset

The right-of-use assets are initially measured at cost, subsequently the Group applies cost model and these assets are depreciated on a straight line basis from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. If the lease transfers ownership of the underlying asset to the Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option, the right-of-use asset are depreciated from the commencement date to the end of the useful life of the underlying asset.

Lease liability

At the commencement date, the lease liability is measured at the present value of the lease payments that are not paid at that date discounted by using the rate implicit in the lease, or if this cannot be determined, by using the incremental borrowing rate of the Group. Variable lease payments that do not depend on an index or a rate but e.g. on revenues or usage are recognized as an expense. The Group always separates the non-lease components of the lease contracts and accounts them as an expense. Lease payments must be included in the measurement of the lease liability without value added taxes. Non-deductible VAT is recognized as other expense.

The lease liability is remeasured in case of reassessment of the lease liability or lease modification

2.21. Investment properties

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

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

The Group discloses the fair value of the investment properties in Note 14 established mainly by external experts.

2.22. Share capital

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

2.23. Treasury shares

Treasury shares are shares which are purchased on the stock exchange and the over-the-counter market by the Bank and its subsidiaries and are presented in the Consolidated Financial Position at cost as a deduction from Consolidated Shareholders' Equity.

Gains and losses on the sale of treasury shares are credited or charged directly to shareholder's equity. Derecognition of treasury shares is based on the FIFO method.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.24. Non-current assets held-for-sale and discontinued operations

The Group classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The Group does not account for a non-current asset that has been temporarily taken out of use as if it had been abandoned.

The Group measures a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. When the sale is expected to occur beyond one year, the Group measures the costs to sell at their present value. Any increase in the present value of the costs to sell that arises from the passage of time shall be presented in profit or loss. Immediately before the initial classification of the asset (or disposal group) as held for sale, the carrying amounts of the asset (or all the assets and liabilities in the group) shall be measured in accordance with applicable IFRS.

The Group does not depreciate (or amortize) a non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to be recognized.

If the Group has classified an asset (or disposal group) as held for sale, but the criteria for that are no longer met, the Group ceases to classify the asset (or disposal group) as held for sale. The Group measures a non-current asset that ceases to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale) at the lower of:

- its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognized had the asset (or disposal group) not been classified as held for sale, and
- its recoverable amount at the date of the subsequent decision not to sell.

The Group presents a non-current asset classified as held for sale and the assets of a disposal group classified as held for sale separately from other assets in the Consolidated Statement of Financial Position. The liabilities of a disposal group classified as held for sale is presented separately from other liabilities in the Statement of Financial Position. Those assets and liabilities shall not be offset and presented as a single amount. The major classes of assets and liabilities classified as held for sale shall be separately disclosed in the Notes.

The Group presents separately any cumulative income or expense recognized in other comprehensive income relating to a non-current asset (or disposal group) classified as held for sale. Results from discontinued operations are reported separately in the consolidated statement of profit or loss as result from discontinued operations.

2.25. Interest income and income similar to interest income and interest expense

Interest income and expense are recognized in profit or loss in the period to which they relate, using the effective interest rate method. The time-proportional income similar to interest income of derivative financial instruments is calculated without using the effective interest method and the positive fair value adjustment of interest rate swaps are included in income similar to interest income.

Interest from loans and deposits are accrued on a daily basis. Interest income and expense include certain transaction costs and the amortisation of any discount or premium between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

All interest income and expense recognized are arising from loans, placements with other banks, repo receivables, securities at fair value through other comprehensive income, securities at amortized cost and amounts due to banks, repo liabilities, deposits from customers, liabilities from issued securities, subordinated bonds and loans are presented under these lines of financial statements.

2.26. Fees and Commissions

Fees and commissions that are not involved in the amortized cost model are recognized in the Consolidated Statement of Profit or Loss on an accrual basis according to IFRS 15 Revenue from contracts with customers (see more details in Note 32). These fees are related to deposits, cash withdrawals, security trading, bank card etc.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.27. Dividend income

Dividend income refers to any distribution of an entity earnings to shareholders from stocks or mutual funds that is owned by the Group. The Group recognizes dividend income in the Consolidated Financial Statements when its right to receive payment is established.

2.28. Income tax

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

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

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

The Group recognizes a deferred tax asset for all deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint arrangements, to the extent that, and only to the extent that, it is probable that:

- the temporary difference will reverse in the foreseeable future; and
- taxable profit will be available against which the temporary difference can be utilised.

The Group recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, except to the extent that both of the following conditions are satisfied:

- the Bank is able to control the timing of the reversal of the temporary difference, and
- it is probable that the temporary difference will not reverse in the foreseeable future.

2.29. Banking tax

The Bank and some of its subsidiaries are obliged to pay banking tax based on Act LIX of 2006. The calculation is based on the adjusted total assets as reported in the Separate Financial Statements of the Bank and its entities for the second period preceding the current tax year (not on the taxable profit). Therefore, the banking tax is considered as an other administrative expense, not as income tax.

2.30. Off-balance sheet commitments and contingent liabilities

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

In case of commitments and contingent liabilities, the management determines the adequacy of the loss allowance based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors. The Group recognizes provision for off-balance sheet commitment and contingent liabilities in accordance with IAS 37 when it has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the obligation. For financial guarantees and loan commitments given which are under IFRS 9 the expected credit loss model is applied when the provision is calculated (see more details in Note 2.14.).

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.31. Share-based payment

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

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

Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on Management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

2.32. Employee benefits

The Group has applied the requirement of IAS 19 Employee Benefits. IAS 19 requires to recognize employee benefits to be paid as a liability and as an expense in the Consolidated Financial Statements.

2.33. Consolidated Statement of Cash-flows

Cash flows arising from the operating, investing or financing activities are reported in the Statement of Cash-Flows of the Group primarily on a gross basis. Net basis reporting are applied by the Group in the following cases:

- when the cash flows reflect the activities of the customer rather than those of the Group, and
- for items in which the turnover is quick, the amounts are large, and the maturities are short.

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

2.34. Segment reporting

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

Based on the above, the segments identified by the Group are the business and geographical segments.

The Group's operating segments under IFRS 8 are therefore as follows: OTP Core Hungary, Russia, Ukraine, Bulgaria, Romania, Serbia, Croatia, Montenegro, Albania, Moldova, Slovenia, Merkantil Group, Asset Management subsidiaries, Other subsidiaries, Corporate Center.

2.35. Comparative figures

Change in the classification and valuation policy of certain subsidized retail loans and FX margins

In 2020, the Group changed its accounting policy regarding the classification and valuation of a particular class of subsidized retail loans. The interest payments on the retail loans are determined on the basis of the government bond reference yields and a multiplier. Previously, in accordance with the Group's accounting policy, these loans were measured at amortised cost. For the year ended 31 December 2020, the Group classified this type of loan as measured at fair value through profit or loss. The new accounting policy is in line with the practices of the majority of the players in the banking sector, thus better facilitating comparability. Therefore, in the Bank's opinion, the change in accounting policy results in a more reliable, comparable and relevant presentation of the effects of the loans in question on the Group's financial position and financial performance in the financial statements.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.35. Comparative figures [continued]

Change in the classification and valuation policy of certain subsidized retail loans and FX margins [continued]

In parallel with the change in accounting policy, the Group also changed the structure of its balance sheet. In the statement of financial position, presenting loans in a uniform manner, based on the nature of the instruments, on the line Loans at amortized cost and mandatorily at fair value through profit or loss, with further details of classification and valuation category provided in Note 11 and any other notes as appropriate.

The new accounting policy is applied retrospectively by the Group as if it had always applied this accounting policy. The Group has made the following adjustments to the comparative figures. At the beginning of the comparative period and at the end of the comparative period, the change in accounting policy did not result in a material change in the carrying amount of the loans involved or equity. Therefore, the Group did not change the related balance sheet values for the adjustment relating to periods before those presented, and the Consolidated Statement of Financial Position contains only the data at the end of the current period and at the end of the comparative period.

As a result of the change in accounting policy, the Group adjusted the data of the comparative period in the statement of profit or loss in accordance with the profit or loss items of the fair valuation categories. Due to the unchanged carrying amounts in the balance sheet, this amendment resulted in the following reclassification between profit or loss categories:

- The Group recognizes interest income on loans measured at fair value through profit or loss for the period in the Income similar to Interest Income line at the value corresponding to transactional interest. The comparative value of the line of interest income calculated using the effective interest rate method has been reduced accordingly by the interest income of the respective loans determined using the previously applied effective interest rate method.
- The Group presents the amount of commission income and commission expenses related to loans at fair value through profit or loss in the Fee and commission income and Fee and commission expense lines.
- The Group presents the change in the fair value of loans measured at fair value through profit or loss, broken down into two components:
 - o The Group presents the portion of the change in fair value arising from changes in credit risk within Risk cost as Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit or loss. This amount is determined using expected credit loss models used for loans measured at amortized cost. The comparative amount of Loss allowance on loans, placements and repo receivables has been reduced accordingly with the loss allowance and reversal amounts for the respective loans.
 - o The Group presents the remaining component of the change in fair value under the (Losses) / Gains on financial instruments at fair value through profit or loss.

The change in accounting policy did not impact the net profit for the comparative period, nor the comparative earnings per ordinary share.

The other reclassification shown below relates to realized foreign exchange results which were previously presented within Net operating income. The change in presentation means that the result recognized on these transactions is now presented in Income from fees and commissions.

In accordance with the new accounting policy, the Bank has amended its respective disclosure notes regarding the loans at amortized cost. In the comparative figures, the Bank has reduced the previously disclosed amortized cost, gross carrying amount, impairment and fair value data by the amounts related to the loans concerned. The Group has also amended its disclosures in the notes on assets at fair value through profit or loss for comparative information. These amendments have been marked "Revised" by the Bank. The Bank has also revised the presentation of the detailed notes to the amended profit or loss line items for comparative information in accordance with the new values in the statement of profit or loss.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.35. Comparative figures [continued]

Change in the classification and valuation policy of certain subsidized retail loans and FX margins [continued]

Amendments to the information published in the supplementary annexes concerned the following supplementary notes:

- Note 11 Loans at amortized cost and at fair value
- Note 30 Interest income, income similar to interest income and expenses
- Note 31 Loss allowances / impairment and provisions
- Note 36.1.1. Financial instruments by stages
- Note 36.1.2. Movement table of loss allowance / provision on financial instruments
- Note 36.1.3. Loan portfolio by countries
- Note 36.2. Maturity analysis of assets, liabilities and liquidity risk
- Note 36.4. Interest rate risk management
- Note 46 Net gain or loss realized on financial instruments
- Note 47 a) Fair value of financial assets and liabilities
- Note 48 Segment reporting by business and geographical segments

Except as described above, these consolidated financial statements are prepared in accordance with the same accounting policies in all respects as the consolidated financial statements prepared in accordance with IFRS as adopted by the European Union for the year ended 31 December 2019.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.35. Comparative figures [continued]

Line item	2020	2019 Revised presentation	Reclassification of amounts related to mandatorily measured at fair value through profit or loss	Reclassification of gains from foreign exchange margin	2019 As previously presented
Interest income calculated using the effective interest method	841,901	762,639	(14,863)	-	777,502
Income similar to interest income	<u>135,986</u>	<u>133,497</u>	<u>16,855</u>	=	<u>116,642</u>
Interest income and income similar to interest income	977,887	896,136	1,992	-	894,144
Interest expense	(195,216)	(197,095)	-	-	(197,095)
Loss allowance on loans, placements and on repo receivables	(200,315)	(44,605)	4,515	-	(49,120)
Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit of loss	(3,262)	(4,376)	(4,376)	-	-
Further risk cost items	<u>(15,093)</u>	<u>(7,706)</u>	=	=	<u>(7,706)</u>
Risk cost total	(218,670)	(56,687)	139	=	(56,826)
NET INTEREST INCOME AFTER RISK COST	<u>564,001</u>	<u>642,354</u>	<u>2,131</u>	=	<u>640,223</u>
Income from fees and commissions	486,529	447,084	-	33,736	413,348
Net profit from fees and commissions	397,633	374,181	-	33,736	340,445
Foreign exchange gains, net (Losses) / Gains on financial instruments at fair value through profit or loss	19,204	6,782	-	(33,736)	40,518
	(2,396)	(849)	(2,131)	-	1,282
Net operating income	<u>27,455</u>	<u>91,834</u>	<u>(2,131)</u>	<u>(33,736)</u>	<u>127,701</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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

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

3.1. Loss allowances on financial instruments exposed to credit risk

The Group regularly assesses its financial instruments portfolio for loss allowance. Management determines the adequacy of the loss allowances based upon reviews of individual loans and placements, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors.

The use of the three stage model was implemented for IFRS 9 purposes. The impairment methodology is used to classify financial instruments in order to determine whether credit risk has significantly increased since initial recognition and to identify the credit-impaired assets. For instruments with credit-impairment or significant increase of credit risk lifetime expected losses will be recognized (see more details in Note 36.1.)

3.2. Valuation of instruments without direct quotations

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

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

3.3. Provisions

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

Other provisions are recognized and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Group is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Group assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for. (See Note 24.)

Other provision includes provision for litigation, provision for retirement and expected liabilities and provision for confirmed letter of credit.

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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

3.4. Impairment on goodwill

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

3.5. Business model

The financial assets held by the Group are classified into three categories depending on the business model within the financial assets are managed.

- Business model whose objective is to hold financial assets in order to collect contractual cash flows. Within this business model the Group manages mainly loans and advances and long term securities and other financial assets.
- Business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Within this business model the Group only manages securities.
- Business model whose objective is to achieve gains in a short term period. Within this business model the Group manages securities and derivative financial instrument.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 4: IMPACT OF CORONA VIRUS (COVID-19)

Covid-19 has had substantial implications for the operations of the Group during 2020. Below are some of the more important Covid-19 related events that occurred by country of operation.

Hungary

- On 16 March 2020 the NBH decided to expand the range of eligible collaterals with performing corporate loans. Effective from 11 May 2020 only corporate loans exceeding HUF 1 billion can be used as collateral in the liquidity providing operations.
- In addition to the 1, 3, 6 and 12-month tenders announced every Monday in the same way, the NBH announced one-week FX swap tenders providing forint liquidity on a daily basis from 17 March 2020 until further notice, in order to maintain the appropriate level of liquidity for the banking sector.
- On 18 March 2020 the NBH took measures to support the operation of banks and strengthen the banking system. Among others the NBH requested banks and their owners to make sure that dividends are neither approved, nor paid until the end of September of 2020.
- On 18 March 2020 the Prime Minister of Hungary announced the first stage of economic and job protection measures. The steps, among others, included:
 - a blanket debt repayment moratorium;
 - the introduction of the annual percentage rate “APR” caps on new consumer loans: pursuant to the relevant Government Decrees, APR is temporarily capped at central bank base rate + 5 percentage points in the case of loans to consumers that are not collateralized by a mortgage and are disbursed based on a contract concluded after 19 March 2020. This provision must be applied until 31 December 2020, then following this deadline the APR set out in the given lender’s Terms & Conditions effective at the time of the signing of the contract will be applicable;
 - the extension of short-term business loans until 30 June.
- Pursuant to Government Decree No. 47/2020. (III. 18.) and Government Decree No. 62/2020. (III. 24.), a moratorium on payments was introduced in Hungary concerning both principal, interest and fee payment obligations arising from both credit, loan and finance lease amounts that have already been disbursed until 18 March 2020. The moratorium did not involve debt forgiveness element. The first moratorium was effective until 31 December 2020. The scope of the moratorium included, among others, both retail and corporate debtors. Regarding details and technical provisions, the non-paid interest during the payment holiday cannot be capitalized to the outstanding principal (neither during the moratorium, nor afterwards). The amount of delayed interest accumulated during the moratorium must be repaid after the moratorium in equal instalments, evenly spread over the remaining years of the loan tenor, together with the due instalments. Following the moratorium, the tenor will be prolonged in a way that the sum of the due instalment and the unpaid interest during the moratorium (which is to be repaid in equal instalments) in total should not exceed the instalment according to the original contract. Rules applicable to the interest must also be applied to the fees. The borrower’s participation was automatic, but the moratorium did not affect the debtors’ right to continue to pay according to the original contractual terms.
- On its 24 March 2020 meeting the Monetary Council decided to introduce a new fixed-rate collateralized loan instrument with maturities of 3, 6 and 12 months and 3 and 5 years. Lending will be provided by the NBH at a fixed interest rate (the NBH defines the interest rate of the instrument at each tender, but the rate may not be lower than the base rate).
- On 1 April 2020 the NBH decided to announce one-week deposit tenders at a weekly frequency. The interest rate on the instrument equals to the central bank base rate.
- On 1 April 2020 the NBH announced that effective from 1 July the capital buffer requirements for systemically important banks will be released. The banks must rebuild their capital buffer initially prescribed for 2020 gradually in three years from 2022 onwards. At the time of the decision the O-SII buffer applicable for OTP Bank was 2%.
- On 4 April 2020 the Minister of Prime Minister’s Office revealed that the Government expects banks to contribute HUF 55 billion into the new epidemic fund. Pursuant to the Government Decree 108/2020 published on 14 April, the new special tax levied on banks is to be paid in the 2020 tax year, in three equal instalments (in June, September and December). The base of the new special tax is that part of the adjusted total assets (as defined in the legislation on the “old” bank tax) that exceeds HUF 50 billion. The tax rate is 19 bps.
- On 9 June 2020 the law allowing the deductibility of the new special banking levy payable in 2020 was promulgated. The new once-off special banking tax will be returned to the banking system over the next five years through deductions from the nominal amount of the “old” bank tax (in the form of tax withholding).

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 4: IMPACT OF CORONA VIRUS (COVID-19) [continued]

Hungary [continued]

- The new special tax amounts to HUF 14.2 billion in the case of the Hungarian Group members of OTP Group. Pursuant to IFRS standards, parallel with the accounting of this new bank levy amongst the other expenses, the Group recognized the net present value of the related tax claims amongst the other income. Therefore, the new special tax did not materially affect the Group's bottom line earnings neither in 2020, nor will it do so over the next 5 years.
- On 7 April 2020 the NBH adjusted its policy instruments and modified its operational framework. The Monetary Council decided to make the interest rate corridor symmetrical, and left the base rate and the overnight deposit rate unchanged at 0.9% and -0.05%, respectively, and raised the overnight and one-week collateralized lending rates to 1.85%. The one-week deposit rate, at the time of the announcement, was equal to the 0.9% base rate; however, the Monetary Council decided to allow the interest rate on the instrument to deviate from the base rate upward or downward within the interest rate corridor. The NBH said that it will set the interest rate on the instrument each week, at the time of the actual tender's announcement.
- As part of the comprehensive set of measures outlined by the NBH on 7 April 2020, it decided to
 - launch a government security purchase programme in the secondary market to restore the stable liquidity position of the government securities market and influence the longer part of the yield curve, and to relaunch its mortgage bond purchase programme to improve the long-term supply of funding to the banking sector.
Details of the programmes including the timing and strategic parameters were revealed on 28 April: accordingly, the NBH launched its government securities and mortgage bonds purchase programmes on 4 May 2020, and it will continue to purchase securities as long as economic and financial developments arising from the coronavirus pandemic require it.
The NBH did not set a total amount of purchases for either programme.
 - The NBH launched the *Funding for Growth Scheme Go!* scheme on 20 April 2020. Including HUF 500 billion undrawn under the *FGS fix*, the NBH made available up to HUF 1,500 billion to the SME sector under the *FGS Go!*.
 - Within the framework of the *Bond Funding for Growth Scheme*, the so far unutilized over HUF 200 billion was still available for the NBH to purchase bonds issued by non-financial corporations headquartered in Hungary.
- On 16 April 2020 the Minister of Finance revealed further tax concessions amounting to HUF 200 billion. Among others, the social security contributions payable by employers were cut to 15.5% from 17.5% effective from July 2020.
- On 2 July 2020, the NBH decided to expand the loan purposes available in the *FGS Go!* structure.
- On 10 September 2020 the National Bank of Hungary, in the wake of increased uncertainties amid the pandemic, called upon credit institutions to extend the previously applied restriction on dividend payments and decisions, which was effective until 30 September 2020, until 1 January 2021.
- On 22 September 2020 the NBH increased the available amount under the Bond Funding for Growth programme from HUF 450 to 750 billion.
- As the utilisation of the *Funding for Growth Go!* scheme exceeded HUF 1,000 billion by mid-November, on 17 November 2020 the Monetary Council decided to raise the total available amount by HUF 1,000 billion (to HUF 2,500 billion).
- As set out in Government Decree 518/2020. (XI. 25.), published in the Gazette on 25 November 2020, starting from 1 January 2021 the Hungarian Government provides a non-refundable home renovation subsidy to families raising or expecting children by way of refunding certain part of their home renovation costs. Eligible families can get back 50% of their proven improvement expenses following the completion of the renewal, but maximum HUF 3 million. The subsidy can be applied for within 60 days after completing the home renovation and also paying the bills by the families, or until 31 December 2022 the latest.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 4: IMPACT OF CORONA VIRUS (COVID-19) [continued]

Hungary [continued]

- On 19 December 2020 the Prime Minister announced the following measures directly affecting banking operations:
 - Extension of the payment moratorium in unchanged form: pursuant to Government Decree 637/2020. (XII. 22.) those borrowers are eligible for the moratorium effective between 1 January 2021 – 30 June 2021 that have principal, interest and fee payment obligations arising from a credit contract that have already been disbursed until 18 March 2020 (also considering Subsection (1) of Section 3 of Act CVII of 2020). With the above Decree the eligibility conditions stipulated in Act CVII of 2020 (published on 28 October 2020) for retail and corporate borrowers were repealed.
 - Subsidized home renovation loan: in order to help eligible families to take advantage of the non-refundable home renovation subsidy (for details, see Government Decree 518/2020. (XI. 25.)), a subsidized home renovation loan (for details, see Government Decree 641/2020 (XII. 22.)) was introduced by the Government.
- On 28 December 2020 the National Bank of Hungary announced that the following decisions were made:
 - The central bank recommended credit institutions not to pay dividends or not to make any irrevocable commitment to pay dividends after the 2019 and 2020 financial year, or from previous years' profits, until 30 September 2021. Furthermore, the central bank suggested that credit institutions should refrain from treasury share purchases for shareholder remuneration purposes until the same date (share buybacks for management remuneration purposes are an exemption). The related guideline was set out in a management circular published on 8 January 2021.
 - The NBH decided to amend the relevant detailed guidelines set out in its IFRS circular about the application of non-performing and forbore categories in connection with the payment moratorium, and based on this, its guidelines for creating provisions. The amended circular was released on 22 January 2021.
- Effective from 13 January 2021 the National Bank of Hungary extended the available amount for the Bond Funding for Growth scheme by HUF 750 billion to HUF 1,150 billion. At the same time it decided to increase the maximum maturity of corporate bonds that can be purchased by the central bank from 20 to 30 years. Also, the central bank's exposure limit to a company group was revised from HUF 50 billion to HUF 70 billion.
- On 4 February 2021 the Prime Minister announced an interest-free loan programme for companies in trouble in the wake of the pandemic. According to Government Resolution 1038/2021. (II. 5.) the programme will be administered by the Hungarian Development Bank, and the available amount under the programme will be HUF 100 billion. Companies can take out maximum HUF 10 million each for the purpose of covering wages and social contributions, overhead costs, general operating expenses and inventory financing. Client interest rate is 0%, the loan tenor can be up to 10 years, and the servicing of the loan will start after a 3 year grace period. The scope of eligible entities will be discussed with the Hungarian Chamber of Commerce and Industry.

Bulgaria

- On 19 March 2020 the Bulgarian National Bank (BNB) announced its decisions with the aim to strengthen the capital and liquidity position of the banking system:
 - to cancel the increase of the countercyclical capital buffer to 1% planned for 2020 and to 1.5% planned for 2021;
 - credit institutions shall not distribute dividends from the 2019 realized profit nor distribute other elements of the capital which are retained from the financial results from previous years.
- On 24 March 2020 key tax and spending measures were implemented: it was disallowed to accrue penalty interest and to carry out any action that may have negative consequences for borrowers due to non-payment. Legal enforcement and eviction procedures were also frozen during the emergency period.
- On 10 April 2020 the BNB approved the draft of the payment moratorium, which provides specific terms of the deferred payment. Accordingly, banks could voluntarily offer the moratorium to their clients. The eligible clients are those private individuals or companies who did not have more than 90 days of delay as at 1 March 2020, and have faced difficulties in meeting their obligations due to the COVID 19 pandemic. Participation was not automatic, clients had to indicate their intention to participate.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 4: IMPACT OF CORONA VIRUS (COVID-19) [continued]

Bulgaria [continued]

- On 10 July 2020 Bulgaria officially joined the ERM-II currency mechanism.
- On 14 July 2020 the Bulgarian National Bank decided to extend the deadlines of the moratorium on payments. Accordingly, the deadline for submitting a request by customers for postponing payments and their approval by banks was extended until 30 September 2020; the deadline for postponing payments was extended until 31 March 2021. The extension of the deadlines applies to exposures for which no request for moratorium participation was submitted before 22 June 2020.
- DSK Bank is supervised by the ECB starting from 1 October 2020.
- On 11 December 2020, the National Bank of Bulgaria approved the extension of the debt repayment moratorium. The deadline to apply for the moratorium is 23 March 2021. Borrowers can take advantage of the deferral until 31 December 2021, but for maximum nine months altogether. Debtors who are not more than 90 days past due at the application date can benefit from the moratorium. In cases where the request for deferral was submitted before 30 September 2020, further deferral is possible, provided that the total duration of the moratorium does not exceed nine months.

Croatia

- On 20 March 2020 the Croatian National Bank (HNB) imposed measures on credit institutions regarding the retention of net income for 2019.
- On 20 March 2020 the HNB reduced the mandatory reserve requirement ratio from 12 to 9%, and started purchasing Republic of Croatia bonds with an aim of maintaining stability in the market of government securities.
- A payment moratorium on loans has not been implemented in Croatia through legislation. Therefore, the application for moratorium is voluntary and has to be requested by the client.
- However, on 1 April 2020 the Croatian Banking Association outlined a non-binding regime which could serve as a basis for setting the conditions of banks' own moratoria offered to their clients.
- Furthermore, all banks agreed not to initiate forced collection measures for the collection of debt from their debtors who, in the period of three months starting from April 2020, failed to meet their payment obligations. The measure applied to both legal and natural persons.
- On 10 July 2020 Croatia officially joined the ERM-II currency mechanism.
- On 1 October 2020, the loan repayment moratorium was extended (applications will be accepted until 31 March 2021.). The extension of the moratorium is available to customers whose primary source of income is the tourism sector, those living in earthquake-hit areas, and whose income has decreased by at least 30% compared to 2019. The duration of the moratorium can be up to 9 months except for those living in the area affected by the earthquake, for those borrowers it is 12 months.

Serbia

- On 18 March 2020 the National Bank of Serbia adopted decisions imposing a moratorium on debt payments:
 - a) the moratorium was available for all debtors (natural persons, farmers and entrepreneurs, corporates);
 - b) it implied a suspension of debt payments for at least 90 days and/or for the duration of the emergency state;
 - c) lessors will not charge any default interest on past due outstanding receivables and will not initiate enforcement or enforced collection procedures, or take other legal actions to collect receivables from their clients.
- On 27 July 2020 National Bank of Serbia has adopted a regulation that offers borrowers one more suspension in the settlement of their liabilities to banks, maturing in the period between 1 August 2020 and 30 September 2020, as well as a suspension in the payment of liabilities that matured in July 2020, and which the borrower has not settled.
- In December 2020 the Serbian central bank decided to introduce the third round of payment moratorium with an effect between 1 January - 30 June 2021. The participation is opt-in. The deadline for submitting request by borrowers is 30 April 2021.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 4: IMPACT OF CORONA VIRUS (COVID-19) [continued]

Slovenia

- On 20 March 2020 the Slovenian Parliament passed an act regarding the debt payment moratorium. Payment moratorium could be granted at the request of customers, in the case of loans disbursed before the declaration of an emergency, for both retail and corporate customers. Banks were obliged to provide a moratorium on loan repayments if the debtor proves that it had payment difficulties due to the epidemiological situation. The suspension of repayment may not exceed 12 months, the original term being extended by the duration of the suspension.
- On 10 April 2020 the Bank of Slovenia issued the Resolution on macroprudential measures for banks, in which it imposed restrictions on dividend and bonus payments.
- At the end of 2020 the option to apply for the moratorium has been extended to 26 February 2021. Banks have to approve applications until 31 March 2021. After the approval by the bank, the deferral of payments for eligible borrowers can be 9 months.

Romania

- On 24 March 2020 the National Bank of Romania (NBR) allowed banks to operate with a capital level excluding the capital buffer requirements.
- On 24 March 2020 the NBR decided to allow banks to operate with a Liquidity Coverage Ratio (LCR) below its minimum threshold (100%).
- Starting from 30 March 2020 a moratorium on loan payments was introduced. Based on client request, payment obligations arising from loans (including capital, interest and fees) could be suspended for maximum 9 months, but until 31 December 2020 the latest.
- Conditions for the applicant include that the income of the debtor was directly or indirectly affected by the pandemic. Legal entities had to prove that their activities were interrupted fully or partially; they suffered a more than 25% income decrease in March compared to the average of January and February 2020; and that they were not in insolvency at the date of the request.
- In May 2020 the deadline for applying for the moratorium was extended by one month, to 15 June.
- On 2 April, based on the European Central Bank advice, the NBR recommended local commercial banks not to distribute dividends in 2020.
- On 30 December 2020 the government decided to prolong the loan repayment moratorium, but borrowers can spend altogether up to 9 months in the moratoria. The application deadline is 15 March 2021 and requests should be processed by 31 March.

Ukraine

- On 30 January 2020 the National Bank of Ukraine (NBU) decided to lower the base rate by 250 bps, from 13.5% to 11%. The reference rate was further cut to 10% on 23 March, followed by another 200 bps cut to 8% on 23 April. Effective from 12 June the base rate was further reduced by 200 bps to 6%.
- On 25 March 2020 the NBU delayed the schedule for banks to create the following capital buffers:
 - the capital conservation buffer, which was to be created from 1 January 2020 in the amount of 0.625% of regulatory capital and would gradually rise to 2.5% by 1 January 2023 according to the original schedule;
 - the systemically important institutions buffer, which originally was to be created the banks from 1 January 2021.
- The NBU recommended banks to refrain from paying out dividend until October 2020 (later extended until the end of 2020).
- On 30 March 2020 the Ukrainian Parliament adopted a prohibition on lenders to increase interest rates under loan agreements for the duration of the pandemic. The law forbids the banks from charging any penalties and fines on consumer loans during this period.
- In June 2020 Ukraine made a USD 5 billion deal with the IMF, which was designed to help the Ukrainian economy overcome the shocks of the coronavirus crisis.
- In September the NBU pre-announced plans to increase risks weights on consumer lending from 100% up to 150% starting in the second half of 2021.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 4: IMPACT OF CORONA VIRUS (COVID-19) [continued]

Russia

- Through March and April, the Central Bank of Russia (CBR) engaged in repo auctions of more than 2,000 billion rubles to ensure sufficient liquidity in the banking sector. On 20 March the suspension of add-on risk weights was introduced by the CBR in case of restructured loans, mortgage loans, loans under equity construction contracts, and loans with low down payments.
- To support lending, effective until 1 January 2021, the CBR entitled credit institutions to recognize equity and debt securities, acquired before 1 March 2020, at fair value in the accounting records; and to recognize debt securities, acquired from 1 March 2020 through 30 September 2020, at fair value as of the acquisition date.
- On 27 March CBR announced that banks do not have to increase loan loss provisions if the loan was restructured due to consequences of the pandemic.
- The period from 30 March until 30 April was declared a nationwide paid holiday (banks were recognized as continuously working organizations). This period was later extended until 12 May.
- Starting from 3 April a debt repayment holiday came into effect for private individuals, sole proprietors and SMEs facing difficulties in connection with the coronavirus epidemic. Borrowers were able to apply at the lender for a moratorium on their mortgage and consumer loan payments (including interest and principal) for up to six months if their respective income fell by at least 30% in the month preceding the application compared with the average monthly income in the previous year. Applications could be registered until 30 September 2020.
- During the second quarter of 2020 the CBR cut the policy rate in three steps by 125 bps to 4.5%, and on 24 July a further 25 bps cut was announced.
- On 10 August 2020 the CBR announced that it reduced risk weights for unsecured consumer loans issued after 1 September 2020, and cancelled additional capital requirements for consumer loans issued until 31 August 2019.
- On 20 January 2021 the Central Bank of Russia published its 2021-2022 road map for regulating consumer lending, as a result loosening measures taken in 2020 to facilitate lending will be reversed through higher risk weights being introduced.

The following table below shows the volume of loans in moratorium as at 31 December 2020 in OTP Group and the ratio of these loans of the portfolio by countries:

	Current volume in moratorium (million LCY)	Current volume in moratorium (million HUF)	Gross loans (million HUF)	Current participation ratio
OTP Core	1,760,231	1,760,231	4,631,974	38.00%
Merkantil Group	120,379	120,379	416,987	28.87%
DSK Bank EAD (Bulgaria)	60	11,190	2,634,870	0.42%
OTP banka d.d. (Croatia)	3,372	163,052	1,642,170	9.93%
JSC "OTP Bank" (Russia)	734	2,907	597,849	0.49%
SKB Banka d.d. Ljubljana (Slovenia)	150	54,835	909,439	6.03%
OTP Bank Romania S.A. (Romania)	545	40,853	861,393	4.74%
Crnogorska komercijalna banka a.d. (Montenegro)	13	<u>4,589</u>	<u>362,067</u>	1.27%
Total		<u>2,158,036</u>	<u>12,056,749</u>	

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 4: IMPACT OF CORONA VIRUS (COVID-19) [continued]

Financial assets modified during the period related to moratorium for the year ended 31 December 2020

	Hungary	Serbia
	2020	2020
Gross carrying amount before modification	1,119,943	53,080
Loss allowance before modification	<u>(61,445)</u>	<u>(9,881)</u>
Net amortised cost before modification	<u>1,058,498</u>	<u>43,199</u>
Modification loss due to covid moratoria	<u>(26,774)</u>	<u>(239)</u>
Net amortised cost after modification	<u>1,031,724</u>	<u>42,960</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 5: CASH, AMOUNTS DUE FROM BANKS AND BALANCES WITH THE NATIONAL BANKS (in HUF mn)

	2020	2019
Cash on hand		
In HUF	113,492	186,172
In foreign currency	<u>372,972</u>	<u>337,245</u>
	<u>486,464</u>	<u>523,417</u>

Amounts due from banks and balances with the National Banks

	2020	2019
Within one year		
In HUF	208,074	79,295
In foreign currency	<u>1,675,628</u>	<u>1,130,023</u>
	<u>1,883,702</u>	<u>1,209,318</u>
Over one year		
In HUF	-	-
In foreign currency	<u>62,146</u>	<u>51,643</u>
	<u>62,146</u>	<u>51,643</u>
Total	<u>2,432,312</u>	<u>1,784,378</u>
Compulsory reserve set by the National Banks ¹	<u>(757,535)</u>	<u>(734,641)</u>
Cash and cash equivalents	<u>1,674,777</u>	<u>1,049,737</u>

NOTE 6: PLACEMENTS WITH OTHER BANKS, NET OF LOSS ALLOWANCE FOR PLACEMENTS (in HUF mn)

	2020	2019
Within one year		
In HUF	251,206	35,804
In foreign currency	<u>729,249</u>	<u>194,985</u>
	<u>980,455</u>	<u>230,789</u>
Over one year		
In HUF	136,418	102,048
In foreign currency	<u>33,359</u>	<u>10,563</u>
	<u>169,777</u>	<u>112,611</u>
Loss allowance on placements	<u>(1,489)</u>	<u>(478)</u>
Total	<u>1,148,743</u>	<u>342,922</u>

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 6: PLACEMENTS WITH OTHER BANKS, NET OF LOSS ALLOWANCE FOR PLACEMENTS (in HUF mn) [continued]

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

	2020	2019
Balance as at 1 January	478	485
Loss allowance for the period	16,476	3,463
Release of loss allowance for the period	(15,629)	(3,602)
Foreign currency translation difference	<u>164</u>	<u>132</u>
Closing balance	<u>1,489</u>	<u>478</u>

Interest conditions of placements with other banks:

	2020	2019
Interest rates on placements with other banks denominated in HUF	0.0% - 3.84%	(1.5)% - 3.84%
Interest rates on placements with other banks denominated in foreign currency	(17.33)% - 5.50%	(2.39)% - 15.5%
	2020	2019
Average interest rates on placements with other banks (%)	0.70%	2.06%

NOTE 7: REPO RECEIVABLES (in HUF mn)

	2020	2019
Within one year		
In HUF	183,656	45,545
In foreign currency	<u>7,485</u>	<u>21,674</u>
	<u>191,141</u>	<u>67,219</u>
Loss allowance on repo receivables	<u>(292)</u>	<u>(62)</u>
Total	<u>190,849</u>	<u>67,157</u>

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

	2020	2019
Balance as at 1 January	62	12
Loss allowance for the period	362	98
Release of loss allowance for the period	(125)	(48)
Foreign currency translation difference	<u>(7)</u>	-
Closing balance	<u>292</u>	<u>62</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 7: REPO RECEIVABLES (in HUF mn) [continued]

Interest conditions of repo receivables (%):

	2020	2019
Interest rates on repo receivables denominated in HUF	(0.1)% - 0.9%	(0.1)% - 0.715 %
Interest rates on repo receivables denominated in foreign currency	(0.55)% - 4.15%	(0.25)% - 16.0%

NOTE 8: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn)

	2020	2019
Securities held for trading		
Government bonds	38,036	71,194
Discounted Treasury bills	12,721	50
Equity instruments and fund units	3,740	1,076
Other interest bearing securities	2,075	20,212
Other non-interest bearing securities	-	7,516
	<u>56,572</u>	<u>100,048</u>
Non-trading securities mandatorily at fair value through profit or loss		
Equity instruments, open-ended fund units	46,063	34,915
Bonds	11,514	4,402
	<u>57,577</u>	<u>39,317</u>
Debt securities designated at fair value through profit or loss	2,235	2,001
Total	<u>116,384</u>	<u>141,366</u>

Positive fair value of derivative financial assets held for trading

	2020	2019
Foreign exchange swaps held for trading	42,646	35,602
Interest rate swaps held for trading	36,922	61,198
Foreign exchange forward contracts held for trading	8,730	3,543
CCIRS and mark-to-market CCIRS held -for trading ¹	7,359	1,216
Held-for-trading option contracts	4,268	3,404
Held-for-trading forward security agreement	22	5
Held-for-trading forward rate agreements	-	13
Other derivative transactions held for trading ²	17,676	5,643
Total	<u>117,623</u>	<u>110,624</u>
Total	<u>234,007</u>	<u>251,990</u>

¹ CCIRS: Cross Currency Interest Rate Swaps (See Note 2.6.3.)

² Other category includes: commodity and equity swaps, exchange traded futures and options.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 8: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn)
[continued]

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

	2020	2019
Denominated in HUF	19.7%	27.8%
Denominated in foreign currency	<u>80.3%</u>	<u>72.2%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

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

	2020	2019
Denominated in HUF	16.9%	25.7%
Denominated in foreign currency	<u>83.1%</u>	<u>74.3%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

Interest conditions of held for trading securities (%):

	2020	2019
Interest rates on securities held for trading denominated in HUF	0.5% - 7.0%	0.16% - 7.50%
Interest rates on securities held for trading denominated in foreign currency	0.38% - 6.38%	0.01% - 8.25%

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

	2020	2019
Within one year		
With variable interest	78	124
With fixed interest	<u>17,147</u>	<u>24,496</u>
	<u>17,225</u>	<u>24,620</u>
Over one year		
With variable interest	1,370	1,046
With fixed interest	<u>34,237</u>	<u>65,790</u>
	<u>35,607</u>	<u>66,836</u>
Non-interest bearing securities	<u>3,740</u>	<u>8,592</u>
Total	<u>56,572</u>	<u>100,048</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 8: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn)
[continued]

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

	2020	2019
Within one year		
With variable interest	-	-
With fixed interest	-	<u>866</u>
	-	<u>866</u>
Over one year		
With variable interest	-	25
With fixed interest	<u>5,492</u>	<u>3,511</u>
	<u>5,492</u>	<u>3,536</u>
Non-interest bearing securities	<u>52,085</u>	<u>34,915</u>
Total	<u>57,577</u>	<u>39,317</u>

	2020	2019
Dividend income from shares measured at fair value through profit or loss	75	5,728

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

	2020	2019
Denominated in HUF	57.1%	70.6%
Denominated in foreign currency	<u>42.9%</u>	<u>29.4%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

	2020	2019
Interest rates on non-trading securities mandatorily measured at fair value through profit or loss	0.0% - 2.50%	0.0% - 4.95%

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 9: SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (in HUF mn)

	2020	2019
Securities at fair value through other comprehensive income		
Government bonds	1,855,134	1,772,612
Mortgage bonds	88,272	97,268
Corporate bonds	81,620	73,062
<i>Listed securities:</i>		
<i>In HUF</i>	2,968	2,999
<i>In foreign currency</i>	<u>52,633</u>	<u>46,486</u>
	<u>55,601</u>	<u>49,485</u>
<i>Non-listed securities:</i>		
<i>In HUF</i>	16,782	18,516
<i>In foreign currency</i>	<u>9,237</u>	<u>5,061</u>
	<u>26,019</u>	<u>23,577</u>
Discounted Treasury bills	<u>76,358</u>	<u>443,690</u>
Total	<u>2,101,384</u>	<u>2,386,632</u>

	2020	2019
Non-trading equity instruments to be measured at fair value through other comprehensive income		
<i>Listed securities:</i>		
<i>In HUF</i>	-	-
<i>In foreign currency</i>	<u>4,931</u>	<u>5,443</u>
	<u>4,931</u>	<u>5,443</u>
<i>Non-listed securities:</i>		
<i>In HUF</i>	539	539
<i>In foreign currency</i>	<u>29,855</u>	<u>34,165</u>
	<u>30,394</u>	<u>34,704</u>
	<u>35,325</u>	<u>40,147</u>
Total	<u>2,136,709</u>	<u>2,426,779</u>

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

	2020	2019
Denominated in HUF	36.6%	47.8%
Denominated in foreign currency	<u>63.4%</u>	<u>52.2%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 9: SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
(in HUF mn) [continued]

Detailed information of the non-trading equity instruments to be measured at fair value through other comprehensive income:

	2020	2019
Strategic investments closely related to banking activity		
Fair value	27,502	27,621
Dividend income from instruments held at the reporting date	180	200
Strategic investments originated to offset outstanding		
Fair value	2,637	2,091
Dividend income from instruments held at the reporting date	5	-
Other strategic investments		
Fair value	5,186	10,435
Dividend income from instruments held at the reporting date	38	36
Derecognition		
Fair value of derecognized equity instrument, fund units	-	3,002
Dividend income from derecognized instruments	-	7
Cumulative gain / loss on disposal transferred to retained earnings	-	1,613
Total		
Total fair values	<u>35,325</u>	<u>40,147</u>
Dividend income from instruments held at the reporting date	<u>223</u>	<u>236</u>
Fair value of derecognized equity instrument, fund units	=	<u>3,002</u>
Dividend income from derecognized instruments	=	<u>7</u>
Cumulative gain / loss on disposal transferred to retained earnings	=	<u>1,613</u>

An analysis of government bonds by currency (%):

	2020	2019
Denominated in HUF	35.8%	39.5%
Denominated in foreign currency	<u>64.2%</u>	<u>60.5%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

	2020	2019
Interest rates on securities at fair value through other comprehensive income denominated in HUF	0.5% - 7.5%	0.16% - 7.5%
Interest rates on securities at fair value through other comprehensive income denominated in foreign currency	0.0% - 18.0%	0.25% - 17.25%

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 9: SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
(in HUF mn) [continued]

	2020	2019
Average interest rates securities at fair value through other comprehensive income denominated in HUF (%)	2.17%	1.96%
Average interest rates on securities at fair value through other comprehensive income denominated in foreign currency (%)	2.34%	2.24%

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

	2020	2019
Within one year		
With variable interest	4,780	7,799
With fixed interest	<u>346,928</u>	<u>878,644</u>
	<u>351,708</u>	<u>886,443</u>
Over one year		
With variable interest	62,068	60,974
With fixed interest	<u>1,687,608</u>	<u>1,439,215</u>
	<u>1,749,676</u>	<u>1,500,189</u>
Non-interest bearing securities	<u>35,325</u>	<u>40,147</u>
Total	<u>2,136,709</u>	<u>2,426,779</u>

Certain securities are hedged against interest rate risk. See Note 36.4.

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

	2020	2019
Government bonds	2,545,476	1,933,837
Corporate bonds	74,632	22,719
Discounted Treasury bills	10,469	6,516
Mortgage bonds	-	<u>7,739</u>
	<u>2,630,577</u>	<u>1,970,811</u>
Loss allowance on securities at amortized cost	<u>(5,657)</u>	<u>(2,739)</u>
Total	<u>2,624,920</u>	<u>1,968,072</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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

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

	2020	2019
Within one year		
With variable interest	-	-
With fixed interest	<u>156,532</u>	<u>261,358</u>
	<u>156,532</u>	<u>261,358</u>
Over one year		
With variable interest	-	-
With fixed interest	<u>2,474,045</u>	<u>1,709,453</u>
	<u>2,474,045</u>	<u>1,709,453</u>
Total	<u>2,630,577</u>	<u>1,970,811</u>

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

	2020	2019
Denominated in HUF	86.9%	86.5%
Denominated in foreign currency	<u>13.1%</u>	<u>13.5%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

Interest conditions of securities at amortized cost (%):

	2020	2019
Interest rates of securities at amortized cost with variable interest	-	-
Interest rates of securities at amortized cost with fixed interest	0.5% - 7.0%	0.5% - 13.5%
	2020	2019
Average interest rates on securities at amortized cost (%)	2.83%	3.36%

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

	2020	2019
Balance as at 1 January	2,739	2,939
Loss allowance for the period	6,863	593
Release of loss allowance	(4,061)	(755)
Use of loss allowance	12	(52)
Foreign currency translation difference	<u>104</u>	<u>14</u>
Closing balance	<u>5,657</u>	<u>2,739</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 11: LOANS AT AMORTIZED COST AND AT FAIR VALUE (in HUF mn)

Loans at amortized cost

	2020	2019 Revised	2019 As previously presented
Within one year			
In HUF	1,154,223	1,040,207	1,068,899
In foreign currency	2,445,006	2,127,581	2,127,581
	<u>3,599,229</u>	<u>3,167,788</u>	<u>3,196,480</u>
Over one year			
In HUF	2,002,814	1,761,761	2,205,543
In foreign currency	6,902,342	6,168,291	6,168,291
	<u>8,905,156</u>	<u>7,930,052</u>	<u>8,373,834</u>
	<u>12,504,385</u>	<u>11,097,840</u>	<u>11,570,314</u>
Loss allowance on loans	(829,543)	(684,319)	(693,317)
Total	<u>11,674,842</u>	<u>10,413,521</u>	<u>10,876,997</u>

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

	2020	2019 Revised	2019 As previously presented
In HUF	25.25%	25.25%	28.30%
In foreign currency	74.75%	74.75%	71.70%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Interest rates of the loan portfolio at amortized cost are as follows:

	2020	2019
Within one year		
In HUF	0.0% - 47.7% ¹	0.0% - 37.5% ¹
In foreign currency	(0.5)% - 90.0% ²	(0.45)% - 90.0% ²
Over one year		
In HUF	0.0% - 37.45% ¹	0.0% - 37.45% ¹
In foreign currency	(0.5)% - 60.0% ²	(0.45)% - 90.0% ²
	2020	2019
Average interest rates on loans at amortized cost denominated in HUF (%)	6.04%	6.13%
Average interest rates on loans at amortized cost denominated in foreign currency (%)	5.56%	5.76%

¹ The highest interest rate relates to HUF loans regarding purchasing products and services.

² The highest interest rate relates to loans in foreign currency regarding POS services in Russia.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 11: LOANS AT AMORTIZED COST AND AT FAIR VALUE (in HUF mn) [continued]

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

	2020	2019 Revised	2019 As previously presented
Balance as at 1 January	684,319	685,364	685,364
Reclassification	-	(4,483)	-
Opening change due to finance lease	=	(9,005)	(9,005)
Balance as at 1 January	<u>684,319</u>	<u>671,876</u>	<u>676,359</u>
Loss allowance for the period	650,165	488,802	480,962
Release of loss allowance	(382,800)	(290,134)	(277,779)
Use of loss allowance	(100,711)	(94,458)	(94,458)
Partial write-off ¹	(12,503)	(112,198)	(112,198)
Decrease due to IFRS 5	-	(27,616)	(27,616)
Foreign currency translation difference	(8,927)	48,047	48,047
Closing balance	<u>829,543</u>	<u>684,319</u>	<u>693,317</u>

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

	2020	2019 Revised	2019 As previously presented
Loss allowance / (Release of loss allowance) on placements and gains from write-off and sale of placements	789	(235)	(235)
Loss allowance on loans and gains from write-off and sale of loans	<u>192,506</u>	<u>43,888</u>	<u>44,027</u>
Total²	<u>193,295</u>	<u>43,653</u>	<u>43,792</u>

Loans mandatorily at fair value through profit or loss

	2020	2019 Revised	2019 As previously presented
Within one year			
In HUF	48,770	27,166	2,566
In foreign currency	=	=	=
	<u>48,770</u>	<u>27,166</u>	<u>2,566</u>
Over one year			
In HUF	750,211	466,042	27,166
In foreign currency	3,624	3,070	3,070
	<u>753,835</u>	<u>469,112</u>	<u>30,236</u>
Total	<u>802,605</u>	<u>496,278</u>	<u>32,802</u>

¹ See details in Note 2.11.

² See details in Note 31.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 11: LOANS AT AMORTIZED COST AND AT FAIR VALUE (in HUF mn) [continued]

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

	2020	2019 Revised	2019 As previously presented
In HUF	99.55%	99.38%	90.64%
In foreign currency	<u>0.45%</u>	<u>0.62%</u>	<u>9.36%</u>
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

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

	2020	2019
Interest rates on loans denominated in HUF	0.77% - 12.83%	1.19% - 10.08%
Interest rates on loans denominated in foreign currency	2.5% - 7.89%	2.5% - 4.5%

NOTE 12: ASSOCIATES AND OTHER INVESTMENTS (in HUF mn)

	2020	2019
Investments		
Investments in associates (non-listed)	14,149	14,254
Other investments (non-listed)	<u>44,158</u>	<u>15,384</u>
	<u>58,307</u>	<u>29,638</u>
Impairment on investments	<u>(5,864)</u>	<u>(8,816)</u>
Total	<u>52,443</u>	<u>20,822</u>

The investments in associates and other investments which are not consolidated are not significant neither on their own as separate entities nor in aggregate.

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

	2020	2019
Balance as at 1 January	8,816	5,592
(Release of impairment) / Impairment for the period	(381)	3,342
Reclassification to securities at fair value through other comprehensive income	(2,654)	(80)
Foreign currency translation difference	<u>83</u>	<u>(38)</u>
Closing balance	<u>5,864</u>	<u>8,816</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 13: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn)

For the year ended 31 December 2020

Cost	Intangible assets	Goodwill	Property	Office equipment	Vehicle	Construction in progress	Tangible assets subject to operating lease	Total
Balance as at 1 January	320,749	111,687	279,538	192,369	23,079	22,717	31,799	981,938
Additions	92,313	1,413	7,342	27,533	2,208	36,835	6,586	174,230
Foreign currency translation differences	7,769	(5,319)	12,987	4,094	215	538	2,602	22,886
Disposals	(56,183)	(6,388)	(14,361)	(11,737)	(1,609)	(36,687)	(12,061)	(139,026)
Reclassified as held-for-sale	(153)	=	=	(154)	=	=	=	(307)
Closing balance	<u>364,495</u>	<u>101,393</u>	<u>285,506</u>	<u>212,105</u>	<u>23,893</u>	<u>23,403</u>	<u>28,926</u>	<u>1,039,721</u>

Depreciation and amortization	Intangible assets	Property	Office equipment	Vehicle	Tangible assets subject to operating lease	Total
Balance as at 1 January	183,026	71,085	139,813	5,508	10,889	410,321
Charge for the period	44,115	8,981	22,195	1,570	5,064	81,925
Foreign currency translation differences	3,875	2,540	2,681	150	1,113	10,359
Disposals	(6,733)	(4,853)	(9,302)	(987)	(6,787)	(28,662)
Reclassified as held-for-sale	(103)	=	(93)	=	=	(198)
Closing balance	<u>224,180</u>	<u>77,753</u>	<u>155,292</u>	<u>6,241</u>	<u>10,279</u>	<u>473,745</u>

**OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

NOTE 13: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn) [continued]

For the year ended 31 December 2020

Impairment	Intangible assets	Goodwill	Property	Office equipment	Tangible assets subject to operating lease	Total
Balance as at 1 January	803	6,388	-	1,337	440	8,968
Charge for the period	2,328	-	1,601	-	-	3,929
Foreign currency translation differences	85	-	129	5	34	253
Disposals	(512)	(6,388)	(608)	(1,300)	(136)	(8,944)
Closing balance	2,704	1,122	1,122	42	338	4,206

	Intangible assets	Goodwill	Property	Office equipment	Vehicle	Construction in progress	Tangible assets subject to operating lease	Total
Carrying value	136,920	105,299	208,453	51,219	17,571	22,717	20,470	562,649
Balance as at 1 January	137,611	101,393	206,631	56,771	17,652	23,403	18,309	561,770

**OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

NOTE 13: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn) [continued]

For the year ended 31 December 2020

Carrying value of the investment and goodwill allocated to the appropriate cash generating units

Subsidiaries	Carrying amounts of the subsidiary in HUF million	Goodwill values in HUF million	Goodwill values in million functional currency	Type of functional currency	Consolidated ownership interest	With ownership adjusted company value in HUF million	Applied long term grow rate	Applied long term discount rate
DSK Bank EAD ¹ (Bulgaria)	280,692	42,984	28,541	HUF	99.91%	717,318	3.00%	8.13%
OTP banka d.d. (Croatia)	205,349	21,196	77	BGN	100%	336,403	2.69%	9.37%
JSC "OTP Bank" (Russia)	124,410	37,202	9,395	RUB	97.91%	173,315	1.89%	13.26%
POK-DSK Rodina a.d. (Bulgaria)	943	11	11	HUF	99.75%	941	3.00%	8.13%
	611,394	101,393						

¹ DSK Bank EAD after merge with the previous Expressbank.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 13: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn) [continued]

For the year ended 31 December 2020 [continued]

An analysis of the intangible assets for the year ended 31 December 2020 is as follows:

Intangible assets	Self-developed	Purchased	Total
Gross values	8,117	356,378	364,495
Accumulated amortization	(3,675)	(220,505)	(224,180)
Impairment	=	(2,704)	(2,704)
Carrying value	<u>4,442</u>	<u>133,169</u>	<u>137,611</u>

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

On the basis of the internal regulation of the Bank as at 31 December 2020 impairment test was prepared where a three-year cash-flow model was applied with an explicit period between 2021-2023. The basis for the estimation was the financial preliminary estimations for December 2020, and based on the prepared medium-term (2021-2023) forecasts. When the Bank prepared the calculations for the period 2021-2023, it considered the actual worldwide economic situations, the expected economic growth for the following years, their possible effects on the financial sector, the plans for growing which result from these, and the expected changes of the mentioned factors. In case of OTP Bank Romania S.A. a five-year explicit period (2021-2025) was used to be able to include the expected effects of the local strategic growth program more in detail. This five year period presents the achievement of a supposedly stable cost to income ratio, a stabilized risk cost ratio and a positive free cash-flow to equity (FCFE).

Present value calculation with the FCF method

The Bank calculated the expected cash-flow for the given period based on the expected after tax profit of the companies. The calculation is highly sensitive to the level of discount rate and growth rate used. For calculating the discount factor as risk free rates in case of OTP Bank JSC (Ukraine) the government bond yield in foreign currency with a period of three year was applied, while in case of the other subsidiaries the ten-year local government bonds in foreign currency or swap yields were considered as presented in the actual macro forecasts. The Bank calculated risk premiums on the basis of information from the country risk premiums that are published by Aswath Damodaran – New York STERN University, which were modified with CDS spread in case of Crnogorska komercijalna banka a.d., since according to the Bank's assumption the risk free interest rate includes the country-dependent risks in an implicit way. In case the subsidiary owns subordinated debt, the discount rate is calculated as a weighted average of the expected return on equity presented previously and the subordinated debt's interest rate.

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

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

Summary of the impairment test for the year ended 31 December 2020

Based on the valuations of the subsidiaries as at 31 December 2020 no goodwill impairment was needed to recorded by the Group.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 13: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn) [continued]

For the year ended 31 December 2019

Cost	Intangible assets	Goodwill	Property	Office equipment	Vehicle	Construction in progress	Tangible assets subject to operating lease	Total
Balance as at 1 January	225,541	97,728	239,639	174,060	20,980	22,881	37,845	818,674
Increase due to acquisition	47,100	-	38,869	7,132	513	2,246	2,197	98,057
Additions	64,019	6,776	16,565	24,827	3,374	53,066	7,301	175,928
Foreign currency translation differences	12,405	7,298	6,144	4,804	313	448	878	32,290
Disposals	(16,407)	(115)	(12,517)	(11,075)	(2,101)	(55,837)	(16,422)	(114,474)
Reclassified as held-for-sale	(12,692)	-	(9,188)	(7,646)	-	(91)	-	(29,617)
Change in consolidation scope	783	=	26	267	=	4	=	1,080
Closing balance	<u>320,749</u>	<u>111,687</u>	<u>279,538</u>	<u>192,369</u>	<u>23,079</u>	<u>22,717</u>	<u>31,799</u>	<u>981,938</u>

Depreciation and amortization	Intangible assets	Property	Office equipment	Vehicle	Tangible assets subject to operating lease	Total
Balance as at 1 January	148,396	68,223	130,063	5,439	14,467	366,588
Change for the period	35,247	7,830	18,944	1,508	5,397	68,926
Foreign currency translation differences	831	2,932	4,135	140	110	8,148
Disposals	-	(3,016)	(7,473)	(1,579)	(9,085)	(21,153)
Reclassified as held-for-sale	(1,619)	(4,885)	(6,021)	-	-	(12,525)
Change in consolidation scope	171	1	165	=	=	337
Closing balance	<u>183,026</u>	<u>71,085</u>	<u>139,813</u>	<u>5,508</u>	<u>10,889</u>	<u>410,321</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 13: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn) [continued]

For the year ended 31 December 2019 [continued]

Carrying value of the investment and goodwill allocated to the appropriate cash generating units

Subsidiaries	Carrying amounts of the subsidiary in HUF million	Goodwill values in HUF million	Goodwill values in million functional currency	Type of functional currency	Consolidated ownership interest	With ownership adjusted company value in HUF million	Applied long term growth rate	Applied long term discount rate
DSK Bank EAD ¹ (Bulgaria)	280,692	28,541	28,541	HUF	100.00%	648,176	3.40%	8.11%
Expressbank AD (Bulgaria)	177,638	13,030	77	BGN	99.74%	175,023	3.40%	8.11%
OTP banka d.d. (Croatia)	205,349	19,187	58	EUR	100.00%	418,384	2.69%	8.85%
JSC "OTP Bank" (Russia)	124,409	44,530	9,395	RUB	97.91%	252,205	1.89%	14.42%
POK-DSK Rodina a.d. (Bulgaria)	943	11	11	HUF	99.75%	941	3.40%	8.11%
	789,031	105,299						

¹ DSK Bank EAD after merge with the previous Expressbank.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 13: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (in HUF mn) [continued]

For the year ended 31 December 2019 [continued]

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

Intangible assets	Self-developed	Purchased	Total
Gross values	6,917	313,832	320,749
Accumulated amortization	(3,083)	(179,943)	(183,026)
Impairment	=	(803)	(803)
Carrying value	<u>3,834</u>	<u>133,086</u>	<u>136,920</u>

Summary of the impairment test for the year ended 31 December 2019

Based on the valuations of the subsidiaries as at 31 December 2019 HUF 4,887 million goodwill impairment for OTP Bank Romania S.A. was needed to book by the Group.

NOTE 14: INVESTMENT PROPERTIES (in HUF mn)

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

Gross values	2020	2019
Balance as at 1 January	53,906	49,256
Increase due to transfer from inventories or owner-occupied properties	6,896	3,752
Increase from purchase	574	2,516
Increase due to transfer from held-for-sale properties	86	366
Increase from acquisition	-	299
Other additions	-	12
Transfer to held-for-sale properties	(118)	(999)
Transfer to inventories or owner-occupied properties	(936)	(778)
Disposal due to sale	(8,725)	(1,278)
Other disposal	-	(7)
Foreign currency translation difference	<u>2,471</u>	<u>767</u>
Closing balance	<u>54,154</u>	<u>53,906</u>

The applied depreciation and amortization rates were the following:

	2020	2019
Depreciation and amortization rates	1% - 20%	1% - 22.2%

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 14: INVESTMENT PROPERTIES (in HUF mn) [continued]

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

Depreciation and amortization	2020	2019
Balance as at 1 January	8,352	7,139
Additions due to transfer from inventories or owner-occupied properties	1,657	1,482
Charge for the period	908	926
Additions due to transfer from held-for-sale properties	-	2
Transfer to inventories or owner-occupied properties	(10)	(710)
Disposal due to sale	(322)	(655)
Foreign currency translation difference	798	168
Closing balance	<u>11,383</u>	<u>8,352</u>

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

Impairment	2020	2019
Balance as at 1 January	3,994	4,002
Impairment for the period	178	255
Release of impairment for the period	(919)	(378)
Use of impairment	-	(27)
Additions due to transfer from inventories or owner-occupied properties	587	-
Foreign currency translation difference	330	142
Closing balance	<u>4,170</u>	<u>3,994</u>
 Carrying values	 2020	 2019
Balance as at 1 January	<u>41,560</u>	<u>38,115</u>
Closing balance	<u>38,601</u>	<u>41,560</u>
 Fair values	 <u>37,842</u>	 <u>45,768</u>

The Group chose the cost model for measuring investment properties but estimates and reviews the fair value of the investment properties by external experts, these investment properties would have been presented on level 3 in the fair value hierarchy if the Group didn't apply cost method for these recognition.

Income and expenses	2020	2019
Rental income	2,520	2,061
Direct operating expense of investment properties – income generating	455	687
Direct operating expense of investment properties – non income generating	8	8

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 15: POSITIVE FAIR VALUE OF DERIVATIVE FINANCIAL ASSETS DESIGNATED AS HEDGE ACCOUNTING (in HUF mn)

Positive fair value of derivative financial assets designated as fair value hedge

	2020	2019
CCIRS and mark-to-market CCIRS designated as fair value hedge	6,179	3,705
Interest rate swaps designated as fair value hedge	<u>641</u>	<u>3,758</u>
Total	<u>6,820</u>	<u>7,463</u>

NOTE 16: OTHER ASSETS¹ (in HUF mn)

	2020	2019
Other financial assets		
Other advances	26,806	18,294
Receivables from card operations	24,816	28,749
Prepayments and accrued income on other financial assets	23,521	25,498
Trade receivables	17,039	17,861
Accrued day one gain of loans provided at below-market interest	14,465	10,227
Receivables from investment services	10,716	3,896
Stock exchange deals	10,632	6,058
Receivables due from pension funds and investment funds	8,323	15,668
Giro clearing accounts	2,441	2,817
Advances for securities and investments	774	746
Receivables from leasing activities	431	1,768
Other financial assets	19,057	6,088
Loss allowance on other financial assets	<u>(18,459)</u>	<u>(14,617)</u>
Total	<u>140,562</u>	<u>123,053</u>
Other non-financial assets		
Inventories	78,488	58,420
Prepayments and accrued income on other non-financial assets	19,307	6,946
Settlement and suspense accounts	16,355	6,282
Receivables, subsidies from the State, Government	11,767	17,910
Receivable from the National Asset Management	-	62
Other non-financial assets	11,748	13,778
Impairment on other non-financial assets	<u>(11,753)</u>	<u>(11,871)</u>
Total	<u>125,912</u>	<u>91,527</u>

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

	2020	2019
Balance as at 1 January	14,617	15,053
Loss allowance for the period	5,302	2,876
Use of loss allowance	(1,607)	(3,455)
Reclassified as held-for-sale	-	(420)
Foreign currency translation difference	<u>147</u>	<u>563</u>
Closing balance	<u>18,459</u>	<u>14,617</u>

¹ Other assets – except income tax receivable and fair value of derivative financial assets designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Unrealized gains/losses on derivative financial instruments are recovering in accordance with their maturity.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 16: OTHER ASSETS¹ (in HUF mn) [continued]

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

	2020	2019
Balance as at 1 January	11,871	12,550
Impairment for the period	1,537	2,401
Use of impairment	(2,219)	(2,890)
Transfer to tangible assets subject to operating lease	-	(585)
Foreign currency translation difference	564	395
Closing balance	<u>11,753</u>	<u>11,871</u>

NOTE 17: AMOUNTS DUE TO BANKS, THE NATIONAL GOVERNMENTS, DEPOSITS FROM THE NATIONAL BANKS AND OTHER BANKS (in HUF mn)

	2020	2019
Within one year		
In HUF	132,182	274,871
In foreign currency	<u>117,672</u>	<u>166,813</u>
	<u>249,854</u>	<u>441,684</u>
Over one year		
In HUF	741,772	151,415
In foreign currency	<u>193,689</u>	<u>219,812</u>
	<u>935,461</u>	<u>371,227</u>
Total	<u>1,185,315</u>	<u>812,911</u>

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

	2020	2019
Within one year		
In HUF	0.0% - 20.0%	(0.03)% - 0.9%
In foreign currency	(0.56)% - 5.0%	(0.89)% - 21.5% ²
Over one year		
In HUF	(2.4)% - 2.73%	0.0% - 3.84%
In foreign currency	(2.4)% - 17.6%	(0.45)% - 17.6% ²
Average interest rates on amounts due to banks, the National Governments, deposits from the National Banks and other banks denominated in HUF	2020 1.00%	2019 1.14%
Average interest rates on amounts due to banks, the National Governments, deposits from the National Banks and other banks denominated in in foreign currency	2.32%	2.05%

¹ Other assets – except income tax receivable and fair value of derivative financial assets designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Unrealized gains/losses on derivative financial instruments are recovering in accordance with their maturity.

² The highest interest rate for within and over one year due to banks relate to loans taken from EBRD in Ukraine.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 18: REPO LIABILITIES (in HUF mn)

	2020	2019
Within one year		
In HUF	-	488
In foreign currency	<u>8,379</u>	=
	<u>8,379</u>	<u>488</u>
Over one year		
In HUF	-	-
In foreign currency	<u>109,612</u>	=
	<u>109,612</u>	=
Total	<u>117,991</u>	<u>488</u>

Interest rates on repo liabilities are as follows:

	2020	2019
Interest rates on repo liabilities denominated in HUF (%)	-	(0.85)%
Interest rates on repo liabilities denominated in foreign currency (%)	0.0% - 3.85%	-

NOTE 19: FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn)

Financial liabilities designated at fair value through profit or loss	2020	2019
Within one year		
In HUF	2,010	2,679
In foreign currency	=	=
	<u>2,010</u>	<u>2,679</u>
Over one year		
In HUF	29,886	28,183
In foreign currency	<u>2,235</u>	=
	<u>32,121</u>	<u>28,183</u>
Total	<u>34,131</u>	<u>30,862</u>

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

	2020	2019
Interest rates on financial liabilities designated at fair value denominated in HUF within one year	0.51% - 2.5%	0.01% - 2.59%
Interest rates on financial liabilities designated at fair value denominated in HUF over one year	0.0% - 2.5%	0.01% - 2.59%

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 20: DEPOSITS FROM CUSTOMERS (in HUF mn)

	2020	2019
Within one year		
In HUF	6,383,882	5,454,729
In foreign currency	<u>10,990,543</u>	<u>8,977,145</u>
	<u>17,374,425</u>	<u>14,431,874</u>
Over one year		
In HUF	327,165	302,049
In foreign currency	<u>189,273</u>	<u>437,385</u>
	<u>516,438</u>	<u>739,434</u>
Total	<u>17,890,863</u>	<u>15,171,308</u>

Interest rates on deposits from customers are as follows:

	2020	2019
Within one year		
In HUF	(4.58)% - 7.96%	(3.13)% - 7.96%
In foreign currency	(0.58)% - 16.5%	(0.6)% - 9.70%
Over one year		
In HUF	0.01% - 3.0%	(5.09)% - 7.96%
In foreign currency	0.0% - 7.75%	0.0% - 15% ¹

	2020	2019
Average interest rates on deposits from customers denominated in HUF	0.10%	0.08%
Average interest rates on deposits from customers denominated in foreign currency	0.47%	0.69%

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

	2020		2019	
Retail deposits	10,695,792	59.8%	9,195,778	60.6%
Corporate deposits	6,298,143	35.2%	5,171,579	34.1%
Municipality deposits	<u>896,928</u>	<u>5.0%</u>	<u>803,951</u>	<u>5.3%</u>
Total	<u>17,890,863</u>	<u>100.0%</u>	<u>15,171,308</u>	<u>100.0%</u>

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 21: LIABILITIES FROM ISSUED SECURITIES (in HUF mn)

	2020	2019
With original maturity		
Within one year		
In HUF	130,676	26,139
In foreign currency	<u>1,366</u>	<u>3,816</u>
	<u>132,042</u>	<u>29,955</u>
Over one year		
In HUF	332,125	363,159
In foreign currency	<u>46</u>	<u>53</u>
	<u>332,171</u>	<u>363,212</u>
Total	<u>464,213</u>	<u>393,167</u>

Interest rates on liabilities from issued securities are as follows:

	2020	2019
Issued securities denominated in HUF	0.0% - 2.5%	0.0% - 9.0%
Issued securities denominated in foreign currency	0.01% - 1.11%	0.74% - 6.70%

	2020	2019
Average interest rates on issued securities denominated in HUF	1.82%	1.80%
Average interest rates on issued securities denominated in foreign currency	1.44%	0.06%

Issued securities denominated in HUF as at 31 December 2020 (in HUF mn)

	Name	Date of issue	Maturity	Nominal value (in HUF mn)	Amortized cost (in HUF mn)	Interest conditions (actual interest rate in % p.a.)	Hedged	
1	OTPX2021A	01/04/2011	01/04/2021	183	246	indexed	NaN	hedged
2	OTPX2021B	17/06/2011	21/06/2021	245	370	indexed	NaN	hedged
3	OTPX2021C	19/09/2011	24/09/2021	231	192	indexed	NaN	hedged
4	OTPX2021D	21/12/2011	27/12/2021	259	325	indexed	NaN	hedged
5	OTPX2022A	22/03/2012	23/03/2022	201	214	indexed	NaN	hedged
6	OTPX2022B	18/07/2012	18/07/2022	172	440	indexed	1.7	hedged
7	OTPX2022C	29/10/2012	28/10/2022	201	233	indexed	1.7	hedged
8	OTPX2022D	28/12/2012	27/12/2022	248	299	indexed	1.7	hedged
9	OTPX2023A	22/03/2013	24/03/2023	324	327	indexed	1.7	hedged
10	OTPX2023B	28/06/2013	26/06/2023	<u>198</u>	<u>225</u>	indexed	0.6	hedged
	Subtotal			<u>2,262</u>	<u>2,871</u>			

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 21: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

Issued securities denominated in HUF as at 31 December 2020 (in HUF mn) [continued]

	Name	Date of issue	Maturity	Nominal value (in HUF mn)	Amortized cost (in HUF mn)	Interest conditions (actual interest rate in % p.a.)	Hedged
11	OTPX2024A	18/06/2014	21/06/2024	241	237	indexed 1.3	hedged
12	OTPX2024B	10/10/2014	16/10/2024	295	284	indexed 0.7	hedged
13	OTPX2024C	15/12/2014	20/12/2024	242	232	indexed 0.6	hedged
14	OTPRF2021A	05/07/2011	13/07/2021	2,607	2,807	indexed NaN	hedged
15	OTPRF2021B	20/10/2011	25/10/2021	2,894	2,954	indexed NaN	hedged
16	OTPRF2021C	21/12/2011	30/12/2021	527	544	indexed NaN	hedged
17	OTPRF2021D	21/12/2011	30/12/2021	372	381	indexed NaN	hedged
18	OTPRF2021E	21/12/2011	30/12/2021	76	74	indexed NaN	hedged
19	OTPRF2022A	22/03/2012	23/03/2022	2,065	1,920	indexed 1.7	hedged
20	OTPRF2022B	22/03/2012	23/03/2022	831	772	indexed 1.7	hedged
21	OTPRF2022C	28/06/2012	28/06/2022	190	196	indexed 1.7	hedged
22	OTPRF2022D	28/06/2012	28/06/2022	260	251	indexed 1.7	hedged
23	OTPRF2022E	29/10/2012	31/10/2022	761	715	indexed 1.7	hedged
24	OTPRF2022F	28/12/2012	28/12/2022	623	592	indexed 1.7	hedged
25	OTPRF2023A	22/03/2013	24/03/2023	787	740	indexed 1.7	hedged
26	OJB2021_I	15/02/2017	27/10/2021	114,000	113,732	2 fixed	
27	OJB2023_I	05/04/2018	24/11/2023	44,120	44,623	1.75 fixed	
28	OJB2024_A	17/09/2018	20/05/2024	46,771	46,639	1.35 floating	
29	OJB2024_C	24/02/2020	24/10/2024	64,379	64,175	1.05 floating	
30	OJB2024_II	10/10/2018	24/10/2024	96,800	95,645	2.5 fix	
31	OJB2025_II	03/02/2020	26/11/2025	17,650	17,499	1.5 fix	hedged
32	OJB2027_I	23/07/2020	27/10/2027	65,800	64,705	1.25 fix	
33	Other			<u>213</u>	<u>213</u>		
	Total issued securities in HUF			<u>464,766</u>	<u>462,801</u>		

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

	Name	Date of issue	Maturity	Nominal value (in HUF mn)	Amortized cost (in HUF mn)	Interest conditions (actual interest rate in % p.a.)	Hedged
1	OTPX2020A	25/03/2010	30/03/2020	238	326	indexed NaN	hedged
2	OTPX2020B	28/06/2010	09/07/2020	267	285	indexed NaN	hedged
3	OTPX2020C	11/11/2010	05/11/2020	166	221	indexed NaN	hedged
4	OTPX2020D	16/12/2010	18/12/2020	177	193	indexed NaN	hedged
5	OTPX2020E	18/06/2014	22/06/2020	2,939	2,903	indexed 0.7	hedged
6	OTPX2020F	10/10/2014	16/10/2020	2,650	2,551	indexed 0.2	hedged
7	OTPX2020G	15/12/2014	21/12/2020	2,372	2,273	indexed 0.3	hedged
8	OTPX2021A	01/04/2011	01/04/2021	192	253	indexed NaN	hedged
9	OTPX2021B	17/06/2011	21/06/2021	255	424	indexed NaN	hedged
10	OTPX2021C	19/09/2011	24/09/2021	<u>231</u>	<u>198</u>	indexed NaN	hedged
	Subtotal			<u>9,487</u>	<u>9,627</u>		

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 21: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

Issued securities denominated in HUF as at 31 December 2019 (in HUF mn) [continued]

	Name	Date of issue	Maturity	Nominal value (in HUF mn)	Amortized cost (in HUF mn)	Interest conditions (actual interest rate in % p.a.)	Hedged	
11	OTPX2021D	21/12/2011	27/12/2021	274	305	indexed	NaN	hedged
12	OTPX2022A	22/03/2012	23/03/2022	217	235	indexed	NaN	hedged
13	OTPX2022B	18/07/2012	18/07/2022	183	318	indexed	1.7	hedged
14	OTPX2022C	29/10/2012	28/10/2022	217	278	indexed	1.7	hedged
15	OTPX2022D	28/12/2012	27/12/2022	265	379	indexed	1.7	hedged
16	OTPX2023A	22/03/2013	24/03/2023	340	370	indexed	1.7	hedged
17	OTPX2023B	28/06/2013	26/06/2023	214	268	indexed	0.6	hedged
18	OTPX2024A	18/06/2014	21/06/2024	241	253	indexed	1.3	hedged
19	OTPX2024B	10/10/2014	16/10/2024	311	302	indexed	0.7	hedged
20	OTPX2024C	15/12/2014	20/12/2024	259	249	indexed	0.6	hedged
21	OTPRF2020A	12/07/2010	20/07/2020	2,152	2,252	indexed	NaN	hedged
22	OTPRF2020B	12/07/2010	20/07/2020	1,276	1,429	indexed	NaN	hedged
23	OTPRF2020C	11/11/2010	05/11/2020	2,622	2,662	indexed	NaN	hedged
24	OTPRF2021A	05/07/2011	13/07/2021	2,402	2,804	indexed	NaN	hedged
25	OTPRF2021B	20/10/2011	25/10/2021	2,655	2,858	indexed	NaN	hedged
26	OTPRF2021C	21/12/2011	30/12/2021	505	558	indexed	NaN	hedged
27	OTPRF2021D	21/12/2011	30/12/2021	357	385	indexed	NaN	hedged
28	OTPRF2021E	21/12/2011	30/12/2021	67	68	indexed	NaN	hedged
29	OTPRF2022A	22/03/2012	23/03/2022	1,869	1,797	indexed	1.7	hedged
30	OTPRF2022B	22/03/2012	23/03/2022	728	698	indexed	1.7	hedged
31	OTPRF2022C	28/06/2012	28/06/2022	171	205	indexed	1.7	hedged
32	OTPRF2022D	28/06/2012	28/06/2022	249	278	indexed	1.7	hedged
33	OTPRF2022E	29/10/2012	31/10/2022	661	645	indexed	1.7	hedged
34	OTPRF2022F	28/12/2012	28/12/2022	538	532	indexed	1.7	hedged
35	OTPRF2023A	22/03/2013	24/03/2023	760	746	indexed	1.7	hedged
36	OJB2020_I	19/11/2004	12/11/2020	5,503	5,599	9	fixed	
37	OJB2020_II	31/05/2011	12/11/2020	1,487	1,502	9	fixed	
38	OJB2021_I	15/02/2017	27/10/2021	114,000	112,979	2	fixed	
39	OJB2023_I	05/04/2018	24/11/2023	43,600	44,137	1.75	fixed	
40	OJB2024_A	17/09/2018	20/05/2024	48,475	48,130	0.72	floating	
41	OJB2024_B	18/09/2018	24/05/2024	55,829	55,461	0.72	floating	
42	OJB2024_II	10/10/2018	24/10/2024	92,000	90,771	2.5	fix	
43	Other			<u>218</u>	<u>218</u>			
	Total issued securities in HUF			<u>390,132</u>	<u>389,298</u>			

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 21: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

Issued securities denominated in foreign currency as at 31 December 2020 (in HUF mn)

	Name	Date of issue	Maturity	Type of FX	Nominal value		Amortized cost		Interest conditions	
					(FX mn)	(HUF mn)	(FX mn)	(HUF mn)	(actual interest rate in % p.a.)	
1	OTP_VK1_21/1	20/02/2020	20/02/2021	USD	1.39	414	1.39	414	1.1	floating
2	OTP_VK1_21/2	02/04/2020	02/04/2021	USD	1.24	370	1.24	370	0.1	floating
3	OTP_VK1_21/3	14/05/2020	14/05/2021	USD	1.18	351	1.18	351	0.01	floating
4	OTP_VK1_21/4	18/06/2020	18/06/2021	USD	0.74	221	0.74	221	1.1	floating
5	Other ¹				<u>12</u>	<u>47</u>	<u>14</u>	<u>56</u>		
Total issued securities in FX					<u>16.55</u>	<u>1,403</u>	<u>18.55</u>	<u>1,412</u>		
Total issued securities								<u>464,213</u>		

Issued securities denominated in foreign currency as at 31 December 2019 (in HUF mn)

	Name	Date of issue	Maturity	Type of FX	Nominal value		Amortized cost		Interest conditions	
					(FX mn)	(HUF mn)	(FX mn)	(HUF mn)	(actual interest rate in % p.a.)	
1	OTP_VK1_20/1	21/02/2019	21/02/2020	USD	1.53	450	1.54	452	1.48	floating
2	OTP_VK1_20/2	04/04/2019	04/04/2020	USD	2.47	727	2.48	731	1.42	floating
3	OTP_VK1_20/3	16/05/2019	16/05/2020	USD	0.89	263	0.89	263	1.32	floating
4	OTP_VK1_20/4	27/06/2019	27/06/2020	USD	1.87	552	1.87	552	1.32	floating
5	OTP_VK1_20/5	15/08/2019	15/08/2020	USD	2	589	2.01	591	1.2	floating
6	OTP_VK1_20/6	26/09/2019	26/09/2020	USD	0.75	220	0.75	221	1.2	floating
7	OTP_VK1_20/7	07/11/2019	07/11/2020	USD	1.68	494	1.68	495	1.1	floating
8	OTP_VK1_20/8	19/12/2019	19/12/2020	USD	1.52	448	1.52	448	1.1	floating
9	Other ¹				<u>22</u>	<u>103</u>	<u>24</u>	<u>116</u>		
Total issued securities in FX					<u>34.71</u>	<u>3,846</u>	<u>36.74</u>	<u>3,869</u>		
Total issued securities								<u>393,167</u>		

¹ Other category includes promissory notes issued by JSC "OTP Bank" (Russia) in the amount of HUF 56 million as at 31 December 2020 and HUF 116 million as at 31 December 2019.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 21: LIABILITIES FROM ISSUED SECURITIES (in HUF mn) [continued]

Hedge accounting

Certain issued structured securities are hedged by the Bank with interest rate swaps (“IRS”) which exchange the fixed and floating interest rate with the interest rate of the securities between the parties at a notional amount that equals the nominal amount of the hedged securities. These are considered as fair value hedge relationships as they cover the interest rate risk arising from the coupons of the hedged securities. OTP Bank does not intend to be exposed to the risk embedded in the structured bonds, consequently as part of interest rate swap transaction the structured interest payments are swapped to floating interest rate.

This hedging relationship meets all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument
- the effect of credit risk does not dominate the value changes that result from that economic relationship
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Bank actually hedges and the quantity of the hedging instrument that the Bank actually uses to hedge that quantity of hedged item

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

Term Note Program in the value of HUF 200 billion for the year of 2020/2021

On 21 April 2020 the Bank initiated term note program in the value of HUF 200 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 9 July 2020 the prospectus of Term Note Program and the disclosure as at 10 July 2020. The prospectus is valid for 12 months following the disclosure.

The Issuer can initiate to introduce the bonds issued under the program to the Hungarian and to other stock exchanges without any obligations.

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

On 23 April 2019 the Bank initiated term note program in the value of HUF 200 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 25 June 2019 the prospectus of Term Note Program and the disclosure as at 28 June 2019. The prospectus is valid for 12 months following the disclosure.

The Issuer can initiate to introduce the bonds issued under the program to the Hungarian, Slovakian, Romanian, Bulgarian and Croatian Stock Exchange without any obligations.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 22: DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING (in HUF mn)

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

	2020	2019
Foreign exchange swaps held for trading	39,103	28,453
Interest rate swaps held for trading	32,960	46,717
Foreign exchange forward contracts held-for-trading	10,750	5,561
CCIRS and mark-to-market CCIRS held for trading	7,419	1,037
Held for trading option contracts	3,843	3,128
Held-for-trading forward security agreement	116	8
Held-for-trading forward rate agreements	-	32
Other derivative transactions held for trading ¹	<u>10,632</u>	<u>1,807</u>
Total	<u>104,823</u>	<u>86,743</u>

NOTE 23: NEGATIVE FAIR VALUE OF DERIVATIVE FINANCIAL LIABILITIES DESIGNATED AS HEDGE ACCOUNTING (in HUF mn)

The negative fair value of derivative financial liabilities designated as hedge accounting by type of contracts

	2020	2019
CCIRS and mark-to-market CCIRS designated as fair value hedge	6,007	1,870
Interest rate swaps designated as fair value hedge	<u>5,334</u>	<u>8,839</u>
Total	<u>11,341</u>	<u>10,709</u>

NOTE 24: OTHER LIABILITIES² (in HUF mn)

	2020	2019
Other financial liabilities		
Liabilities connected to Cafeteria benefits	121,711	80,003
Liabilities from investment services	62,667	101,417
Accrued expense on other financial liabilities	42,212	6,638
Accounts payable	41,460	50,974
Liabilities from card transactions	20,402	20,563
Giro clearing accounts	14,589	3,935
Accrued day one gain of loan liabilities at below-market interest	14,391	10,177
Advances received from customers	11,259	15,555
Liabilities due to short positions	9,131	7,040
Loans from government	3,435	1,291
Dividend payable	119	108
Liabilities due to refunding assets	-	9,133
Other financial liabilities	<u>48,526</u>	<u>31,186</u>
Subtotal	<u>389,902</u>	<u>338,020</u>

¹ Other category includes: commodity and equity swaps, exchange traded futures and options.

² Other liabilities – except deferred tax and corporate tax liabilities and fair value of derivative financial liabilities designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Unrealized gains/losses on derivative financial instruments is recovering in accordance with their maturity. Besides the total other liabilities mentioned above, which are expected to be recovered or settled more than twelve months after the reporting period are the following: accrued contractual liabilities, compulsory pension reserve, loans from government and liabilities from preferential dividend shares.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 24: OTHER LIABILITIES¹ (in HUF mn) [continued]

	2020	2019
Other non-financial liabilities		
Provision on off-balance sheet commitments and contingent liabilities	114,518	102,449
Clearing and giro settlement accounts	38,912	35,393
Salaries and social security payable	25,207	24,937
Liabilities related to housing loans	8,868	6,055
Accrued expense on other non-financial liabilities	6,997	41,610
Insurance technical reserve	4,545	10,396
Provision due to CHF loans conversion at foreign subsidiaries	1,949	1,985
Other non-financial liabilities	<u>16,839</u>	<u>31,695</u>
Subtotal	<u>217,835</u>	<u>254,520</u>
Total	<u>607,737</u>	<u>592,540</u>

The provisions are detailed as follows:

	2020	2019
Commitments and guarantees given	<u>54,810</u>	<u>48,662</u>
Total provision according to IFRS 9	<u>54,810</u>	<u>48,662</u>
Pending legal issues and tax litigation	34,894	28,650
Pensions and other retirement benefit obligations	10,975	11,253
Other long-term employee benefits	2,396	2,343
Provision due to CHF loans conversion at foreign subsidiaries	1,949	1,985
Restructuring	1,531	2,626
Other provision	<u>9,912</u>	<u>8,915</u>
Total provision according to IAS 37	<u>61,657</u>	<u>55,772</u>
Total	<u>116,467</u>	<u>104,434</u>

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 24: OTHER LIABILITIES¹ (in HUF mn) [continued]

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

	2020	2019
Balance as at 1 January	48,662	28,144
Provision for the period	98,703	50,919
Release of provision for the period	(90,041)	(42,924)
Use of provision	(2,276)	(1)
Change due to acquisition	-	5,693
Reclassified as held-for-sale	-	(451)
Transfer	-	5,259
Foreign currency translation differences	(238)	2,023
Closing balance	<u>54,810</u>	<u>48,662</u>

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

	2020	2019
Balance as at 1 January	55,772	57,285
Provision for the period	23,381	11,196
Release of provision for the period	(17,251)	(7,538)
Use of provision	(4,501)	(4,438)
Change due to actuarial gains or losses related to employee benefits	(143)	173
Change due to acquisition	-	4,005
Reclassified as held-for-sale	-	(904)
Transfer	-	(5,259)
Foreign currency translation differences	4,399	1,252
Closing balance	<u>61,657</u>	<u>55,772</u>

NOTE 25: SUBORDINATED BONDS AND LOANS (in HUF mn)

	2020	2019
Within one year		
In HUF	-	-
In foreign currency	<u>2,843</u>	<u>2,700</u>
	<u>2,843</u>	<u>2,700</u>
Over one year		
In HUF	-	-
In foreign currency	<u>271,861</u>	<u>247,238</u>
	<u>271,861</u>	<u>247,238</u>
Total	<u>274,704</u>	<u>249,938</u>

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 25: SUBORDINATED BONDS AND LOANS (in HUF mn) [continued]

Types of subordinated bonds and loans

	2020	2019
Debt securities issued	269,566	244,924
Deposits	<u>5,138</u>	<u>5,014</u>
Total	<u>274,704</u>	<u>249,938</u>

Interest rates on subordinated bonds and loans are as follows:

	2020	2019
Denominated in HUF	-	-
Denominated in foreign currency	2.5% - 5.0%	2.6% - 5.0%
Average interest rates on subordinated bonds and loans	2020 2.83%	2019 2.82%

Subordinated bonds and loans can be detailed as follows:

Type	Nominal value	Date of issuance	Date of maturity	Issue price	Interest conditions	Interest rate as at 31 December 2020
Subordinated bond	EUR 231.34 million	07/11/2006	Perpetual	99.875%	Three-month EURIBOR + 3%, variable after year 10 (payable quarterly)	2.48%
Subordinated bond	EUR 499.8 million	15/07/2019	15/07/2029	99.738%	Fixed 2.875% annual in the first 5 years and callable after 5 years, variable after year 5 (payable annually) calculated as a sum of the initial margin (320 basis point) and the 5 year mid-swap rate prevailing at the end of the 5 year.	2.88%
Subordinated loan	USD 17.0 million	05/06/2018	30/06/2025	100.00%	Bullet repayment, once at the end of the loan agreement	5.00%

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 26: SHARE CAPITAL (in HUF mn)

	2020	2019
Authorized, issued and fully paid:		
Ordinary shares	<u>28,000</u>	<u>28,000</u>

The nominal value of the shares is HUF 100 per shares. All of the shares are ordinary shares representing the same rights to the shareholders. Furthermore there are no restrictions on the distribution of dividends and the repayment of capital.

NOTE 27: RETAINED EARNINGS AND RESERVES¹ (in HUF mn)

NBH warns the financial institutions in an executive circular dated 8 January 2021 not to pay or enter into an irrevocable obligation of dividend payment based on the performance for the financial years ended 2019 and 2020, or any reserves cumulated from previous years until 30 September 2021. Furthermore NBH warns to stop treasury share purchases (except share purchase related to share based payment programs) until 30 September 2021 too.

The intention of the Management is paying HUF 119,248 million dividend (for the year ended 2019 HUF 69,440 million and for the year ended 2020 HUF 49,808 million) regarding which - in accordance with the NBH circular - the Bank doesn't enter into an irrevocable obligation. Accordingly it remains as part of the shareholders' equity until the obligation hasn't been settled.

The retained earnings and reserves according to IFRS contains the retained earnings (HUF 744,802 million and HUF 632,436 million) and reserves (HUF 1,884,274 million and HUF 1,686,827 million) as at 31 December 2020 and 31 December 2019 respectively. The reserves include mainly the option reserve, other reserves, the fair value adjustment of financial instruments at fair value through other comprehensive income, share-based payment reserve, fair value of hedge transactions, additional reserves of Income Certificates Exchangeable for Shares ("ICES"), changes in equity accumulated in the previous years at the subsidiaries and due to consolidation as well as translation of foreign exchange differences.

In the Consolidated Financial Statements the Group recognizes the non-monetary items at historical cost. The difference between the historical cost of the non-monetary items in forint amount and the translated foreign currencies into the presentation currency using the exchange rate at the balance sheet date, is presented in the shareholders' equity as a translation difference. The accumulated amounts of exchange differences were HUF (3,369) million and HUF (72,404) million as at 31 December 2020 and 31 December 2019 respectively.

Share capital

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

Retained earnings

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

Other reserves

The other reserves contain separated reserves due to statutory provisions.

Put option reserve

OTP Bank Plc. and MOL Plc. entered into a share swap agreement in 16 April 2009, whereby OTP has changed 24,000,000 OTP ordinary shares for 5,010,501 „A series” MOL shares. The final maturity of the share swap agreement is 11 July 2022, until which any party can initiate cash or physical settlement of the transaction.

Put option reserve represents the written put option over OTP ordinary shares were accounted as a deduction from equity at the date of OTP-MOL share swap transaction.

¹ See more details in the Consolidated Statement of Comprehensive Income and in the Consolidated statement of Changes in equity on page 6 and 7.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 27: RETAINED EARNINGS AND RESERVES¹ (in HUF mn) [continued]

Share-based payment reserve

Share-based payment reserve represents the increase in the equity due to the goods or services were received by the Bank in an equity-settled share-based payment transaction, valued at the fair value of the goods or services received (see details in Note 39).

Other comprehensive income

Other comprehensive income comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other IFRSs.

Net investment hedge in foreign operations

Reserve presented as net investment hedge in foreign operations in the shareholders' equity is related to DSK Bank EAD, OTP banka d.d. and Crnogorska komercijalna banka a.d.

Extra reserves

The result of ICES bond issuance is presented as extra reserve in the consolidation books due to the detailed conditions below (see the details below in this note) and therefore any payment to the owner of the ICES will be booked as decreasing item in the reserves.

Changes in equity accumulated in the previous year at the subsidiaries and due to consolidation

The accumulated changes at the subsidiaries contain the accumulated gains and losses of the subsidiaries from the first day when they were included in the consolidation process. The changes due to consolidation contain the effect on the result of the eliminations in the consolidation process of the previous years.

	2020	2019
Retained earnings	744,802	632,436
Capital reserve	52	52
Option reserve	(55,468)	(55,468)
Other reserves	93,056	87,035
Fair value of financial instruments measured at fair value through other comprehensive income	61,396	68,314
Share-based payment reserve	42,573	39,179
Fair value of derivative financial instruments designated as cash-flow hedge	-	2
Net investment hedge in foreign operations	(27,405)	(18,814)
Extra reserves	89,935	89,935
Net profit for the year	259,416	412,241
Changes in equity accumulated in the previous year at the subsidiaries and due to consolidation	1,424,088	1,136,755
Foreign currency translation differences	(3,369)	(72,404)
Retained earnings and other reserves	<u>2,629,076</u>	<u>2,319,263</u>

¹ See more details in the Consolidated Statement of Comprehensive Income and in the Consolidated statement of Changes in equity on page 6 and 7.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 27: RETAINED EARNINGS AND RESERVES¹ (in HUF mn) [continued]

Fair value adjustment of securities at fair value through other comprehensive income	2020	2019
Balance as at 1 January	50,272	29,311
Change of fair value correction	(10,897)	16,258
Deferred tax related to change of fair value correction	1,403	(1,904)
Transfer to profit or loss due to reclassification to FVTPL securities	(144)	(15)
Transfer to profit or loss due to derecognition	3,329	7,382
Deferred tax related to accumulated transfer to profit or loss	(472)	(760)
Foreign currency translation difference	<u>467</u>	-
Closing balance	<u>43,958</u>	<u>50,272</u>
Expected credit loss on securities at fair value through other comprehensive income	2020	2019
Balance as at 1 January	2,927	3,360
Increase of loss allowance	6,303	1,368
Release of loss allowance	(1,441)	(1,652)
Decrease due to sale, derecognition	(724)	(149)
Foreign currency translation difference	<u>(81)</u>	-
Closing balance	<u>6,984</u>	<u>2,927</u>
Fair value changes of equity instruments as at fair value through other comprehensive income	2020	2019
Balance as at 1 January	15,115	10,092
Change of fair value correction	(3,336)	4,026
Deferred tax related to change of fair value correction	363	(616)
Transfer to retained earnings due to derecognition	(1,746)	1,613
Foreign currency translation difference	<u>58</u>	-
Closing balance	<u>10,454</u>	<u>15,115</u>
Net investment hedge in foreign operations	2020	2019
Balance as at 1 January	(18,814)	(16,288)
Change of fair value correction on hedging item	(9,440)	(2,776)
Deferred tax related to change of fair value correction	<u>849</u>	<u>250</u>
Closing balance	<u>(27,405)</u>	<u>(18,814)</u>

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

¹ See more details in the Consolidated Statement of Comprehensive Income and in the Consolidated statement of Changes in equity on page 6 and 7.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 28: TREASURY SHARES (in HUF mn)

	2020	2019
Nominal value (Ordinary shares)	2,392	1,778
Carrying value at acquisition cost	124,080	60,931

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

Change in number of shares:

	2020	2019
Number of shares as at 1 January	17,779,845	18,475,833
Additions	8,296,388	906,194
Disposals	<u>(2,151,333)</u>	<u>(1,602,182)</u>
Closing number of shares	<u>23,924,900</u>	<u>17,779,845</u>

Change in carrying value:

	2020	2019
Balance as at 1 January	60,931	67,999
Additions	85,922	8,887
Disposals	<u>(22,773)</u>	<u>(15,955)</u>
Closing balance	<u>124,080</u>	<u>60,931</u>

NOTE 29: NON-CONTROLLING INTEREST (in HUF mn)

	2020	2019
Balance as at 1 January	4,956	2,452
Increase due to business combination	-	1,736
Non-controlling interest included in net profit for the year	221	341
Changes due to ownership structure	-	(10)
Purchase of non-controlling interest	(382)	-
Decrease due to discontinued operation	(235)	-
Foreign currency translation difference	<u>(444)</u>	<u>437</u>
Closing balance	<u>4,116</u>	<u>4,956</u>

The non-controlling interest is not significant in respect of the whole OTP Group.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 30: INTEREST INCOME, INCOME SIMILAR TO INTEREST INCOME AND EXPENSE (in HUF mn)

	2020	2019
Interest income calculated using the effective interest method from / on		
loans	658,579	599,390
securities at amortized cost	69,905	62,468
finance lease receivables	54,046	40,914
securities at fair value through other comprehensive income	44,782	46,521
placements with other banks	7,572	8,989
banks and balances with the National Banks	5,103	2,037
liabilities (negative interest expense)	1,628	1,532
repo receivables	<u>286</u>	<u>788</u>
Subtotal	<u>841,901</u>	<u>762,639</u>
Income similar to interest income from		
swap deals related to placements with other banks	78,577	78,113
loans mandatorily at fair value through profit or loss	28,251	16,653
swap deals related to credit institutions	20,322	28,710
rental income	8,363	9,819
non-trading securities mandatorily at fair value through profit or loss	<u>473</u>	<u>202</u>
Subtotal	<u>135,986</u>	<u>133,497</u>
Total interest income and income similar to interest income	<u>977,887</u>	<u>896,136</u>
	2020	2019
Interest expense due to / from / on		
swaps related to banks, National Governments and to deposits from the National Banks	82,301	81,261
deposits from customers	53,196	59,242
swaps related to deposits from customers	17,226	24,789
banks, National Governments and on deposits from the National Banks	13,785	10,173
issued securities	7,750	6,749
subordinated and supplementary bonds and loans	7,718	4,743
depreciation of assets subject to operating lease and investment properties	5,624	6,147
on financial assets (negative interest income)	5,014	2,036
leases	1,623	1,652
repo liabilities	653	148
other	<u>326</u>	<u>155</u>
Total interest expense	<u>195,216</u>	<u>197,095</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 31: LOSS ALLOWANCES / IMPAIRMENT AND PROVISIONS (in HUF mn)

	2020	2019
Loss allowance on loans		
Loss allowance for the period	647,873	398,022
Release of loss allowance	(390,102)	(297,925)
Income from loan recoveries	(98,300)	(60,735)
Modification loss on loans measured at amortized cost	29,773	150
Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit of loss	3,262	4,376
Loss allowance on finance lease	9,972	4,440
Loss on financial lease	<u>310</u>	<u>888</u>
	<u>202,788</u>	<u>49,216</u>
Loss allowance / (Release of loss allowance) on placements and on repo receivables		
Allowance for the period	16,476	3,561
Release of allowance	(15,691)	(3,650)
Gains on placements due to write-off and sale	<u>4</u>	<u>(146)</u>
	<u>789</u>	<u>(235)</u>
Loss allowance / (Release of loss allowance) on securities at fair value through other comprehensive income and on securities at amortized cost		
Allowance for the period	11,370	746
Release of allowance	<u>(4,061)</u>	<u>(755)</u>
	<u>7,309</u>	<u>(9)</u>
Release of impairment of intangible, tangible assets subject to operating lease and of investment properties		
Impairment for the period	178	2,246
Release of impairment	<u>(1,056)</u>	<u>(2,526)</u>
	<u>(878)</u>	<u>(280)</u>
Provision for commitments and guarantees given		
Provision for the period	98,703	49,832
Release of provision	<u>(90,041)</u>	<u>(41,837)</u>
	<u>8,662</u>	<u>7,995</u>
Loss allowances / Impairment and provisions	<u>218,670</u>	<u>56,687</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 32: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn)

Income from fees and commissions	2020	2019
Fees and commissions related to lending¹	33,233	25,687
Deposit and account maintenance fees and commissions	173,578	166,483
Fees and commissions related to the issued bank cards	83,474	76,247
Currency exchange gains and losses	46,290	33,736
Fees related to cash withdrawal	39,120	40,206
Fees and commissions related to fund management	28,800	35,354
Fees and commissions related to security trading	25,830	24,293
Insurance fee income	13,603	14,670
Other	<u>42,601</u>	<u>30,408</u>
Fees and commissions from contracts with customers	<u>453,296</u>	<u>421,397</u>
Total	<u>486,529</u>	<u>447,084</u>

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

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 32: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn) [continued]

Fee type	Nature and timing of obligation settlement, and the significant payment terms	Revenue recognition under IFRS 15
Fees and commission related to the issued bank cards	<p>The Group provides a variety of bank cards to its customers, for which different fees are charged. The fees are basically charged in connection with the issuance of cards and the related card transactions.</p> <p>The annual fees of the cards are charged in advance in a fixed amount. The amount of the annual card fee depends on the type of card.</p> <p>In case of transaction-based fees (e.g. cash withdrawal/payment fee, merchant fee, interchange fee, etc.), the settlement of the fees will take place immediately after the transaction or on a monthly basis. The fee is typically determined in % of the transaction with a fixed minimum amount.</p> <p>For all other cases where the Group provides a continuous service to the customers (e.g. card closing fee), the fees are charged monthly. The fee is calculated in a fix amount.</p> <p>The rates are reviewed by the Group regularly.</p>	<p>Fees for ongoing services are charged on a monthly basis during the period when they are provided.</p> <p>Transaction-based fees are charged when the transaction takes place or charged monthly at the end of the month.</p>
Fees and commissions related to security account management services	<p>The Group provides its clients security account management services. Fees will be charged for account management and transactions on accounts.</p> <p>Account management fees are typically charged quarterly or annually. The amount is determined in %, based on the stocks of securities managed by the clients on the account in a given period.</p> <p>Fees for transactions on the securities account are charged immediately after the transaction. They are determined in %, based on the transaction amount.</p> <p>Fees for complex services provided to clients (e.g. portfolio management or custody) are typically charged monthly or annually. The fees are fixed monthly amounts and in some cases a bonus fee are charged.</p>	<p>Fees for ongoing services are charged quarterly or annually during the period when they are provided. The fees are accrued monthly.</p> <p>Transaction-based fees are charged when the transaction takes place.</p>
Fees and commissions related to fund management	<p>Fees from fund management services provided to investment funds and from portfolio management provided to insurance companies, funds. The fee income are calculated on the basis of net asset value of the portfolio and by the fee rates determined in the contracts about portfolio management.</p>	<p>Fees for ongoing services are charged usually on monthly (mutual funds) or semi-annually (venture capital funds) during the period when they are provided but accrued monthly.</p>
Net insurance fee income	<p>Due to the fact that the Group rarely provides insurance services to its clients, only acts as an agent, the fee income charged to the customers and fees payable to the insurance company are presented net in the fee income.</p> <p>In addition, agency fee charged for the sale of insurance contracts is also recorded in this line. The fee is charged on a monthly basis and determined in %.</p>	<p>Fees for ongoing services are charged on a monthly basis during the period when they are provided.</p>
Other	<p>Fees that are not significant in the Group total income are included in Other fees category. Such fees are safe lease, special procedure fee, account rent fee, fee of a copy of document, etc.</p> <p>Other fees may include charges for continuous services or for ad hoc administration services. Continuous fees are charged monthly (e.g., safe lease fees) at the beginning of the period, typically at a fixed rate. Fees for ad hoc services are charged immediately after the service obligation were met, usually in a fixed amount.</p>	<p>Fees for ongoing services are charged on a monthly basis during the period when they are provided.</p> <p>Fees for ad hoc services are charged when the transaction takes place.</p>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 32: NET PROFIT FROM FEES AND COMMISSIONS (in HUF mn) [continued]

Expense from fees and commissions	2020	2019
Fees and commissions paid on loans	6,974	3,146
Fees and commissions related to issued bank cards	32,487	29,528
Interchange fees	18,958	15,405
Fees and commissions related to deposits	7,000	5,422
Fees and commissions related to security trading	3,776	3,132
Cash withdrawal transaction fees	3,696	3,642
Fees and commissions related to collection of loans	1,447	948
Insurance fees	1,036	1,122
Postal fees	714	975
Money market transaction fees and commissions	113	73
Other	<u>12,695</u>	<u>9,510</u>
Total	<u>88,896</u>	<u>72,903</u>
Net profit from fees and commissions	<u>397,633</u>	<u>374,181</u>

NOTE 33: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn)

Other operating income	2020	2019
Negative goodwill due to acquisition	7,504	80,667
Gains on transactions related to property activities	3,631	8,230
Rental income	1,835	1,308
Income from computer programming	1,529	1,080
Income from real estate management	1,092	446
Gains on transactions related to insurance activity	721	848
Non-repayable assets received	65	174
Other income from non-financial activities	<u>17,084</u>	<u>18,340</u>
Total	<u>33,461</u>	<u>111,093</u>
Other operating expenses	2020	2019
Financial support for sport association and organization of public utility	12,080	9,568
Provision for off-balance sheet commitments and contingent liabilities	6,336	3,827
Loss allowance on other financial assets	6,036	3,774
Impairment on other non-financial assets	1,537	2,481
Non-repayable assets contributed	688	3,627
Expense from losses due to foreign currency loan conversion at foreign subsidiaries	224	274
Impairment on tangible and intangible assets	51	2,358
Fine imposed by Competition Authority	25	143
Release of provision due to foreign currency loan conversion at foreign subsidiaries	(206)	(169)
(Release of impairment) / Impairment on investments	(381)	3,342
Other	13,057	15,533
<i>Other expense from non-financial activities</i>	<i>5,551</i>	<i>6,361</i>
<i>Other costs</i>	<i><u>7,506</u></i>	<i><u>9,172</u></i>
Total	<u>39,447</u>	<u>44,758</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 33: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF mn) [continued]

Other administrative expenses	2020	2019
Personnel expenses		
Wages	242,970	214,409
Taxes related to personnel expenses	42,576	40,902
Other personnel expenses	<u>23,096</u>	<u>21,443</u>
Subtotal	<u>308,642</u>	<u>276,754</u>
Depreciation, amortization of tangible, intangible assets, right-of-use assets and goodwill impairment¹	<u>92,761</u>	<u>81,935</u>
Other administrative expenses		
Taxes, other than income tax ²	103,343	96,932
Services	100,031	88,579
Professional fees	44,542	38,362
Administration expenses	35,552	32,041
Advertising	17,913	18,794
Rental fees	<u>4,883</u>	<u>7,820</u>
Subtotal	<u>306,264</u>	<u>282,528</u>
Total	<u>707,667</u>	<u>641,217</u>

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

Deloitte Auditing and Consulting Ltd.

	2020	2019
OTP – annual audit – separate financial statements	95	53
OTP – annual audit – consolidated financial statements	14	14
Other audit services based on statutory provisions to OTP Group members	861	970
Other services providing assurance	4	4
Other non-audit services	<u>76</u>	<u>92</u>
Total	<u>1,050</u>	<u>1,133</u>

Deloitte Network

	2020	2019
Audit based on statutory provisions	885	779
Other services providing assurance	157	27
Tax consulting services	67	46
Other non-audit services	<u>508</u>	<u>710</u>
Total	<u>1,617</u>	<u>1,562</u>

¹ See details in Note 13.

² Special tax of financial institutions was paid by the Group in the amount of HUF 17,665 million for the year 2020 and HUF 12,043 million for the year 2019, recognized as an expense thus decreased the corporate tax base. For the year ended 31 December 2020 financial transaction levy was paid by the Bank in the amount of HUF 60 billion while for the year ended 31 December 2019 the same duty was HUF 61 billion.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 34: INCOME TAXES (in HUF mn)

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

Deferred tax is calculated at the income tax rate of 9% in Hungary and Montenegro, 10% in Bulgaria, 12% in Moldova, 12.5% in Cyprus, 15% in Serbia and Albania, 16% in Romania, 18% in Ukraine and Croatia, 19% in Slovenia, 20% in Russia, 25.5% in the Netherlands and 35% in Malta.

The breakdown of the income tax expense is:

	2020	2019
Current tax expense	25,543	42,591
Deferred tax expense	<u>1,833</u>	<u>7,311</u>
Total	<u>27,376</u>	<u>49,902</u>

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

	2020	2019
Balance as at 1 January	(2,652)	13,904
Deferred tax expense in profit or loss	(1,833)	(7,311)
Deferred tax receivable / (liability) related to items recognized directly in equity and in Comprehensive Income	3,555	(877)
Due to merge of subsidiary	(919)	-
Due to sale of subsidiary	-	(9,068)
Foreign currency translation difference	<u>(1,824)</u>	<u>700</u>
Closing balance	<u>(3,673)</u>	<u>(2,652)</u>

A breakdown of the deferred tax assets are as follows:

	2020	2019
Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments	4,650	3,948
Premium and discount amortization on bonds	4,198	4,975
Loss allowance on granted loans	4,083	12,187
Loss allowance / impairment on other financial, non-financial assets	3,440	3,238
Unused tax allowance	1,552	398
Fair value adjustment of derivative financial instruments	1,351	553
Difference in depreciation and amortization	1,061	1,074
Difference due to IFRS 9	356	483
Difference in accounting for leases	298	156
Amounts unenforceable by tax law	247	210
Tax accrual caused by negative taxable income	238	902
Adjustment from effective interest rate method	127	254
Temporary differences arising on consolidation	120	827
Fair value adjustment of securities at fair value through profit or loss and through other comprehensive income	93	2,766
Other	<u>2,895</u>	<u>6,825</u>
Deferred tax asset	<u>24,709</u>	<u>38,796</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 34: INCOME TAXES (in HUF mn) [continued]

A breakdown of the deferred tax liabilities are as follows:

	2020	2019
Fair value adjustment of securities at fair value through profit or loss and through other comprehensive income	(11,836)	(13,798)
Difference in depreciation and amortization	(7,858)	(9,200)
Deferred tax due to acquisition	(1,425)	(9,720)
Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments	(534)	(408)
Loss allowance on granted loans	(489)	(23)
Fair value adjustment of derivative financial instruments	(105)	-
Amounts unenforceable by tax law	(102)	(104)
Loss allowance / impairment on other financial, non-financial assets	(83)	(75)
Difference due to IFRS 9	(52)	(70)
Temporary differences arising on consolidation	-	(598)
Premium and discount amortization on bonds	-	(2,588)
Other	<u>(5,898)</u>	<u>(4,864)</u>
Deferred tax liabilities	<u>(28,382)</u>	<u>(41,448)</u>
Net deferred tax asset / (liability) (the amounts presented in the statement of financial positions)	<u>(3,673)</u>	<u>(2,652)</u>
Deferred tax assets	<u>22,317</u>	<u>26,543</u>
Deferred tax liabilities	<u>(25,990)</u>	<u>(29,195)</u>

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

	2020	2019
Profit before income tax	281,422	467,152
Income tax expense at statutory tax rates	36,847	55,812
Income tax adjustments due to permanent differences are as follows:		
Share-based payment	305	319
Correction on tax basis due to change of accounting policy	230	-
Amounts unenforceable by tax law	(38)	(58)
Permanent differences from unused tax losses	(167)	-
Deferred use of tax allowance	(1,039)	5,046
Use of tax allowance in the current year	(2,023)	(6,975)
Other	<u>(6,739)</u>	<u>(4,242)</u>
Income tax expense	<u>27,376</u>	<u>49,902</u>
Effective tax rate	<u>9.73%</u>	<u>10.68%</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 35: LEASE (in HUF mn)

The Group as a lessee:

Right-of-use assets by class of underlying assets as at 31 December 2020:

2020	Property	Office equipment and vehicles	Total
Depreciation expense of right-of-use assets	15,933	514	16,447
Additions to right-of-use assets	17,999	250	18,249
Carrying amount of right-of-use assets at the end of the reporting period	45,642	641	46,283

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

2019	Property	Office equipment and vehicles	Total
Depreciation expense of right-of-use assets	13,272	1,008	14,280
Additions to right-of-use assets	21,081	842	21,923
Carrying amount of right-of-use assets at the end of the reporting period	52,038	912	52,950

The total cash outflow for leases was HUF 23,028 million and HUF 20,603 million in year 2020 and 2019, respectively.

The Group mainly leases real estate, a significant part of its right-of-use assets are related to branch offices, a smaller part to office buildings and office space.

Leasing liabilities by maturities:

	2020	2019
Within one year	10,937	9,789
Over one year	<u>37,514</u>	<u>44,405</u>
Total	<u>48,451</u>	<u>54,194</u>

Lease liabilities by payments:

	2020	2019
Arising from fixed lease payments	35,018	42,751
Arising from variable lease payments	13,433	11,443
Total	<u>48,451</u>	<u>54,194</u>

On 31 December 2020, HUF 126 million is the lease payment to be paid in the future due to leases not yet commenced to which the Group is committed.

Amounts recognized in profit or loss	2020	2019
Interest expense on lease liabilities	1,623	1,652
Expense relating to short-term leases	3,857	5,923
Expense relating to leases of low value assets	721	382
Expense relating to variable lease payments not included in the measurement of lease liabilities	2	4
Income from subleasing right-of-use assets	405	6

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 35: LEASE (in HUF mn) [continued]

The Group as a lessor:

The Group's leasing activities are most significant in Hungary, Bulgaria, Slovenia, Ukraine and Croatia. The main activity of the leasing companies is finance leasing. About half of the underlying assets are passenger cars, besides this the Group leases mainly agricultural machinery, commercial vehicles, vessels and construction machinery.

The Group manages the risk associated with the rights held in the underlying assets by, inter alia, buy-back agreements, determining the residual values on level lower than future market values and registering pledge on the underlying asset.

The Group as a lessor, finance lease:

Amounts receivable under finance leases	2020	2019
In less than 1 year	410,639	317,799
Between 1 and 2 years	298,354	238,249
Between 2 and 3 years	211,257	196,142
Between 3 and 4 years	127,052	139,292
Between 4 and 5 years	71,428	93,361
More than 5 years	44,473	49,639
Total receivables from undiscounted lease payments	<u>1,163,203</u>	<u>1,034,482</u>
Unguaranteed residual values	796	401
Gross investment in the lease	1,163,999	1,034,883
Less: unearned finance income	<u>(88,257)</u>	<u>(52,030)</u>
Present value of minimum lease payments receivable	1,075,742	982,853
Loss allowance	<u>(24,602)</u>	<u>(13,590)</u>
Net investment in the lease	<u>1,051,140</u>	<u>969,263</u>

An analysis of the change in the gross values on finance receivables is as follows:

	2020	2019
Balance as at 1 January	982,853	519,004
Increase due to acquisition	-	344,286
Additions due to new contracts	372,664	432,625
Additions due to interest income and amortized fees	54,110	52,380
Increase in residual value guarantees	-	4,430
Decrease in residual value guarantees	-	(2,657)
Decrease due to regular lease payment	(328,357)	(346,289)
Decrease due to sale	(3,924)	(3,629)
Decrease due to write-off	(349)	(848)
Decrease due to early repayment	(52,703)	(20,906)
Decrease due to repossession of the asset	(4,422)	(3,961)
Foreign currency translation difference	<u>55,870</u>	<u>8,418</u>
Closing balance	<u>1,075,742</u>	<u>982,853</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 35: LEASE (in HUF mn) [continued]

The Group as a lessor [continued]:

The Group as a lessor, finance lease [continued]:

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

	2020	2019
Balance as at 1 January	13,590	9,005
Loss allowance for the period	23,807	13,415
Release of loss allowance	(13,240)	(8,535)
Use of loss allowance	(21)	(809)
Partial write-off	(50)	-
Foreign currency translation difference	<u>516</u>	<u>514</u>
Closing balance	<u>24,602</u>	<u>13,590</u>

Result from finance leases	2020	2019
Selling profit or loss	249	(78)
Finance income on the net investment in the lease	54,046	40,914
Income relating to variable lease payments not included in the measurement of the net investment in the lease	-	-

The Group as a lessor, operating lease:

Amounts receivable under operating leases	2020	2019
In less than 1 year	11,285	11,990
Between 1 and 2 years	8,634	6,928
Between 2 and 3 years	4,856	5,033
Between 3 and 4 years	2,692	3,955
Between 4 and 5 years	1,653	1,781
More than 5 years	<u>20</u>	<u>491</u>
Total receivables from undiscounted lease payments	<u>29,140</u>	<u>30,178</u>

Result from operating leases	2020	2019
Lease income	9,861	11,127
Therein lease income relating to variable lease payments that do not depend on an index or a rate	-	-

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn)

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial instruments may result in certain risks to the Group. The most significant risks the Group faces include:

36.1. Credit risk

The Group takes on exposure to credit risk which is the risk that a counter-party will be unable to pay amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or banks of borrowers, and to geographical areas and loan types. Such risks are monitored on a periodical basis and subject to an annual or more frequent review. The exposure to any borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is managed by obtaining collateral, corporate and personal guarantees.

Defining the expected credit loss on individual and collective basis

On individual basis:

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

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

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

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

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.1. Credit risk [continued]

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

On collective basis:

The following exposures are subject to collective assessment:

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

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

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

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

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

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.1. Credit risk [continued]

36.1.1. Financial instruments by stages

Gross carrying amount and accumulated loss allowance of financial assets at amortized cost and of interest bearing securities at fair value through other comprehensive income and financial commitments and provision on them by stages as at 31 December 2020:

2020	Carrying amount / Exposure	Gross carrying amount / Notional value					Accumulated loss allowance / Provision				
		Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Placements with other banks	1,148,743	1,150,113	1	118	-	1,150,232	1,377	1	111	-	1,489
Repo receivables	190,849	191,141	-	-	-	191,141	292	-	-	-	292
Mortgage loans	3,311,651	2,729,387	522,312	174,137	70,809	3,496,645	10,486	29,970	101,972	42,566	184,994
Loans to medium and large corporates	4,342,003	3,758,377	604,480	167,402	31,744	4,562,003	43,544	67,479	98,800	10,177	220,000
Consumer loans	2,689,621	2,317,004	397,170	318,448	13,988	3,046,610	42,050	75,111	232,138	7,690	356,989
Loans to micro and small enterprises	521,578	391,810	141,197	34,721	4,105	571,833	5,671	17,982	24,654	1,948	50,255
Car-finance loans	362,425	292,973	71,576	8,370	3,219	376,138	1,732	3,746	5,735	2,500	13,713
Municipal loans	447,564	445,039	5,501	616	=	451,156	2,668	653	271	=	3,592
Loans at amortized cost	11,674,842	9,934,590	1,742,236	703,694	123,865	12,504,385	106,151	194,941	463,570	64,881	829,543
Finance lease receivable	1,051,140	857,452	183,719	33,606	965	1,075,742	4,141	8,103	12,188	170	24,602
Interest bearing securities at fair value through other comprehensive income ¹	2,101,384	2,099,713	1,671	-	-	2,101,384	6,856	128	-	-	6,984
Securities at amortized cost	2,624,920	2,629,778	=	799	=	2,630,577	4,858	=	799	=	5,657
Financial assets total	18,791,878	16,862,787	1,927,627	738,217	124,830	19,653,461	123,675	203,173	476,668	65,051	868,567
Loan commitments given	3,151,051	3,034,782	141,527	5,827	-	3,182,136	19,914	8,632	2,539	-	31,085
Financial guarantees given	796,961	777,513	28,646	5,065	-	811,224	10,044	1,450	2,769	-	14,263
Other commitments given	954,544	931,515	28,214	4,277	=	964,006	7,339	973	1,150	=	9,462
Financial liabilities total	4,902,556	4,743,810	198,387	15,169	=	4,957,366	37,297	11,055	6,458	=	54,810

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.1. Credit risk [continued]

36.1.1. Financial instruments by stages [continued]

Gross carrying amount and accumulated loss allowance of financial assets at amortized cost and of interest bearing securities at fair value through other comprehensive income and financial commitments and provision on them by stages as at 31 December 2019:

2019	Gross carrying amount / Notional value				Accumulated loss allowance / Provision				Total	
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3		POCI
Placements with other banks	342,922	343,224	29	-	343,400	451	5	22	-	478
Repo receivables	67,157	67,219	-	-	67,219	62	-	-	-	62
Mortgage loans	2,882,136	2,675,104	203,089	19,760	3,032,412	6,877	4,926	99,533	38,940	150,276
Loans to medium and large corporates	3,842,864	3,672,225	168,671	25,399	4,002,440	39,412	15,169	100,178	4,817	159,576
Consumer loans	2,629,730	2,458,980	274,696	7,109	2,949,820	53,266	39,808	222,937	4,079	320,090
Loans to micro and small enterprises	408,813	371,093	38,668	4,116	449,005	5,656	4,934	28,469	1,133	40,192
Car-finance loans	306,228	272,230	6,189	4,362	317,133	1,922	1,286	4,904	2,793	10,905
Municipal loans	343,750	343,370	403	=	347,030	2,788	267	225	=	3,280
Loans at amortized cost	10,413,521	9,793,002	691,716	60,746	11,097,840	109,921	66,390	456,246	51,762	684,319
Finance lease receivable	969,263	867,905	26,967	1,759	982,853	3,805	2,383	7,320	82	13,590
Interest bearing securities at fair value through other comprehensive income ¹	2,386,632	2,386,632	-	-	2,386,632	2,927	-	-	-	2,927
Securities at amortized cost	1,968,072	1,970,083	728	=	1,970,811	2,014	=	725	=	2,739
Financial assets total	16,147,567	15,428,065	719,440	62,505	16,848,755	119,180	68,778	464,313	51,844	704,115
Loan commitments given	2,955,152	2,937,741	4,447	-	2,979,568	21,254	1,497	1,665	-	24,416
Financial guarantees given	641,925	635,410	5,740	-	653,014	6,927	974	3,188	-	11,089
Other commitments given	601,412	600,052	8,110	=	612,640	8,316	257	2,655	=	11,228
Financial liabilities total	4,198,489	4,173,203	18,297	=	4,245,222	36,497	2,728	7,508	=	46,733

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.1. Credit risk [continued]

36.1.2. Movement table of loss allowance / provision on financial instruments

Movement of loss allowance on financial assets at amortized cost and on interest bearing securities at fair value through other comprehensive income and of provision of financial commitments as at 31 December 2020:

	2020	Opening balance	Increases due to origination and acquisition	Decreases due to derecognition	Transfers between stages (net)	Changes due to change in credit risk (net)	Changes due to modifications without derecognition (net)	Decrease in loss allowance account due to write-offs	Other adjustments	Closing balance
Stage 1		119,180	141,735	(42,569)	(185,201)	84,111	(4,294)	(56)	10,769	123,675
Placements with other banks		451	10,430	(263)	-	(12,805)	-	-	3,564	1,377
Repo receivables		62	306	-	-	(76)	-	-	-	292
Loans at amortized cost		109,921	125,137	(40,604)	(183,599)	92,372	(4,132)	(55)	7,111	106,151
Finance lease receivables		3,805	1,884	(739)	(1,602)	1,034	(162)	(1)	(78)	4,141
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost		4,941	3,978	(963)	-	3,586	-	-	172	11,714
Stage 2		68,778	57,383	(15,678)	83,013	3,297	6,130	(98)	348	203,173
Placements with other banks		5	-	-	-	-	-	-	(4)	1
Repo receivables		-	-	-	-	-	-	-	-	-
Loans at amortized cost		66,390	53,445	(15,537)	81,777	2,802	6,208	(98)	(46)	194,941
Finance lease receivables		2,383	3,938	(141)	1,236	367	(78)	-	398	8,103
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost		-	-	-	-	128	-	-	-	128
Stage 3		464,313	119,894	(99,345)	99,117	(15,385)	364	(92,476)	186	476,668
Placements with other banks		22	-	-	-	45	-	-	44	111
Repo receivables		-	-	-	-	-	-	-	-	-
Loans at amortized cost		456,246	117,198	(98,810)	98,813	(15,913)	373	(92,226)	(2,111)	463,570
Finance lease receivables		7,320	2,696	(535)	304	483	(9)	(250)	2,179	12,188
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost		725	=	=	=	=	=	=	74	799
Loss allowance on financial assets subtotal		652,271	319,012	(157,592)	(3,071)	72,023	2,200	(92,630)	11,303	803,516

**OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.1. Credit risk [continued]

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

Movement of loss allowance on financial assets at amortized cost and on interest bearing securities at fair value through other comprehensive income and of provision of financial commitments as at 31 December 2020 [continued]:

2020	Opening balance	Increases due to origination and acquisition	Decreases due to derecognition	Transfers between stages (net)	Changes due to change in credit risk (net)	Changes due to modifications without derecognition (net)	Decrease in loss allowance account due to write-offs	Other adjustments	Closing balance
POCI	51,844	16,933	(11,752)	3,071	1,527	489	(735)	3,674	65,051
Loans at amortized cost	51,762	16,933	(11,752)	3,009	1,501	489	(735)	3,674	64,881
Finance lease receivables	82	=	=	62	26	=	=	=	170
Loss allowance on financial assets total	<u>704,115</u>	<u>335,945</u>	<u>(169,344)</u>	<u>=</u>	<u>73,550</u>	<u>2,689</u>	<u>(93,365)</u>	<u>14,977</u>	<u>868,567</u>
Loan commitments and financial guarantees given - stage 1	36,497	20,712	(2,118)	(900)	(15,344)	(453)	(1,785)	688	37,297
Loan commitments and financial guarantees given - stage 2	2,728	3,984	(458)	351	4,474	237	-	(261)	11,055
Loan commitments and financial guarantees given - stage 3	7,508	1,071	(570)	549	(3,545)	257	-	1,188	6,458
Provision on financial liabilities total	<u>46,733</u>	<u>25,767</u>	<u>(3,146)</u>	<u>=</u>	<u>(14,415)</u>	<u>41</u>	<u>(1,785)</u>	<u>1,615</u>	<u>54,810</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.1. Credit risk [continued]

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

Movement of loss allowance on financial assets at amortized cost and on interest bearing securities at fair value through other comprehensive income and of provision of financial commitments as at 31 December 2019:

	2019	Opening balance	Increase due to origination and acquisition	Decreases due to derecognition	Transfers between stages (net)	Changes due to change in credit risk (net)	Changes due to modifications without derecognition (net)	Decrease in loss allowance account due to write-offs	Other adjustments	Closing balance
Stage 1		96,264	103,075	(26,715)	(70,826)	16,342	(5,070)	(960)	7,070	119,180
Placements with other banks		463	3,975	(144)	(1)	(1,165)	9	-	(2,624)	513
Loans at amortized cost		90,469	97,486	(25,619)	(70,820)	19,575	(5,079)	(960)	8,674	113,726
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost		5,332	1,614	(952)	(5)	(2,068)	-	-	1,020	4,941
Stage 2		58,460	19,435	(14,881)	(2,818)	12,219	406	(388)	(3,655)	68,778
Placements with other banks		12	2	-	1	3	-	-	(13)	5
Loans at amortized cost		58,448	19,433	(14,881)	(2,824)	12,221	406	(388)	(3,642)	68,773
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost		-	-	-	5	(5)	-	-	-	-
Stage 3 and POCI		532,691	28,342	(75,635)	73,644	(16,854)	4,647	(79,597)	48,919	516,157
Placements with other banks		22	-	-	-	-	-	-	-	22
Loans at amortized cost		531,964	27,617	(74,853)	73,644	(16,820)	4,647	(79,597)	48,808	515,410
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost		705	725	(782)	=	(34)	=	=	111	725
Loss allowance on financial assets subtotal		687,415	150,852	(117,231)	=	11,707	(17)	(80,945)	52,334	704,115

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.1. Credit risk [continued]

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

Movement of loss allowance on financial assets at amortized cost and on interest bearing securities at fair value through other comprehensive income and of provision of financial commitments as at 31 December 2019 [continued]:

2019	Opening balance	Increases due to origination and acquisition	Decreases due to derecognition	Transfers between stages (net)	Changes due to change in credit risk (net)	Changes due to modifications without derecognition (net)	Decrease in loss allowance account due to write-offs	Other adjustments	Closing balance
Loan commitments and financial guarantees given - stage 1	21,457	16,460	(4,010)	192	(2,120)	(903)	(1)	5,422	36,497
Loan commitments and financial guarantees given - stage 2	2,821	1,188	(92)	(265)	(1,226)	55	(1)	248	2,728
Loan commitments and financial guarantees given - stage 3	3,775	3,283	(2,138)	73	2,472	(163)	(100)	292	7,508
Provision on financial liabilities total	<u>28,053</u>	<u>20,931</u>	<u>(6,240)</u>	=	<u>(867)</u>	<u>(1,011)</u>	<u>(102)</u>	<u>5,962</u>	<u>46,733</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.1. Credit risk [continued]

36.1.3. Loan portfolio by countries

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

Country	2020		2019	
	Gross amount of loan, finance lease receivable at amortized cost, placement with other banks and repo receivable portfolio	Loss allowance	Gross amount of loan, finance lease receivable at amortized cost, placement with other banks and repo receivable portfolio	Loss allowance
Hungary	4,513,208	209,216	3,650,513	125,245
Bulgaria	2,722,998	202,018	2,419,203	148,053
Croatia	1,663,534	101,640	1,380,175	68,906
Serbia	1,557,129	48,429	1,215,038	23,021
Romania	915,030	52,016	747,026	41,319
Slovenia	905,881	14,022	823,611	4,025
Russia	626,269	133,293	812,703	159,045
Ukraine	449,503	50,393	484,678	74,650
Montenegro	376,351	23,440	333,697	20,198
France	231,122	645	92,791	63
Albania	185,711	8,243	152,279	3,688
Germany	151,101	485	46,553	189
Moldova	132,163	4,586	104,796	1,797
Slovakia	74,614	225	69,158	24,769
United States of America	70,901	67	11,471	56
Switzerland	61,804	615	34,232	635
Austria	54,009	58	2,129	16
Belgium	49,401	119	24,042	98
The Netherlands	31,144	497	6,491	167
Italy	25,614	164	5,811	125
Luxembourg	25,062	46	347	13
United Kingdom	21,692	1,282	47,618	1,171
Canada	17,026	5	222	1
Cyprus	16,890	3,102	16,221	431
Ireland	14,053	211	401	118
Norway	7,525	39	568	36
Denmark	5,817	15	427	10
Australia	3,649	1	214	1
Poland	2,006	119	525	21
Turkey	1,567	93	433	46
Spain	996	55	893	23
Greece	989	141	2,147	132
Czech Republic	902	9	454	24
Bosnia and Herzegovina	795	248	382	44
Sweden	536	54	437	45
Israel	455	5	384	2
United Arab Emirates	388	31	34	24
Kazakhstan	193	8	73	21
Egypt	78	6	14	1
Iceland	56	56	51	49
Latvia	34	20	29	15
Other ¹	<u>3,304</u>	<u>209</u>	<u>3,041</u>	<u>156</u>
Total	<u>14,921,500</u>	<u>855,926</u>	<u>12,491,312</u>	<u>698,449</u>

¹ Other category as at 31 December 2020 includes e.g.: Japan, China, Malta, Singapore, Macedonia, Algeria, Portugal, Finland, Saudi Arabia, Lithuania, Qatar, Belorussia, Republic of South-Africa, Tunisia, Armenia, Brazil, India, Syria, Hong Kong, South-Korea, Jordan, Estonia, Iran, Georgia, Kosovo, Morocco, Nigeria, Vietnam, Republic of Pakistan, Kyrgyzstan, Saint Vincent, Seychelles.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.1. Credit risk [continued]

36.1.3. Loan portfolio by countries [continued]

Country	2020	2019
	Loans at fair value	
Hungary	798,981	493,208
Bosnia-Herzegovina	2,535	2,581
Croatia	<u>1,089</u>	<u>489</u>
Total	<u>802,605</u>	<u>496,278</u>

36.1.4. Collateral

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

Types of collateral	2020	2019
Mortgages	12,346,773	11,113,017
Guarantees of state or organizations owned by state	731,529	486,112
Assignments (revenue or other receivables)	486,670	447,820
Guarantees and warranties	178,139	423,035
Cash deposits	163,489	130,913
Securities	156,857	186,154
Other	<u>2,159,894</u>	<u>2,216,505</u>
Total	<u>16,223,351</u>	<u>15,003,556</u>

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

Types of collateral	2020	2019
Mortgages	5,902,854	5,184,997
Guarantees and warranties	984,532	303,711
Assignments (revenue or other receivables)	344,716	306,863
Guarantees of state or organizations owned by state	190,700	439,148
Securities	115,269	137,613
Cash deposits	67,158	70,910
Other	<u>1,244,771</u>	<u>1,331,823</u>
Total	<u>8,850,000</u>	<u>7,775,065</u>

The coverage level of the loan portfolio (total collateral) decreased by 3.76% but the coverage level to the extent of the exposures increased by 0.58% as at 31 December 2020.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.1. Credit risk [continued]

36.1.5. Restructured loans

	2020		2019	
	Gross portfolio	Loss allowance	Gross portfolio	Loss allowance
Loans to medium and large corporations	58,271	(12,260)	22,418	3,948
Retail consumer loans	31,108	(14,714)	16,344	3,748
Retail mortgage loans	15,159	(2,754)	16,564	1,218
Loans to micro and small enterprises	11,782	(1,237)	9,344	1,728
Municipal	41	(16)	9	3
Other loans	<u>4,412</u>	<u>(791)</u>	<u>305</u>	<u>32</u>
Total	<u>120,773</u>	<u>(31,772)</u>	<u>64,984</u>	<u>10,677</u>

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.1. Credit risk [continued]

36.1.6. Financial instruments by rating categories¹

Securities held for trading as at fair value through profit or loss as at 31 December 2020

	Aaa	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3	B1	Not rated	Total
Government bonds	-	-	-	9,138	2,155	5,734	7,247	-	13,762	-	-	38,036
Discounted Treasury bills	-	-	-	-	-	1,233	-	-	11,428	-	60	12,721
Equity instruments and fund units	535	36	33	45	7	36	-	7	-	5	3,036	3,740
Other interest bearing securities	=	=	495	=	=	998	=	=	=	=	582	2,075
Total	535	36	528	9,183	2,162	8,001	7,247	7	25,190	5	3,678	56,572

Non-trading securities mandatorily at fair value through profit or loss as at 31 December 2020

	Aa3	A1	Baa3	Not rated	Total
Non-trading debt instruments mandatorily at fair value through profit or loss	2,794	-	1,457	7,263	11,514
Non-trading equity instruments mandatorily at fair value through profit or loss	-	-	-	46,063	46,063
Debt securities designated at fair value through profit or loss	=	2,235	=	=	2,235
Total	2,794	2,235	1,457	53,326	59,812

¹ Moody's ratings

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.1. Credit risk [continued]

36.1.6. Financial instruments by rating categories¹ [continued]

Securities at fair value through other comprehensive income as at 31 December 2020

	Aaa	Aa2	Aa3	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3	B1	B3	Caa1	Not rated	Total
Government bonds	20,639	8,215	-	37,195	120,112	192,994	-	959,133	182,685	-	200,478	18,166	69,248	46,269	-	1,855,134
Mortgage bonds	-	-	-	63,577	-	-	-	-	-	-	-	-	-	-	24,695	88,272
Corporate bonds	-	-	-	-	4,815	-	2,336	39,179	4,997	979	12,532	-	-	-	16,782	81,620
Discounted Treasury bills	-	-	-	-	-	-	-	9,957	66,401	-	-	-	-	-	-	76,358
Non-trading equity instruments	=	=	3,875	=	=	47	=	898	=	=	=	=	=	=	30,505	35,325
Total	20,639	8,215	3,875	100,772	124,927	193,041	2,336	1,009,167	254,083	979	213,010	18,166	69,248	46,269	71,982	2,136,709

Securities at amortized cost as at 31 December 2020

	Aa2	A1	A3	Baa1	Baa3	Ba1	Ba3	B1	B3	Not rated	Total
Government bonds	45,975	10,953	38,987	38,627	2,310,965	10,874	4,147	10,174	74,774	-	2,545,476
Corporate bonds	-	-	-	-	14,619	10,527	-	-	-	49,486	74,632
Discounted Treasury bills	=	=	=	=	=	=	=	=	10,469	=	10,469
Total	45,975	10,953	38,987	38,627	2,325,584	21,401	4,147	10,174	85,243	49,486	2,630,577

¹ Moody's ratings

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.1. Credit risk [continued]

36.1.6. Financial instruments by rating categories¹ [continued]

Securities held for trading as at fair value through profit or loss as at 31 December 2019

	Aaa	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3	Not rated	Total
Government bonds	-	-	-	-	-	-	30,070	23,715	-	11,211	6,198	-	71,194
Equity instruments and fund units	-	27	41	52	18	30	6	18	-	-	7	877	1,076
Discounted Treasury bills	-	-	-	-	-	-	-	12	-	-	38	-	50
Other interest bearing securities	123	-	-	-	602	-	8,807	5,377	1,404	3,078	-	821	20,212
Other non-interest bearing securities	=	=	=	=	=	=	=	=	=	=	=	7,516	7,516
Total	123	27	41	52	620	30	38,883	29,122	1,404	14,289	6,243	9,214	100,048

Non-trading securities mandatorily at fair value through profit or loss as at 31 December 2019

	Baa1	Baa2	Baa3	Ba2	Not rated	Total
Non-trading debt instruments mandatorily at fair value through profit or loss	-	-	-	-	3,536	4,402
Non-trading equity instruments mandatorily at fair value through profit or loss	8,204	461	-	-	26,250	34,915
Debt securities designated at fair value through profit or loss	=	=	=	2,001	=	2,001
Total	8,204	461	866	2,001	29,786	41,318

¹ Moody's ratings

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.1. Credit risk [continued]

36.1.6. Financial instruments by rating categories¹ [continued]

Securities at fair value through other comprehensive income as at 31 December 2019

	Aaa	Aa2	Aa3	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3	B1	Caa1	Not rated	Total
Government bonds	12,213	7,103	-	38,730	6,536	114,296	180,974	1,013,472	-	137,353	156,000	60,930	45,005	-	1,772,612
Discounted Treasury bills	-	-	-	-	-	-	-	339,398	-	104,292	-	-	-	-	443,690
Mortgage bonds	-	-	-	-	-	65,086	-	7,841	-	-	-	-	-	24,341	97,268
Corporate bonds	-	-	-	-	4,700	-	3,529	34,900	4,950	892	-	-	-	24,091	73,062
Non-trading equity instruments	=	=	6,370	=	=	=	=	1,139	=	=	=	=	=	32,638	40,147
Total	12,213	7,103	6,370	38,730	11,236	179,382	184,503	1,396,750	4,950	242,537	156,000	60,930	45,005	81,070	2,426,779

Securities at amortized cost as at 31 December 2019

	Aa2	Baa1	Baa3	Ba2	Ba3	B1	B3	Caa1	Not rated	Total
Government bonds	41,010	42,454	1,722,028	1,444	5,520	26,442	5,218	89,721	-	1,933,837
Corporate bonds	-	-	-	9,975	-	-	-	-	12,744	22,719
Mortgage bonds	-	-	7,739	-	-	-	-	-	-	7,739
Discounted Treasury bills	=	=	=	=	=	=	6,516	=	=	6,516
Total	41,010	42,454	1,729,767	11,419	5,520	26,442	11,734	89,721	12,744	1,970,811

¹ Moody's ratings

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.2. Maturity analysis of assets, liabilities and liquidity risk

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

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

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

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

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

Due to the balance sheet adjustment process (deleveraging) experienced in the last few years, the liquidity reserves of the Group increased significantly while the liquidity risk exposure has decreased considerably. Currently the (over)coverage of potential liquidity risk exposure by high quality liquid assets is high. There were no material changes in the liquidity risk management process for the year ended 31 December 2020.

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

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

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) (continued)

36.2. Maturity analysis of assets, liabilities and liquidity risk (continued)

	2020	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Banks		2,370,130	36	41,471	20,675	-	2,432,312
Placements with other banks, net of loss allowance for placements		902,977	77,646	134,780	34,502	635	1,150,540
Repo receivables		191,143	-	-	-	-	191,143
Trading securities at fair value through profit or loss		14,546	16,163	15,093	8,032	777	54,611
Non-trading instruments mandatorily at fair value through profit or loss		28	-	-	9,590	42,879	52,497
Debt securities designated at fair value through profit or loss		2,235	-	-	-	-	2,235
Securities at fair value through other comprehensive income		136,746	278,017	984,596	644,612	31,688	2,075,659
Securities at amortized cost		121,993	47,251	1,577,822	819,600	-	2,566,666
Loans at amortized cost		1,720,314	2,130,394	5,190,401	4,219,165	-	13,260,274
Finance lease receivable		127,856	274,143	659,682	42,439	-	1,104,120
Loans measured at fair value through profit or loss		24,352	25,193	159,934	607,274	-	816,753
Associates and other investments		-	-	-	-	58,307	58,307
Other financial assets ¹		134,672	3,520	4,551	1,902	14,376	159,021
TOTAL ASSETS		5,746,992	2,852,363	8,768,330	6,407,791	148,662	23,924,138
Amounts due to banks, the National Governments, deposits from the National Banks and other banks		165,619	86,991	695,707	254,897	-	1,203,214
Repo liabilities		8,379	-	109,612	-	-	117,991
Financial liabilities designated at fair value through profit or loss		3,159	1,421	8,350	21,201	-	34,131
Deposits from customers		15,065,456	2,300,365	305,074	221,028	-	17,891,923
Liabilities from issued securities		1,971	130,445	269,133	65,841	-	467,390
Leasing liabilities		2,859	8,163	27,776	11,169	-	49,967
Other financial liabilities ¹		374,525	19,447	3,239	89	10,496	407,796
Subordinated bonds and loans		2,843	-	6,838	267,083	-	276,764
TOTAL LIABILITIES		15,624,811	2,546,832	1,425,729	841,308	10,496	20,449,176
NET POSITION		(9,877,819)²	305,531	7,342,601	5,566,483	138,166	3,474,962

¹ Without derivative financial instruments

² Analysis for net position of assets and liabilities are calculated in accordance with IFRS 7, therefore certain financial instruments are presented in the earliest period in which the Group could be required to pay. On-demand deposits are presented in the earliest (within 3 month) period category, however based on the Management's discretion the Group has appropriate liquidity reserves as maintenance and management of liquidity risk.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

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

2020	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Receivables from derivative financial instruments held for trading	594,663	3,080,660	532,012	246,922	-	4,454,257
Liabilities from derivative financial instruments held for trading	(473,510)	(3,302,801)	(441,330)	(200,525)	(31)	(4,418,197)
<i>Net position of financial instruments held for trading</i>	<u>121,153</u>	<u>(222,141)</u>	<u>90,682</u>	<u>46,397</u>	<u>(31)</u>	<u>36,060</u>
Receivables from derivative financial instruments designated as hedge accounting	186	8,082	169,339	173,109	-	350,716
Liabilities from derivative financial instruments designated as hedge accounting	(41,382)	(118,914)	(468,378)	(88,720)	=	(717,394)
<i>Net position of financial instruments designated as hedge accounting</i>	<u>(41,196)</u>	<u>(110,832)</u>	<u>(299,039)</u>	<u>84,389</u>	<u>=</u>	<u>(366,678)</u>
Net position of derivative financial instruments total	<u>79,957</u>	<u>(332,973)</u>	<u>(208,357)</u>	<u>130,786</u>	<u>(31)</u>	<u>(330,618)</u>
Commitments to extend credit	2,375,279	609,431	350,195	85,813	-	3,420,718
Bank guarantees	225,440	280,625	416,293	137,739	99,602	1,159,699
Confirmed letters of credit	13,670	8,916	1,476	11,377	276	35,715
Factoring loan commitment	305,269	=	=	=	=	305,269
Off-balance sheet commitments	<u>2,919,658</u>	<u>898,972</u>	<u>767,964</u>	<u>234,929</u>	<u>99,878</u>	<u>4,921,401</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

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

	2019					Total
	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	
Cash, amounts due from banks and balances with the National Banks	1,671,732	19,884	92,762	-	-	1,784,378
Placements with other banks, net of loss allowance for placements	151,893	65,792	110,150	16,206	1,257	345,298
Repo receivables	63,728	3,491	-	-	-	67,219
Trading securities at fair value through profit or loss	10,398	13,875	53,442	13,277	3,203	94,195
Non-trading instruments mandatorily at fair value through profit or loss	227	-	3,309	10,935	19,920	34,391
Debt securities designated at fair value through profit or loss	-	-	2,001	-	-	2,001
Securities at fair value through other comprehensive income	327,488	572,117	952,654	486,814	40,186	2,379,259
Securities at amortized cost	143,579	124,320	1,097,138	530,139	-	1,895,176
Loans at amortized cost	1,707,326	2,297,158	4,176,950	3,583,573	29,721	11,794,728
Finance lease receivable	99,876	246,072	624,206	37,250	-	1,007,404
Loans measured at fair value through profit or loss	6,602	20,160	113,724	358,665	-	499,151
Associates and other investments	-	-	-	-	29,638	29,638
Other financial assets ¹	109,999	3,826	3,233	405	18,748	136,211
TOTAL ASSETS	4,292,848	3,366,695	7,229,569	5,037,264	142,673	20,069,049
Amounts due to banks, the National Governments, deposits from the National Banks and other banks	285,246	61,745	334,553	143,979	-	825,523
Repo liabilities	488	-	-	-	-	488
Financial liabilities designated at fair value through profit or loss	677	1,928	11,606	16,651	-	30,862
Deposits from customers	12,372,360	1,301,904	1,150,368	356,471	-	15,181,103
Liabilities from issued securities	1,850	24,902	368,266	104	-	395,122
Leasing liabilities	2,210	7,647	30,540	14,087	5	54,489
Other financial liabilities ¹	310,060	13,998	4,246	23	9,693	338,020
Subordinated bonds and loans	2,695	-	-	249,532	-	252,227
TOTAL LIABILITIES	12,975,586	1,412,124	1,899,579	780,847	9,698	17,077,834
NET POSITION	(8,682,738)²	1,954,571	5,329,990	4,256,417	132,975	2,991,215

¹ Without derivative financial instruments

² Analysis for net position of assets and liabilities are calculated in accordance with IFRS 7, therefore certain financial instruments are presented in the earliest period in which the Group could be required to pay. On-demand deposits are presented in the earliest (within 3 month) period category, however based on the Management's discretion the Group has appropriate liquidity reserves as maintenance and management of liquidity risk.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

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

	2019					
	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Receivables from derivative financial instruments held for trading	2,010,040	1,583,020	698,897	441,348	-	4,733,305
Liabilities from derivative financial instruments held for trading	<u>(2,177,179)</u>	<u>(1,255,660)</u>	<u>(776,359)</u>	<u>(352,566)</u>	<u>(234)</u>	<u>(4,561,998)</u>
<i>Net position of financial instruments held for trading</i>	<u>(167,139)</u>	<u>327,360</u>	<u>(77,462)</u>	<u>88,782</u>	<u>(234)</u>	<u>171,307</u>
Receivables from derivative financial instruments designated as hedge accounting	2,253	94,227	151,825	156,010	-	404,315
Liabilities from derivative financial instruments designated as hedge accounting	<u>(8,737)</u>	<u>(250,345)</u>	<u>(231,794)</u>	<u>(76,210)</u>	=	<u>(567,086)</u>
<i>Net position of financial instruments designated as hedge accounting</i>	<u>(6,484)</u>	<u>(156,118)</u>	<u>(79,969)</u>	<u>79,800</u>	=	<u>(162,771)</u>
Net position of derivative financial instruments total	<u>(173,623)</u>	<u>171,242</u>	<u>(157,431)</u>	<u>168,582</u>	<u>(234)</u>	<u>8,536</u>
Commitments to extend credit	2,240,364	337,644	351,136	92,511	5,457	3,027,112
Bank guarantees	164,575	281,387	259,246	145,286	116,155	966,649
Confirmed letters of credit	12,587	5,887	2,147	7,433	5,242	33,296
Factoring loan commitment	<u>228,145</u>	=	=	=	=	<u>228,145</u>
Off-balance sheet commitments	<u>2,645,671</u>	<u>624,918</u>	<u>612,529</u>	<u>245,230</u>	<u>126,854</u>	<u>4,255,202</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.3. Net foreign currency position and foreign currency risk

As at 31 December 2020

	USD	EUR	CHF	Other	Total
Assets	717,819	7,003,090	73,344	6,435,309	14,229,562
Liabilities	(878,916)	(5,926,666)	(87,551)	(5,195,693)	(12,088,826)
Derivative financial instruments	<u>259,993</u>	<u>(921,666)</u>	<u>32,905</u>	<u>(147,436)</u>	<u>(776,204)</u>
Net position	<u>98,896</u>	<u>154,758</u>	<u>18,698</u>	<u>1,092,180</u>	<u>1,364,532</u>

As at 31 December 2019

	USD	EUR	CHF	Other	Total
Assets	599,946	5,532,766	72,366	5,701,836	11,906,914
Liabilities	(708,409)	(4,808,619)	(75,407)	(4,639,952)	(10,232,387)
Derivative financial instruments	<u>182,049</u>	<u>(735,690)</u>	<u>(755)</u>	<u>(116,723)</u>	<u>(671,119)</u>
Net position	<u>73,586</u>	<u>(11,543)</u>	<u>(3,796)</u>	<u>945,161</u>	<u>1,003,408</u>

The table above provides an analysis of the main foreign currency exposures of the Group that arise in the non-functional currency of the entities constituting the Group. The remaining foreign currencies are shown within 'Others'. 'Others' category contains mainly foreign currencies in RON, RSD, HRK, UAH, RUB, BGN, ALL and MDL. The Group monitors its foreign exchange position for compliance with the regulatory requirements of the National Banks and its own limit system established in respect of limits on open positions. The measurement of the open foreign currency position of the Group involves monitoring the "VaR" limit on the foreign exchange exposure of the Group. The derivative financial instruments detailed in the table above are presented at fair value.

36.4. Interest rate risk management

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

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

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

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.4. Interest rate risk management [continued]

As at 31 December 2020

ASSETS	Within 1 month		Over 1 month and within 3 months		Over 3 months and within 12 months		Over 1 year and within 2 years		Over 2 years		Non-interest-bearing		Total	
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency
Cash, amounts due from banks and balances with the National Banks	150,707	777,104	1	4,647	14,793	9,277	21,056	168,850	1,283,869	321,566	2,110,746	2,432,312	861,116	98,477
fixed rate	149,701	679,634	1	4,647	14,793	9,277	21,056	168,850	1,283,869	321,566	2,110,746	2,432,312	861,116	98,477
variable rate	1,006	97,470	-	-	-	-	-	-	-	-	-	-	-	-
Non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Placements with other banks, net of allowance for placements	240,397	339,637	104	103,038	665	194,919	2,003	5	124,478	7,633	386,900	761,843	1,149,743	56,572
fixed rate	220,155	197,680	104	102,080	665	194,919	2,003	5	124,478	7,633	386,900	761,843	1,149,743	56,572
variable rate	20,242	141,857	-	958	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Repo receivables	183,364	7,485	-	-	-	-	-	-	-	-	-	-	-	-
fixed rate	183,364	7,485	-	-	-	-	-	-	-	-	-	-	-	-
variable rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Trading instruments at fair value through profit or loss	1,261	9,247	287	9,013	614	14,644	1,280	2,753	5,270	8,463	11,185	48,387	56,572	1,448
fixed rate	955	8,721	287	9,013	614	14,644	1,280	2,753	5,270	8,463	11,185	48,387	56,572	1,448
variable rate	306	526	-	-	-	-	-	-	16	-	922	526	1,448	3,740
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-trading instruments mandatorily at fair value through profit or loss	-	4,487	-	1,006	-	-	-	-	-	-	-	-	-	-
fixed rate	-	4,487	-	1,006	-	-	-	-	-	-	-	-	-	-
variable rate	-	4,459	-	28	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-
fixed rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-
variable rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Securities at fair value through other comprehensive income	47,073	11,706	673	95,897	118,558	183,940	49,095	200,651	567,675	826,116	783,610	1,353,099	2,136,709	2,054,596
fixed rate	600	11,706	673	83,363	117,558	183,940	49,095	200,631	567,675	819,295	775,601	1,298,935	2,054,596	66,848
variable rate	46,473	-	-	12,534	1,000	-	-	20	-	6,821	47,473	19,375	66,848	35,325
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Securities at amortized cost	-	79,401	-	21,055	37,771	4,574	398,158	40,066	1,844,129	199,766	2,280,058	344,862	2,624,920	2,618,520
fixed rate	-	79,401	-	21,055	37,771	4,574	398,158	40,066	1,837,731	199,766	2,273,660	344,862	2,618,520	6,398
variable rate	-	-	-	-	-	-	-	-	6,398	-	6,398	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans at amortized cost, net of allowance for loan losses	656,665	4,758,061	340,558	1,115,958	52,487	998,336	49,217	349,978	1,723,813	1,442,688	61,226	2,948,605	8,726,237	11,674,842
fixed rate	68,714	854,062	2,048	264,431	13,026	488,106	36,198	288,272	722,219	806,358	892,205	2,702,324	3,594,529	3,450,259
variable rate	587,951	3,903,999	338,510	851,527	39,461	510,230	13,019	61,706	951,594	636,330	61,706	5,962,687	7,893,222	7,893,222
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Finance lease receivables	284,215	281,693	34,924	134,848	18	134,266	69,096	5,685	103,954	125,865	61,226	61,226	187,091	187,091
fixed rate	67,083	115,778	8,141	6,117	18	26,854	25,036	41,005	5,685	41,005	1,445	325,848	725,292	1,051,140
variable rate	118,136	167,905	26,785	128,731	18	107,412	44,060	5,685	5,685	62,949	150,606	511,057	661,663	388,052
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans mandatorily at fair value through profit or loss	24,871	1,159	68	141	498	634	710	218	773,833	1,473	798,980	3,625	802,605	1,445
fixed rate	-	70	68	141	498	634	710	218	773,833	1,473	798,980	3,625	802,605	1,445
variable rate	24,871	1,089	-	-	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fair value adjustment of derivative financial instruments	945,704	699,341	880,168	378,971	557,280	416,304	267,776	5,084	40,243	97,805	245,973	1,843,478	5,035,594	3,450,259
fixed rate	929,702	561,503	868,754	183,337	559,388	397,468	267,799	5,084	40,490	97,487	245,973	1,843,478	5,035,594	3,450,259
variable rate	16,002	137,838	221,414	195,634	(2,108)	28,496	(23)	-	(247)	318	742,345	362,246	597,284	597,284
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial assets	10,321	16,335	155	16	270	270	-	-	-	47	50,991	62,527	79,195	140,562
fixed rate	10,321	10,982	155	14	251	251	-	-	-	47	50,991	62,527	79,195	140,562
variable rate	-	5,353	-	2	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) (continued)

36.4. Interest rate risk management (continued)

As at 31 December 2019

ASSETS	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total	
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency
Cash, amounts due from banks and balances with the National Banks	41,319	576,425	2,106	7,513	-	18,818	-	8,690	-	15,205	222,042	892,260	265,467	1,418,911
Fixed rate receivables	40,555	534,313	2,102	7,513	-	18,818	-	8,690	-	15,205	-	-	42,657	584,539
variable rate	764	42,112	4	-	-	-	-	-	-	-	222,042	892,260	768	42,112
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Placements with other banks, net of allowance for placements loans	4,385	89,457	14,823	34,598	1,988	30,258	98,889	-	7,076	17,603	43,845	137,688	137,688	205,234
fixed rate	4,385	58,425	14,823	34,598	903	22,722	98,889	-	6,254	17,603	43,845	137,688	119,000	121,998
variable rate	-	31,032	-	1,085	1,085	7,536	-	822	-	-	-	-	1,603	39,391
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Repo receivables	-	17,427	25,498	-	-	3,444	-	19,457	-	528	-	-	48,485	61,448
fixed rate	-	-	25,498	-	-	3,444	-	19,457	-	528	-	-	48,485	61,448
variable rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Trading instruments at fair value through profit or loss	650	3,942	124	5,929	4,497	12,483	4,400	21,646	-	27,214	7,542	1,050	27,784	72,264
fixed rate	18	3,927	1	5,929	4,497	12,483	4,400	21,646	-	27,214	-	-	19,487	70,799
variable rate	632	15	123	400	-	-	-	-	-	-	7,542	1,050	755	1,170
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-trading instruments mandatorily at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-
fixed rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-
variable rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-
fixed rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-
variable rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Securities at fair value through other comprehensive income	89,176	51,659	138,245	68,746	428,028	171,582	94,464	213,344	401,659	713,667	867	55,343	1,152,438	1,274,341
fixed rate	54,863	51,659	121,562	68,197	413,278	171,034	93,464	212,521	401,659	713,667	-	-	1,087,826	1,217,078
variable rate	33,312	-	14,683	549	14,750	548	1,000	823	-	-	-	-	63,745	55,343
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Securities at amortized cost	-	101,371	-	19,739	111,029	12,506	38,195	43,189	1,553,408	88,635	-	-	1,702,632	2,654,440
fixed rate	-	101,371	-	19,739	111,029	12,506	38,195	43,189	1,553,408	88,635	-	-	1,702,632	2,654,440
variable rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans at amortized cost, net of allowance for losses	534,956	3,787,934	596,440	1,190,169	440,288	1,277,264	90,627	345,604	838,117	1,136,245	144,221	51,356	2,644,949	7,768,572
fixed rate	6,228	755,705	2,307	320,082	14,141	524,853	28,983	299,680	1,066,868	789,762	-	-	1,118,527	2,683,582
variable rate	528,728	3,012,629	594,133	870,087	426,447	752,411	61,644	43,924	228,751	346,483	144,221	51,356	1,526,422	5,084,990
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Finance lease receivables	136,777	232,181	29,363	134,811	3,463	132,638	13,177	74,996	111,789	99,504	1	1,365	293,768	675,495
fixed rate	2,767	67,561	1,018	5,886	3,663	24,387	13,177	30,419	109,188	45,316	-	-	129,569	327,382
variable rate	133,010	139,620	28,343	128,925	-	109,251	-	44,577	2,601	54,188	-	-	163,954	476,561
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans mandatorily at fair value through profit or loss	30,021	54	221	108	1,508	487	924	316	460,534	1,616	-	-	493,208	3,070
fixed rate	30,021	489	221	108	1,508	487	924	316	460,534	1,616	-	-	493,208	2,581
variable rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fair value adjustment of derivative financial instruments	966,352	432,710	847,077	359,143	765,880	459,987	15,461	273,274	20,584	85,850	167,569	362,920	2,782,923	1,973,884
fixed rate	970,477	423,788	697,547	333,985	766,569	423,038	15,461	273,274	20,584	85,850	-	-	2,430,638	1,543,305
variable rate	35,875	8,922	149,530	25,158	(689)	34,949	-	-	-	-	167,569	362,920	184,716	67,029
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial assets	16,988	2,343	94	367	-	5	-	3	-	1	48,574	54,678	65,656	57,397
fixed rate	16,859	2,343	94	367	-	5	-	3	-	1	48,574	54,678	65,656	57,397
variable rate	129	-	94	367	-	4	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mm) [continued]

36.4. Interest rate risk management [continued]

As at 31 December 2019 [continued]

LIABILITIES	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total	
	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency
Amounts due to banks, the Hungarian Government, deposits														
from the National Bank of Hungary and other banks														
fixed rate	265,224	84,798	2,633	130,754	5,086	112,533	1,834	78,312	103,826	18,079	19	9,813	378,622	434,289
variable rate	212,975	78,022	2,633	63,143	5,085	27,300	1,834	76,875	103,826	17,715	-	-	326,353	263,055
non-interest-bearing	52,249	6,776	-	67,611	-	85,233	-	1,437	-	364	-	-	52,250	161,421
Repo liabilities														
fixed rate	488	-	-	-	-	-	-	-	-	-	19	9,813	19	9,813
variable rate	488	-	-	-	-	-	-	-	-	-	-	-	488	-
non-interest-bearing	488	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss														
fixed rate	28,862	-	-	-	-	-	-	-	-	-	-	2,000	28,862	2,000
variable rate	102	-	-	-	-	-	-	-	-	-	-	-	102	-
non-interest-bearing	28,760	-	-	-	-	-	-	-	-	-	-	2,000	28,760	-
Deposits from customers														
fixed rate	5,124,112	6,546,522	183,647	570,419	127,494	830,168	45,174	325,413	239,092	426,589	37,258	715,420	5,756,777	9,414,531
variable rate	434,026	2,729,694	183,647	570,286	127,494	828,984	45,174	323,411	239,092	426,583	-	-	1,029,433	4,880,958
non-interest-bearing	4,690,086	3,816,828	-	133	-	1,184	-	2	-	6	-	-	4,690,086	3,818,153
Liabilities from issued securities														
fixed rate	16,708	592	144,381	1,273	8,347	1,936	112,697	-	106,267	53	898	15	37,258	715,420
variable rate	218	40	-	8	6,901	-	112,697	-	106,267	53	-	-	226,083	101
non-interest-bearing	16,490	552	144,381	1,265	1,446	1,936	-	-	-	-	-	-	162,317	3,753
Fair value adjustment of derivative financial instruments														
fixed rate	1,275,341	129,626	828,476	357,746	623,403	588,552	281,358	8,789	37,297	72,359	370,245	167,431	3,416,120	1,324,503
variable rate	1,224,793	123,378	687,545	341,726	623,287	567,367	281,358	8,789	37,297	72,148	-	-	2,854,280	1,113,408
non-interest-bearing	50,548	6,248	140,931	16,020	116	21,185	-	-	-	211	-	-	191,595	43,664
Leasing liabilities														
fixed rate	1,252	4,951	126	1,113	1,120	7,393	924	6,082	5	24,800	99	6,329	370,245	167,431
variable rate	1,252	4,878	126	902	1,120	6,551	924	5,026	5	21,374	-	-	3,526	50,668
non-interest-bearing	-	73	-	211	-	842	-	1,056	-	3,426	-	-	3,427	38,731
Other financial liabilities														
fixed rate	4,920	171	575	1,816	2,039	2,039	-	255	-	503	99	6,329	99	6,329
variable rate	4,177	136	-	1,816	-	2,039	-	239	-	503	-	-	4,177	4,733
non-interest-bearing	743	35	575	-	-	-	16	-	-	-	-	-	1,318	51
Subordinated bonds and loans														
fixed rate	-	-	-	77,934	-	166,602	-	-	-	5,397	5	-	230,989	96,752
variable rate	-	-	-	-	-	-	-	-	-	5,397	-	-	-	249,938
non-interest-bearing	-	-	-	77,934	-	166,602	-	-	-	-	-	-	-	5,397
Net position	(4,897,284)	(1,490,668)	494,151	680,093	991,731	411,115	(85,850)	562,211	2,929,632	1,630,744	(2,751)	474,961	(570,371)	2,268,456
														1,698,085

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.5. Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group applies a 'Value-at-Risk' (VaR) methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Management Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis. (Analysis of liquidity risk, foreign currency risk and interest rate risk is detailed in Notes 36.2., 36.3. and 36.4., respectively.)

36.5.1. Market Risk sensitivity analysis

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

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

VaR methodologies are employed to calculate daily risk numbers include the historical and variance-covariance approach. The diversification effect has not been validated among the various market risk types when capital calculation happens.

In addition to these two methodologies, Monte Carlo simulations are applied to the various portfolios on a monthly basis to determine potential future exposure.

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

Historical VaR (99%, one-day) by risk type	Average	
	2020	2019
Foreign exchange	1,530	479
Interest rate	146	172
Equity instruments	141	21
Diversification	=	=
Total VaR exposure	<u>1,817</u>	<u>672</u>

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

While VaR captures the Group's daily exposure to currency and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year. The longer time frame of sensitivity analysis complements VaR and helps the Group to assess its market risk exposures. Details of sensitivity analysis for foreign currency risk are set out in Note 36.5.2., for interest rate risk in Note 36.5.3., and for equity price sensitivity analysis in Note 36.5.4.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.5. Market risk [continued]

36.5.2. Foreign currency sensitivity analysis

The following table details the Group's sensitivity to the rise and fall in the HUF exchange rate against EUR and USD, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents Management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only the residual foreign currency denominated monetary items as partially closed strategic open positions related to foreign activities.

In accordance with the Bank's decision, the subsidiaries' profit or loss measured in EUR is going to have a higher weight than measured in HUF. Thus, a decision was made about closing the former EUR -310 million strategic open position. As a result of the partial close, an open position of EUR -132 million remained in the Bank's book evaluated against profit or loss as at 31 December 2020.

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

Probability	Effects to the Consolidated Statement of Profit or Loss in 3 months period	
	In HUF million	In HUF million
	2020	2019
1%	(5,900)	(12,200)
5%	(4,100)	(8,400)
25%	(1,700)	(3,500)
50%	(200)	(400)
25%	1,200	2,600
5%	3,200	6,800
1%	4,600	9,700

Note:

Monte Carlo simulation is based on the empirical distribution of the historical exchange rate movements between 2002 and 2020.

36.5.3. Interest rate sensitivity analysis

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

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.5. Market risk [continued]

36.5.3. Interest rate sensitivity analysis [continued]

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

- (1) HUF base rate and BUBOR decreases gradually by 15 bps over the next year (probable scenario)
- (2) HUF base rate and BUBOR decreases gradually by 60 bps over the next year (alternative scenario)

The net interest income in a one year period after 1 January 2021 would be decreased by HUF 1,301 million (probable scenario) and HUF 5,732 million (alternative scenario) as a result of these simulation. A similar simulation indicated HUF 1,205 million (probable scenario) and HUF 3,060 million (alternative scenario) decrease in the Net interest income in a one year period after 1 January 2020.

This effect is counterbalanced by capital gains HUF 584 million (or probable scenario), HUF 2,329 million (for alternative scenario) as at 31 December 2020 and (HUF 223 million for probable scenario, HUF 2,670 million for alternative scenario as at 31 December 2019) on the government bond portfolio held for hedging (economic).

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

Description	2020		2019	
	Effects to the net interest income (one-year period)	Effects to capital (Price change of government bonds at fair value through other comprehensive income)	Effects to the net interest income (one-year period)	Effects to capital (Price change of government bonds at fair value through other comprehensive income)
HUF (0.1%) parallel shift	(1,809)	389	(1,742)	558
EUR (0.1%) parallel shift	(2,179)	-	(1,261)	-
USD (0.1%) parallel shift	(497)	-	(253)	-
Total	<u>(4,485)</u>	<u>389</u>	<u>(3,256)</u>	<u>558</u>

36.5.4. Equity price sensitivity analysis

The following table shows the effect of the equity price sensitivity. The Group uses VaR calculation with 1 day holding period and a 99% confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognizing offsetting positions and correlations between products and markets. The daily loss will not exceed the reported VaR number with 99% of probability.

The stress test assumes the largest price movement of the last year and calculates with it as the adverse direction. These scenarios show the loss of the portfolio when all prices change with the maximum amount of the last year.

Description	2020	2019
VaR (99%, one day, HUF million)	141	21
Stress test (HUF million)	(233)	(52)

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.6. Capital management

Capital management

The primary objective of the capital management of the Group is to ensure the prudent operation, the entire compliance with the prescriptions of the regulator for a persistent business operation and maximising the shareholder value, accompanied by an optimal financing structure.

The capital management of the Group members includes the management and evaluation of the shareholders' equity available for hedging risks, other types of funds to be recorded in the equity and all material risks to be covered by the capital.

The basis of the capital management of the Group members in the short run is the continuous monitoring of their capital position, in the long run the strategic and the business planning, which includes the monitoring and forecast of the capital position.

The Group members maintain the capital adequacy required by the regulatory bodies and the planned risk taking mainly by means of ensuring and developing their profitability. In case the planned risk level of a Group member exceeded its Core and the previously raised Supplementary capital, it ensures the prudent operation by occasional measures. A further tool in the capital management of the Bank is the dividend policy, and the transactions performed with the treasury shares.

Capital adequacy

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

The capital adequacy of the Group is supervised based on the financial statements data prepared in accordance with IFRS applying the current directives, rulings and indicators from 1 January 2014.

The Group has entirely complied with the regulatory capital requirements in year 2020 as well as in year 2019.

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

For international comparison purposes, the Group calculated the Regulatory capital based on IFRS data as adopted by the EU, and the consolidated Capital adequacy ratio based on this in accordance with the regulations of Basel III. The Capital adequacy ratio of the Group (IFRS) was 17.7%, the Regulatory capital was HUF 2,669,806 million and the Total regulatory capital requirement was HUF 1,203,751 million as at 31 December 2020. The same ratios calculated as at 31 December 2019 were the following: 16.8%, HUF 2,390,688 million and HUF 1,140,976 million.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 36: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

36.6. Capital management [continued]

Capital adequacy [continued]

Calculation on IFRS basis (in HUF million)	2020	2019
Core capital (Tier 1) =		
Common Equity Tier 1 (CET 1)	2,316,118	2,055,106
Issued capital	28,000	28,000
Reserves	2,342,166	2,208,519
Fair value corrections	33,991	49,501
Other capital components	39,204	(33,225)
Non-controlling interests	1,795	2,571
Treasury shares	(145,939)	(60,931)
Goodwill and other intangible assets	(174,997)	(230,017)
Other adjustments	191,898	90,688
Additional Tier 1 (AT1)		-
Supplementary capital (Tier 2)	353,688	335,582
Subordinated bonds and loans	263,439	244,536
Other issued capital components	89,935	89,935
Components recognized in T2 capital issued by subsidiaries	314	1,111
Regulatory capital ¹	<u>2,669,806</u>	<u>2,390,688</u>
Credit risk capital requirement	1,071,163	1,002,390
Market risk capital requirement	19,170	15,905
Operational risk capital requirement	<u>113,418</u>	<u>122,681</u>
Total requirement regulatory capital	<u>1,203,751</u>	<u>1,140,976</u>
Surplus capital	<u>1,466,055</u>	<u>1,249,712</u>
CET 1 ratio	15.40%	14.40%
Tier 1 ratio	15.40%	14.40%
Capital adequacy ratio	<u>17.70%</u>	<u>16.80%</u>

Basel III

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

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

¹Due to the COVID 19 pandemic, in order to strengthen the banking system, National Bank of Hungary recommended banks that dividends are neither approved, nor paid until 30 September 2021. But the potential amount of dividend is deducted from the regulatory capital due to prudential reasons (in accordance with regulation 241/2014 EU). The final amount of dividend payment depends on the decision of the Annual General Meeting and may change the capital adequacy ratios.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 37: RECLASSIFICATION AND TRANSFER OF FINANCIAL INSTRUMENTS
(in HUF mn)

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

As at 31 December 2020

Date of reclassification	Reason for reclassification	Type of securities	Nominal value at reclassification	Fair value at the date of reclassification	EIR at the date of reclassification	Interest income
1 September 2018	Change in business model	Retail Hungarian government bonds	1,069	1,087	2%-3%	28

During the year 2018, securities issued by the Hungarian Government with the nominal value of HUF 66,506 million were transferred from the trading portfolio to the securities at fair value through other comprehensive income of which HUF 1,087 million remaining amount was presented as at 31 December 2020. The Bank has previously held retail government bonds in the portfolio at fair value through other comprehensive income. During 2018 the Bank changed the business model of the retail government bonds to manage all on the basis of a single business model aimed at collecting the future contractual cash flows and/or selling them.

In 2018, the terms and conditions of sale of retail government bonds and the pricing environment have changed significantly, as a result of which the Bank is no longer able to maintain its sole trading intent with these securities that the Bank applied earlier. Furthermore there is an option-agreement between the Bank and the Government Debt Management Agency ("GDMA") that GDMA will buy back this portfolio therefore it has been reclassified.

Financial assets transferred but not derecognized

	Transferred assets	Associated liabilities	Transferred assets	Associated liabilities
	Carrying amount 2020		Carrying amount 2019	
Financial assets at fair value through other comprehensive income				
Debt securities	<u>48,176</u>	<u>44,287</u>	<u>40,912</u>	<u>40,253</u>
Total	<u>48,176</u>	<u>44,287</u>	<u>40,912</u>	<u>40,253</u>
Financial assets at amortized cost				
Debt securities	136,316	119,789	-	-
Loans and advances	<u>1,171</u>	-	<u>5,263</u>	<u>2,555</u>
Total	<u>137,487</u>	<u>119,789</u>	<u>5,263</u>	<u>2,555</u>
Total	<u>185,663</u>	<u>164,076</u>	<u>46,175</u>	<u>42,808</u>

As at 31 December 2020 and 2019, the Group had obligation from repurchase agreements (repo liability) of HUF 109,612 million and HUF 111 million respectively. Securities sold temporarily under repurchase agreements will continue to be recognized in the Consolidated Statement of Financial Position of the Group in the appropriate securities category. The related liability is measured at amortized cost in the Consolidated Statement of Financial Position as "Amounts due to the National Governments, to the National Banks and other banks and repo liabilities".

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 38: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn)

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

Contingent liabilities	2020	2019
Commitments to extend credit	3,420,718	3,027,112
Guarantees arising from banking activities	1,159,699	966,649
Factoring loan commitment	305,269	228,145
Confirmed letters of credit	35,715	33,296
Other	<u>35,965</u>	-
Contingent liabilities and commitments total in accordance with IFRS 9	<u>4,957,366</u>	<u>4,255,202</u>
Legal disputes (disputed value)	53,486	30,844
Other	<u>22,164</u>	<u>57,151</u>
Contingent liabilities and commitments total in accordance with IAS 37	<u>75,650</u>	<u>87,995</u>
Total	<u>5,033,016</u>	<u>4,343,197</u>

Legal disputes

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

The Group believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash-flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation. Provisions due to legal disputes were HUF 34,894 million as at 31 December 2020 and HUF 28,650 million as at 31 December 2019, respectively. (See Note 24.)

Commitments to extend credit, guarantees and letters of credit

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

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

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

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 38: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn) [continued]

Guarantees, payment undertakings arising from banking activities

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

A contract of guarantee is subject to the statute of frauds (or its equivalent local laws) and is only enforceable if recorded in writing and signed by the surety and the principal.

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

Derivatives

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 39: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn)

Previously approved option program required a modification thanks to the introduction of the Bank Group Policy on Payments accepted in resolution of Annual General Meeting regarding to the amendment of CRD III. Directives and Act on Credit Institutions and Financial Enterprises.

Key management personnel affected by the Bank Group Policy receive compensation based on performance assessment generally in the form of cash bonus and equity shares in a ratio of 50-50%. Assignment is based on OTP shares, furthermore performance based payments are deferred in accordance with the rules of Credit Institutions Act.

The Bank ensures the share-based payment part for the management personnel of the Group members.

During implementation of the Remuneration Policy of the Group appeared that in case of certain foreign subsidiaries it is not possible to ensure the originally determined share-based payment because of legal reasons – incompatible with relevant EU-directives –, therefore a decision was made to cancel the share-based payment in affected countries, and virtual share based payment – cash payment fixed to share price - was made from 2017.

The quantity of usable shares for individuals calculated for settlement of share-based payment shall be determined as the ratio of the amount of share-based payment and share price determined by Supervisory Board¹. The value of the share-based payment at the performance assessment is determined within 10 days by Supervisory Board based on the average of the three previous trade day's middle rate of OTP Bank's equity shares fixed on the Budapest Stock Exchange.

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

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

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

¹ Until the end of 2014 Board of Directors

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 39: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn) [continued]

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

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

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 39: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn) [continued]

Based on parameters accepted by Supervisory Board relating to the year 2016 effective pieces are follows as at 31 December 2020:

	Approved pieces of shares	Exercised until 31 December 2020	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 31 December 2020
Share purchasing period started in 2017	147,984	147,984	9,544	-	-
Remuneration exchanged to share provided in 2017	4,288	4,288	9,194	-	-
Share purchasing period started in 2018	321,528	321,528	10,387	-	-
Remuneration exchanged to share provided in 2018	8,241	8,241	10,098	-	-
Share purchasing period started in 2019	161,446	161,446	12,415	-	-
Remuneration exchanged to share provided in 2019	4,033	4,033	11,813	-	-
Share purchasing period started in 2020	166,231	164,039	13,585	-	2,192
Remuneration exchanged to share provided in 2020	4,303	4,303	11,897	-	-

Based on parameters accepted by Supervisory Board relating to the year 2017 effective pieces are follows as at 31 December 2020:

	Approved pieces of shares	Exercised until 31 December 2020	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 31 December 2020
Share purchasing period started in 2018	108,243	108,243	11,005	-	-
Remuneration exchanged to share provided in 2018	11,926	11,926	10,098	-	-
Share purchasing period started in 2019	212,282	212,282	12,096	-	-
Remuneration exchanged to share provided in 2019	26,538	26,538	11,813	-	-
Share purchasing period started in 2020	101,571	94,830	11,878	-	6,741
Remuneration exchanged to share provided in 2020	11,584	11,584	11,897	-	-
Share purchasing period starting in 2021	-	-	-	-	120,981
Remuneration exchanged to share applying in 2021	-	-	-	-	12,838
Share purchasing period starting in 2022	-	-	-	-	42,820
Remuneration exchanged to share applying in 2022	-	-	-	-	3,003

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 39: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn) [continued]

Based on parameters accepted by Supervisory Board relating to the year 2018 effective pieces are follows as at 31 December 2020:

	Approved pieces of shares	Exercised until 31 December 2020	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 31 December 2020
Share purchasing period started in 2019	82,854	82,854	13,843	-	-
Remuneration exchanged to share provided in 2019	17,017	17,017	11,829	-	-
Share purchasing period started in 2020	150,230	3,448	12,471	-	146,782
Remuneration exchanged to share provided in 2020	33,024	33,024	11,897	-	-
Share purchasing period starting in 2021	-	-	-	-	74,529
Remuneration exchanged to share applying in 2021	-	-	-	-	16,167
Share purchasing period starting in 2022	-	-	-	-	99,341
Remuneration exchanged to share applying in 2022	-	-	-	-	17,042
Share purchasing period starting in 2023	-	-	-	-	45,155
Remuneration exchanged to share applying in 2023	-	-	-	-	4,114
Remuneration exchanged to share applying in 2024	-	-	-	-	864
Remuneration exchanged to share applying in 2025	-	-	-	-	432

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 39: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn) [continued]

Based on parameters accepted by Supervisory Board relating to the year 2019 effective pieces are follows as at 31 December 2020:

	Approved pieces of shares	Exercised until 31 December 2020	Weighted average share price at the date of exercise (in HUF)	Expired pieces	Exercisable as at 31 December 2020
Share purchasing period started in 2020	91,403	91,403	12,218	-	-
Remuneration exchanged to share provided in 2020	22,806	22,806	11,897	-	-
Share purchasing period starting in 2021	-	-	-	-	202,386
Remuneration exchanged to share applying in 2021	-	-	-	-	32,238
Share purchasing period starting in 2022	-	-	-	-	109,567
Remuneration exchanged to share applying in 2022	-	-	-	-	15,554
Share purchasing period starting in 2023	-	-	-	-	125,771
Remuneration exchanged to share applying in 2023	-	-	-	-	18,025
Share purchasing period starting in 2024	-	-	-	-	44,421
Remuneration exchanged to share applying in 2024	-	-	-	-	6,279
Remuneration exchanged to share applying in 2025	-	-	-	-	1,000
Remuneration exchanged to share applying in 2026	-	-	-	-	500

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

In connection with the share-based compensation for Board of Directors and connecting compensation, shares given as a part of payments detailed above and based on performance assessment accounted as equity-settled share based transactions, HUF 3,394 million and HUF 3,548 million was recognized as expense for the year ended 31 December 2020 and 2019 respectively.

Defined benefit plan

Defined benefit plan is post-employment benefit plans other than defined contribution plan. The Group's net obligation is calculated by estimating the amount of employee's future benefit based on their services for the current and prior periods. The future value of benefit is being discounted to present value.

The Group has small number of plans and mainly in Bulgaria, Serbia, Montenegro and Slovenia. These plans are providing retirement benefits upon pension age as lump-sum payment based either on fixed amounts or certain months of salary.

These plans are unfunded consequently there are no significant plan assets associated with these plans.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 39: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn) [continued]

Defined benefit plan [continued]

	2020	2019
Balance as at 1 January	4,809	1,966
Increase due to acquisition	-	2,359
Current service cost	402	290
Interest cost	66	75
Actuarial gains from changes in demographic assumptions	(14)	(137)
Actuarial (gains) / losses from changes in financial assumptions	(203)	130
Benefits paid	(261)	(128)
Past service cost	(274)	(5)
Other increases	497	259
Closing balance	<u>5,022</u>	<u>4,809</u>

Amounts recognized in profit or loss

	2020	2019
Current service cost	402	290
Net interest expense	66	75
Actuarial losses	14	29
Past service cost	(274)	(5)
Total	<u>208</u>	<u>389</u>

Actuarial assumptions

The following are the main actuarial assumptions

	2020	2019
Discount rate	0.46%-3%	0.46%-3.5%
Future salary increases	0.4%-5%	0.0%-5%

OTP Group expects to make insignificant amount of contribution to the defined benefit plans during the year 2021.

NOTE 40: RELATED PARTY TRANSACTIONS (in HUF mn)

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

Compensations	2020	2019
Short-term employee benefits	10,093	8,453
Share-based payment	2,619	2,732
Other long-term employee benefits	870	636
Termination benefits	508	40
Post-employment benefits	-	35
Total	<u>14,090</u>	<u>11,896</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 40: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

	2020	2019
Loans provided to companies owned by the Management (normal course of business)	87,791	55,517
Commitments to extend credit and guarantees	36,758	27,708
Credit lines of the members of Board of Directors and the Supervisory Board and their close family members (at normal market conditions)	361	666

	2020		2019	
Types of transactions	Non-consolidated subsidiaries	Associated companies	Non-consolidated subsidiaries	Associated companies
Loans provided	16,395	523	2,656	513
Client deposits	6,541	80	5,335	-
Net interest income on loan provided	150	10	32	-
Net fee income	26	1	30	-

An analysis of overdraft loan credit line is as follows:

	2020	2019
Members of Board of Directors and their close family members	130	153
Members of Supervisory Board and their close family members	21	4
Executives and their close family members	<u>159</u>	-
Total	<u>310</u>	<u>157</u>

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

	2020	2019
Members of Board of Directors and their close family members	23	39
Members of Supervisory Board and their close family members	11	-
Executives and their close family members	<u>73</u>	<u>1</u>
Total	<u>107</u>	<u>40</u>

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

	2020	2019
Members of Board of Directors and their close family members	2	-
Members of Supervisory Board and their close family members	<u>1</u>	-
Total	<u>3</u>	<u>-</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 40: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

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

	2020	2019
Members of Board of Directors and their close family members	48	39
Members of Supervisory Board and their close family members	<u>5</u>	<u>2</u>
Total	<u>53</u>	<u>41</u>

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

	2020	2019
Members of Board of Directors and their close family members	3	7
Executives and their close family members	-	<u>33</u>
Total	<u>3</u>	<u>40</u>

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

	2020	2019
Members of Board of Directors and their close family members	27	20
Members of Supervisory Board and their close family members	5	5
Executives and their close family members	<u>110</u>	<u>69</u>
Total	<u>142</u>	<u>94</u>

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

	2020	2019
Members of Board of Directors and their close family members	54,050	53,661
Members of Supervisory Board and their close family members	-	10
Executives and their close family members	<u>1,442</u>	<u>1,419</u>
Total Lombard loans	<u>55,492</u>	<u>55,090</u>
Members of Board of Directors and their close family members	105	214
Members of Supervisory Board and their close family members	4	-
Executives and their close family members	<u>14</u>	<u>7</u>
Total Personal loans	<u>123</u>	<u>221</u>

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

	2020	2019
Members of Board of Directors and their close family members	9	-
Executives and their close family members	<u>66</u>	-
Total "Baby expecting loan"	<u>75</u>	<u>-</u>
Executives and their close family members	<u>34</u>	-
Total Axa real estate loans	<u>34</u>	<u>-</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 40: RELATED PARTY TRANSACTIONS (in HUF mn) [continued]

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

	2020	2019
Members of Board of Directors	2,502	3,060
Members of Supervisory Board	<u>204</u>	<u>227</u>
Total	<u>2,706</u>	<u>3,287</u>

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

NOTE 41: ACQUISITION (in HUF mn)

Purchase and consolidation of subsidiaries

The Société Générale Group made a strategic decision about the disposal of its bank subsidiaries in the Central and Eastern European countries and the Balkan Region, in order to be able to strengthen its position in other regions. The strategic goal of OTP Group is to strengthen its presence in the Central and Eastern European region and to enter other markets of strategic importance. By completing these transactions the parties achieved part of their strategic goals. Based on market standards, OTP Group made the due diligence of the subsidiaries using data provided by the Vendor, then in line with the process defined by the Vendor, after several biddings, the decision was made about the selected subsidiaries. Following the agreement in principles the parties finalized the details of the purchase agreements which were fixed in contracts.

A comprehensive due diligence was performed before every acquisition decision, where in accordance with the main statements of the due diligence, the market environment, the historical performance of the target and the expected profit-making capacity of the target for the period after the closing according to the business plan, the realistic range of the purchase price was defined. Having taken into consideration some other aspects, management laid down the proposed purchase price. Purchasing an entity with positive or negative goodwill is reasoned by altogether the expected cost synergies arising from the market situation and the survey of joint profit-making capacity, the size of the margin typical for the markets, and other strategic considerations (gain of new market shares or increasing them).

Individually the purchase prices were not made public – as it was agreed with the Vendor – however, the aggregated purchase price was HUF 460,077 million.

On 13 December 2019 the financial closure of the Slovenian transaction has been completed (after the acquisition agreement was signed on 2 May 2019). As a result, OTP Bank has become 99.73% owner of **SKB Banka**, the Slovenian subsidiary of Societe Generale Group and other local subsidiaries held by SKB Banka, so it was consolidated from December 2019.

On 25 July 2019 the financial closure of the Moldovan transaction has been completed (after the acquisition agreement was signed on 5 February, 2019). As a result, OTP Bank has become 96.69% owner of **Mobiasbanca – Groupe Societe Generale S.A. („MBSG”)**, the Moldovan subsidiary of Societe Generale Group, so it was consolidated from July 2019.

The financial closure of the transaction, based on the acquisition agreement on purchasing 90.56% shareholding of **Societe Generale banka Montenegro a.d. („SGM”)**, the Montenegrin subsidiary of Societe Generale Group between Crnogorska komercijalna banka a.d., the Montenegrin subsidiary of OTP Bank and Societe Generale Group, has been completed on 16 July 2019. The acquisition agreement between SG and CKB was signed on 27 February 2019 and the Montenegrin subsidiary was consolidated from July 2019.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 41: ACQUISITIONS (in HUF mn) [continued]

Purchase and consolidation of subsidiaries [continued]

On 24 September 2019 the financial closure of the Serbian transaction has been completed (after the acquisition agreement was signed on 19 December 2018). As a result, OTP Bank has become 100% owner of **Societe Generale banka Srbija a.d. Beograd („SGS”)**, the Serbian subsidiary of Societe Generale Group and other local subsidiaries held by SGS, so it was consolidated from September 2019.

In line with the purchase agreement signed on 1 August 2018 by OTP Bank and the Societe Generale Group, on 29 March 2019 the financial closure of the Albanian transaction has been completed and it was consolidated. As a result, OTP Bank has become the 100% owner of **Banka Societe Generale Albania SH.A. („SGAL”)**, the Albanian subsidiary of Societe Generale Group, so it was consolidated from March 2019.

The financial closure of the transaction, based on the acquisition agreement on purchasing 99.74% shareholding of **Societe Generale Expressbank („SGEB”)**, the Bulgarian subsidiary of Societe Generale Group (“SG”), and other local subsidiaries held by SGEB, between Societe Generale Group and DSK Bank EAD (“DSK Bank”), the Bulgarian subsidiary of OTP Bank, has been completed on 15 January 2019, so it was consolidated from January 2019. The acquisition agreement between SG and DSK Bank was signed on 1 August 2018.

The Bulgarian Expressbank AD merged with its parent DSK Bank AD, which was entered in the company register on the 30th of April 2020. The integration of whole bank systems and information was completed on the 4th of May 2020. Podgorička Banka AD Podgorica in Montenegro merged with its parent bank on the 11th of December 2020, named Crnogorska Komercijalna Banka AD Podgorica after the merger.

**OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

NOTE 41: ACQUISITIONS (in HUF mn) [continued]

Purchase and consolidation of subsidiaries [continued]

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

	SKB Banka d.d. Ljubljana Group	Mobiasbanca - OTP Group S.A.	Podgorička banka AD Podgorica	OTP Banka Srbija AD. Beograd Group	Banka OTP Albania SH.A	Expressbank Group
Cash amounts and due from banks and balances with the National Banks	(86,661)	(8,171)	(48,951)	(123,247)	(35,048)	(119,589)
Placements with other banks, net of loss allowance for placements and net of repo receivables	(177)	(74,906)	(733)	(13)	(3,951)	(113,360)
Financial assets at fair value through profit or loss	(5,148)	(56)	(673)	(3,706)	-	(20,110)
Securities at fair value through other comprehensive income	(93,807)	-	(10,272)	(106,992)	(50,424)	(116,786)
Loans at amortized cost	(997,417)	(96,837)	(127,867)	(694,521)	(125,400)	(793,134)
Loans mandatorily at fair value through profit or loss	(2,586)	-	-	-	-	-
Associates and other investments	-	-	-	-	-	(803)
Securities at amortized cost	(83,625)	(17,050)	-	(5,402)	-	-
Property and equipment	(11,896)	(3,424)	(3,095)	(10,052)	(626)	(19,178)
Intangible assets	(14,874)	(879)	(1,224)	(11,457)	(1,746)	(15,793)
Right-of-use assets	(1,905)	(1,733)	(263)	(2,430)	(1,256)	(4,838)
Investment properties	(300)	-	-	-	-	-
Derivative financial assets designated as hedge accounting	-	-	-	-	-	-
Other assets	(10,289)	(1,013)	(751)	(5,062)	(1,373)	(5,487)
Total assets	(1,308,685)	(204,069)	(193,829)	(962,882)	(219,824)	(1,209,078)

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 41: ACQUISITIONS (in HUF mn) [continued]

Purchase and consolidation of subsidiaries [continued]

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

	SKB Banka d.d. Ljubljana Group	Mobiasbanca - OTP Group S.A.	Podgorička banka AD Podgorica	OTP Banka Srbija AD. Beograd Group	Banka OTP Albania SH.A.	Expressbank Group
Amounts due to the banks, the National Governments, deposits from the National Banks and other banks and repo liabilities	260,395	15,870	30,518	229,216	18,762	139,753
Financial liabilities designated at fair value through profit or loss	2,005	-	-	-	-	-
Deposits from customers	886,419	152,145	127,663	541,005	175,534	874,910
Liabilities from issued securities	-	-	-	-	-	-
Derivative financial liabilities held for trading	-	-	-	-	-	3,497
Derivative financial liabilities designated as hedge accounting	3,016	-	-	-	-	-
Leasing liabilities	1,909	-	246	2,422	1,257	4,838
Other liabilities	16,976	3,305	11,739	16,425	1,838	16,886
Subordinated bonds and loans	=	=	=	24,244	=	3,878
Total liabilities	1,170,720	171,320	170,166	813,312	197,391	1,043,762
Net assets	(137,965)	(32,749)	(23,663)	(149,570)	(22,433)	(165,316)
Net assets total	2019					
Non-controlling interest	(531,696)					
Negative goodwill	4,103 ¹					
Net cash	67,516					
	(460,077)					

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 41: ACQUISITIONS (in HUF mn) [continued]

Purchase and consolidation of subsidiaries [continued]

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

	Interest income	Net result	One-off expense ¹
SKB Banka d.d. Ljubljana Group	-	-	4,972
Mobiasbanca - OTP Group S.A.	5,309	1,508	778
Podgorička banka AD Podgorica	3,991	691	978
OTP Banka Srbija AD. Beograd Group	9,820	2,720	2,610
Banka OTP Albania SH.A.	7,418	1,173	1,606
Expressbank Group	<u>34,204</u>	<u>16,682</u>	<u>5,752</u>
Total	<u>60,742</u>	<u>22,774</u>	<u>16,696</u>

Breakdown of the acquired entity's income, profit / loss if the Group would have acquired from the beginning of year 2019:

	Interest income	Net result	One-off expense ¹
SKB Banka d.d. Ljubljana Group	30,254	21,350	4,972
Mobiasbanca - OTP Group S.A.	11,553	4,255	778
Podgorička banka AD Podgorica	8,574	2,755	978
OTP Banka Srbija AD. Beograd Group	39,195	18,519	2,610
Banka OTP Albania SH.A.	9,944	2,075	1,606
Expressbank Group	<u>34,204</u>	<u>16,682</u>	<u>5,752</u>
Total	<u>133,724</u>	<u>65,636</u>	<u>16,696</u>

With the acquisitions the following shares were purchased:

	Number of shares	Type	Voting rights
SKB Bank d.d. Ljubljana	12,614,965	ordinary share	99.72%
SKB Leasing d.o.o.	-	-	100.00%
SKB Leasing Select d.o.o.	-	-	100.00%
Mobiasbanca-OTP Group SA	9,669,155	ordinary share	96.69%
Podgorička banka AD Podgorica	87,602	ordinary share	90.56%
OTP Banka Srbija AD. Beograd	5,331,016	ordinary share	100.00%
OTP Leasing Srbija d.o.o. Beograd	-	-	100.00%
OTP Osiguranje ADO Beograd	305,408	ordinary share	100.00%
Banka OTP Albania	67,409	ordinary share	100.00%
Expressbank AD.	33,584,555	ordinary share	100.00%
OTP Leasing EOOD	-	-	100.00%
Express Factoring EOOD	-	-	100.00%
Express Life insurance Joint-Stock Company	29,918	ordinary share	100.00%

¹ The net result was decreased by the loss allowance on loans in accordance with IFRS 9 after the first day of the acquisition (Day 1).

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 42: SIGNIFICANT SUBSIDIARIES AND ASSOCIATES (in HUF mn)

The control is established when the Group has the right and exposure over the variable positive yield of the investee but the same time put up with the consequences of the negative returns and the Group by its decisions is able to influence the extent of the yields.

The Group primarily considering the following factors in the process of determining the existing of the control:

- investigation of the decision making mechanism of the entity,
- authority of the Board of Directors, Supervisory Board and General meeting based on the deed of association,
- existence of investments with preferential voting rights.

If the control can't be obviously determined then it should be supposed that the control does not exist.

Significant influence is presumed by the Group to exist – unless the contrary case is proven – when the Group holds 20% or more of the voting power of an investee but does not have a control.

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

Significant subsidiaries

Name	Ownership (Direct and Indirect)		Activity
	2020	2019	
DSK Bank EAD (Bulgaria)	99.91%	100.00%	commercial banking services
OTP Bank JSC (Ukraine)	100.00%	100.00%	commercial banking services
JSC "OTP Bank" (Russia)	97.91%	97.91%	commercial banking services
OTP banka d.d. (Croatia)	100.00%	100.00%	commercial banking services
OTP Bank Romania S.A. (Romania)	100.00%	100.00%	commercial banking services
Vojvodjanska banka a.d. Novi Sad (Serbia)	100.00%	100.00%	commercial banking services
OTP banka Srbija a.d. Beograd (Serbia)	100.00%	100.00%	commercial banking services
Crnogorska komercijalna banka a.d. (Montenegro)	100.00%	100.00%	commercial banking services
Banka OTP Albania SHA (Albania)	100.00%	100.00%	commercial banking services
Mobiasbanca - OTP Group S.A. (Moldova)	98.26%	98.26%	commercial banking services
SKB Banka d.d. Ljubljana (Slovenia)	100.00%	99.66%	commercial banking services
OTP Financing Malta Company Ltd. (Malta)	100.00%	100.00%	refinancing activities
OTP Financing Netherlands B.V. (the Netherlands)	100.00%	100.00%	refinancing activities
OTP Holding Ltd. (Cyprus)	100.00%	100.00%	refinancing activities
OTP Financing Cyprus Ltd. (Cyprus)	100.00%	100.00%	refinancing activities
OTP Factoring Ltd.	100.00%	100.00%	work-out
OTP Mortgage Bank Ltd.	100.00%	100.00%	mortgage lending
OTP Real Estate Ltd.	100.00%	100.00%	real estate management and development
Merkantil Bank Ltd.	100.00%	100.00%	finance lease
OTP Building Society Ltd.	100.00%	100.00%	housing savings and loan
OTP Fund Management Ltd.	100.00%	100.00%	fund management
Bank Center No. 1. Ltd.	100.00%	100.00%	real estate lease
Inga Kettő Ltd.	100.00%	100.00%	property management
OTP Funds Servicing and Consulting Ltd.	100.00%	100.00%	fund services
OTP Real Estate Leasing Ltd.	100.00%	100.00%	real estate leasing

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 42: SIGNIFICANT SUBSIDIARIES AND ASSOCIATES (in HUF mn) [continued]

Significant associates and joint ventures¹

Summarized financial and non-financial information of associates and joint ventures which are not significant on Group level and are accounted according to IAS 28 (Szallas.hu and D-ÉG Thermoset Ltd.) or accounted on cost (Company for Cash Services Ltd.) is as follows:

2020	<i>Szallas.hu Ltd.</i>	<i>D-ÉG Thermoset Ltd.²</i>	<i>Company for Cash Services Ltd.</i>	<i>Total</i>
Total assets	5,855	3,883	2,856	12,594
Total liabilities	1,358	4,629	147	6,134
Shareholders' equity	4,497	(746)	2,709	6,460
Total revenues	3,833	2,386	1,531	7,750
Ownership	47.4%	24.6%	25.0%	
Country /				
Headquarter	Hungary, Miskolc	Hungary, Budapest	Bulgaria, Sofia	

Activity:

Szallas.hu Ltd.	Web portal services.
D-ÉG Thermoset Ltd.	Wholesale of hardware, plumbing and heating equipment and supplies.
Company for Cash Services Ltd.	Other financial services, except insurance and pension funding.

2019	<i>Szallas.hu Ltd.</i>	<i>D-ÉG Thermoset Ltd.²</i>	<i>Company for Cash Services Ltd.</i>	<i>Total</i>
Total assets	4,939	3,883	2,736	11,558
Total liabilities	1,429	4,629	186	6,244
Shareholders' equity	3,510	(746)	2,550	5,314
Total revenues	3,405	2,386	1,315	7,106
Ownership	50.0%	24.6%	25.0%	
Country /				
Headquarter	Hungary, Miskolc	Hungary, Budapest	Bulgaria, Sofia	

NOTE 43: TRUST ACTIVITIES (in HUF mn)

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

	2020	2019
The amount of loans managed by the Group as a trustee	36,811	37,320

¹ Based on unaudited financial statements.

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 44: CONCENTRATION OF ASSETS AND LIABILITIES

	2020	2019
In the percentage of the total assets		
Receivables from, or securities issued by the Hungarian Government or the NBH	14.45%	15.63%

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

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

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

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

The Bank' internal regulation (Limit-management regulation) controls risk management which related to exposures of clients. The Bank makes a difference between clients or clients who are economically connected with each other, partners, partners operating in the same geographical region or in the same economic sector, exposures from customers. Limit-management regulation includes a specific range provision system used by the Bank to control risk exposures. This regulation has to be used by the Bank for its business (lending) risk-taking activity both in retail and corporate sector.

To specify credit risk limits Group strives their clients get an acceptable margin of risk based on their financial situation. In the Group limit system has to be provided a lower level decision-making delegation.

If a Group member takes risk against a client or group of clients (either inside the local economy or outside), the client will be qualified as a group level risk and these limits will be specified at group level.

The validity period of this policy is 12 months. The limit shall be reviewed prior to the expiry date but at least once a year - based on the relevant information required to limit calculations.

NOTE 45: EARNINGS PER SHARE (in HUF mn)

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

Earnings per share from continuing and discontinued operations	2020	2019
Consolidated net profit for the year attributable to ordinary shareholders (in HUF mn)	259,416	412,241
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	258,461,554	261,593,299
Basic Earnings per share (in HUF)	<u>1,004</u>	<u>1,576</u>
Consolidated net profit for the year attributable to ordinary shareholders (in HUF mn)	259,416	412,241
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	258,543,088	261,660,993
Diluted Earnings per share (in HUF)	<u>1,003</u>	<u>1,575</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 45: EARNINGS PER SHARE (in HUF mn) [continued]

Earnings per share from continuing operations	2020	2019
Consolidated net profit for the year attributable to ordinary shareholders (in HUF mn)	253,826	416,909
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	258,461,554	261,593,299
Basic Earnings per share (in HUF)	<u>982</u>	<u>1,594</u>
Consolidated net profit for the year attributable to ordinary shareholders (in HUF mn)	253,826	416,909
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	258,543,088	261,660,993
Diluted Earnings per share (in HUF)	<u>982</u>	<u>1,593</u>
Earnings per share from discontinued operations	2020	2019
Consolidated net profit for the year attributable to ordinary shareholders (in HUF mn)	5,590	(4,668)
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	258,461,554	261,593,299
Basic Earnings per share (in HUF)	<u>22</u>	<u>(18)</u>
Consolidated net profit for the year attributable to ordinary shareholders (in HUF mn)	5,590	(4,668)
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	258,543,088	261,660,993
Diluted Earnings per share (in HUF)	<u>22</u>	<u>(18)</u>
	2020	2019
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	21,538,456	18,406,711
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	<u>258,461,554</u>	<u>261,593,299</u>
Dilutive effects of options issued in accordance with the remuneration policy and convertible into ordinary shares ¹	81,534	67,694
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	<u>258,543,088</u>	<u>261,660,993</u>

¹ Both in the year 2020 and 2019 the dilutive effect is in connection with the Remuneration Policy and the Management Option Program.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 46: NET GAIN OR LOSS REALIZED ON FINANCIAL INSTRUMENTS (in HUF mn)

2020	Net interest / similar to interest gain and loss	Net non- interest gain and loss	Loss allowance	Other Compre- hensive Income
Cash, amounts due from banks and balances with the National Banks	5,103	-	-	-
Placements with other banks, net of loss allowance for placements	9,200	-	(851)	-
Repo receivables	286	-	62	-
Trading securities at fair value through profit or loss	-	2,745	-	-
Non-trading instruments mandatorily at fair value through profit or loss	473	7,239	-	-
Securities at fair value through other comprehensive income	44,782	2,325 ¹	(4,507)	(6,931)
Securities at amortized cost	69,905	1,402	(2,802)	-
Loans at amortized cost	658,579	26,254	(189,554)	-
Finance lease receivables	54,046	-	(9,972)	-
Loans mandatorily at fair value through profit or loss	28,251	2,125	(3,262)	-
Other financial assets	2,739 ²	-	878	-
Derivative financial instruments	(628) ²	13,734	=	=
Total result on financial assets	<u>872,736</u>	<u>55,824</u>	<u>(210,008)</u>	<u>(6,931)</u>
Amounts due to banks, the National Governments, deposits from the National Banks and other banks	(18,492)	-	-	-
Repo liabilities	(653)	-	-	-
Financial liabilities designated at fair value through profit or loss	(307)	1,270	-	-
Deposits from customers	(53,522)	234,030	-	-
Liabilities from issued securities	(7,750)	-	-	-
Leasing liabilities	(1,623)	-	-	-
Subordinated bonds and loans	(7,718)	=	=	=
Total result on financial liabilities	<u>(90,065)</u>	<u>235,300</u>	<u>=</u>	<u>=</u>
Total result on financial instruments	<u>782,671</u>	<u>291,124</u>	<u>(210,008)</u>	<u>(6,931)</u>

¹ For the year 2020 HUF 2,325 million net non-interest gain on securities at fair value through other comprehensive income was transferred from other comprehensive income to profit or loss.

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 46: NET GAIN OR LOSS REALIZED ON FINANCIAL INSTRUMENTS (in HUF mn)
[continued]

2019	Net interest / similar to interest gain and loss	Net non- interest gain and loss	Loss allowance	Other Compre- hensive Income
Cash, amounts due from banks and balances with the National Banks	2,037	-	-	-
Placements with other banks, net of loss allowance for placements	10,521	-	235	-
Repo receivables	788	-	-	-
Trading securities at fair value through profit or loss	-	2,542	-	-
Non-trading instruments mandatorily at fair value through profit or loss	202	1,914	-	-
Securities at fair value through other comprehensive income	46,521	8,485 ¹	(153)	30,224
Securities at amortized cost	62,468	714	162	-
Loans at amortized cost	598,534	22,541	(40,271)	-
Finance lease receivables	40,914	-	(4,440)	-
Loans mandatorily at fair value through profit or loss	17,509	(2,131)	(2,953)	-
Other financial assets	3,672 ²	-	280	-
Derivative financial instruments	773 ²	(996)	=	=
Total result on financial assets	<u>783,939</u>	<u>33,069</u>	<u>(47,140)</u>	<u>30,224</u>
Amounts due to banks, the National Governments, deposits from the National Banks and other banks	(11,842)	-	-	-
Repo liabilities	(148)	-	-	-
Financial liabilities designated at fair value through profit or loss	(367)	(21)	-	-
Deposits from customers	(59,397)	228,939	-	-
Liabilities from issued securities	(6,749)	-	-	-
Leasing liabilities	(1,652)	-	-	-
Subordinated bonds and loans	(4,743)	=	=	=
Total result on financial liabilities	<u>(84,898)</u>	<u>228,918</u>	<u>=</u>	<u>=</u>
Total result on financial instruments	<u>699,041</u>	<u>261,987</u>	<u>(47,140)</u>	<u>30,224</u>

¹ For the year ended 31 December 2019 HUF 8,485 million net non-interest gain on securities at fair value through other comprehensive income was transferred from other comprehensive income to profit or loss.

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 47: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn)

In determining the fair value of a financial asset or liability the Group in the case of instruments that are quoted on an active market uses the market price. In most cases market price is not publicly available so the Group has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 47. d) for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.

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

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

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

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

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 47: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

a) Fair value of financial assets and liabilities

	2020		2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash, amounts due from banks and balances with the National Banks	2,432,312	2,432,312	1,784,378	1,784,378
Placements with other banks, net of loss allowance for placements	1,148,743	1,150,081	342,922	316,298
Repo receivables	190,849	191,149	67,157	67,157
Financial assets at fair value through profit or loss	234,007	234,007	251,990	251,990
<i>Trading securities at fair value through profit or loss</i>	56,572	56,572	100,048	100,048
<i>Fair value of derivative financial assets held for trading</i>	117,623	117,623	110,624	110,624
<i>Non-trading instruments mandatorily at fair value through profit or loss</i>	57,577	57,577	39,317	39,317
<i>Financial assets designated at fair value through profit or loss</i>	2,235	2,235	2,001	2,001
Securities at fair value through other comprehensive income	2,136,709	2,136,709	2,426,779	2,426,779
Securities at amortized cost	2,624,920	2,384,933	1,968,072	2,087,633
Loans at amortized cost ¹	11,674,842	12,802,818	10,413,521	11,113,687
Finance lease receivables	1,051,140	1,070,528	969,263	969,263
Loans measured at fair value through profit or loss	802,605	802,605	496,278	496,278
Derivative financial assets designated as hedge accounting	6,820	6,820	7,463	7,463
Other financial assets	140,562	140,562	123,053	123,053
Financial assets total	22,443,509	23,352,524	18,850,876	19,643,979
Amounts due to the National Governments, to the National Banks and other banks	1,185,315	1,172,036	812,911	1,070,948
Repo liabilities	117,991	119,927	488	488
Financial liabilities designated at fair value through profit or loss	34,131	34,131	30,862	30,862
Deposits from customers	17,890,863	17,905,676	15,171,308	15,240,968
Liabilities from issued securities	464,213	529,723	393,167	494,196
Held for trading derivative financial liabilities	104,823	104,823	86,743	86,743
Derivative financial liabilities designated as hedge accounting	11,341	11,341	10,709	10,709
Leasing liabilities	48,451	48,451	54,194	54,194
Other financial liabilities	389,902	389,902	338,020	338,020
Subordinated bonds and loans	274,704	265,679	249,938	237,381
Financial liabilities total	20,521,734	20,581,689	17,148,340	17,564,509

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 47: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

b) Fair value of derivative instruments

The Group regularly enters into hedging transactions in order to decrease its financial risks. However some economically hedging transaction do not meet the criteria to account for hedge accounting, therefore these transactions were accounted as derivatives held for trading.

The assessment of the hedge effectiveness (both for fair value hedges and cash flow hedges) to determine the economic relationship between the hedged item and the hedging instrument is accomplished with prospective scenario analysis via different rate shift scenarios of the relevant risk factor(s) of the hedged risk component(s). The fair value change of the hedged item and the hedging instrument is compared in the different scenarios. Economic relationship is justified if the change of the fair value of the hedged item and the hedging instrument are in the opposite direction and the absolute changes are similar amounts. The hedge ratio is determined as the ratio of the notional of the hedged item and the notional of the hedging instrument. The sources of hedge ineffectiveness are the not hedged risk components (e.g. change of cross currency basis spreads in case of interest rate risk hedges), slight differences in maturity dates and interest payment dates in case of fair value hedges, and differences between the carrying amount of the hedged item and the carrying amount of the hedging instrument in case of FX hedges (e.g. caused by interest rate risk components in the fair value of the hedging instrument).

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

	2020		2019	
	Assets	Liabilities	Assets	Liabilities
Held for trading derivative financial instruments				
Interest rate derivatives				
Interest rate swaps	24,979	(24,752)	33,203	(31,471)
Cross currency interest rate swaps	7,315	(7,419)	1,141	(1,037)
OTC options	359	(8)	306	(14)
Forward rate agreement	=	=	13	(32)
Total interest rate derivatives (OTC derivatives)	<u>32,653</u>	<u>(32,179)</u>	<u>34,663</u>	<u>(32,554)</u>
Foreign exchange derivatives				
Foreign exchange swaps	41,838	(35,537)	32,845	(26,244)
Foreign exchange forward contracts	8,689	(10,750)	3,522	(5,504)
OTC options	3,909	(3,835)	3,098	(3,114)
Foreign exchange spot conversion	553	(657)	16	(55)
Total foreign exchange derivatives (OTC derivatives)	<u>54,989</u>	<u>(50,779)</u>	<u>39,481</u>	<u>(34,917)</u>
Equity stock and index derivatives				
Commodity Swaps	9,695	(8,269)	1,097	(954)
Equity swaps	7,071	(560)	4,530	(558)
OTC derivatives total	<u>16,766</u>	<u>(8,829)</u>	<u>5,627</u>	<u>(1,512)</u>
Exchange traded futures and options	379	(1,262)	5	(248)
Total equity stock and index derivatives	<u>17,145</u>	<u>(10,091)</u>	<u>5,632</u>	<u>(1,760)</u>
Derivatives held for risk management not designated in hedge				
Interest rate swaps	11,943	(8,208)	27,995	(15,246)
Foreign exchange swaps	808	(3,566)	2,757	(2,209)
Forward contracts	41	-	21	(57)
Cross currency interest rate swaps	44	=	75	=
Total derivatives held for risk management not designated in hedge	<u>12,836</u>	<u>(11,774)</u>	<u>30,848</u>	<u>(17,512)</u>
Total held for trading derivative financial instruments	<u>117,623</u>	<u>(104,823)</u>	<u>110,624</u>	<u>(86,743)</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 47: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

b) Fair value of derivative instruments [continued]

	2020		2019	
	Assets	Liabilities	Assets	Liabilities
Derivative financial instruments designated as hedge accounting				
Derivatives designated in fair value hedges				
Interest rate swaps	641	(5,334)	3,758	(8,839)
Cross currency interest rate swaps	<u>6,179</u>	<u>(6,007)</u>	<u>3,705</u>	<u>(1,870)</u>
Total derivatives designated in fair value hedges	<u>6,820</u>	<u>(11,341)</u>	<u>7,463</u>	<u>(10,709)</u>
Total derivatives held for risk management (OTC derivatives)	<u>6,820</u>	<u>(11,341)</u>	<u>7,463</u>	<u>(10,709)</u>

c) Types of hedge accounting

Interest rate risk management is centralized at the Group. Interest rate risk exposures in major currencies are managed at OTP Headquarter on consolidated level. Although risk exposures in local currencies are managed at subsidiary level, the respective decisions are subject to Headquarter ALCO approval. Interest rate risk is measured by simulating NII and EVE under different stress and plan scenarios, the established risk limits are described in „OTP Bank’s Group-Level Regulations on the Management of Liquidity Risk and Interest Rate Risk of Banking Book”. The interest rate risk management activity aims to stabilize NII within the approved risk limits

The risk management objective of these hedge relationships is to mitigate the risk of clean fair value (i.e. excluding accrued interest) change of MIRS loans due to the change of interest rate reference indexes (BUBOR, EURIBOR, LIBOR, etc.) of the respective currency.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 47: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Types of hedge accounting [continued]

Amount, timing of future cash flows and types of risk – hedging instruments as at 31 December 2020

Type of hedge	Type of risk	Type of instrument	Within one month	Within three months and over one month	Within one year and over three months	Within five years and over one year	More than five years	Total		
Fair Value Hedge	Interest rate risk	Interest rate swap	HUF							
			Notional	-	-	60,000	(89,622)	173,810	144,188	
			Average Interest Rate (%)	-	-	1.31%	1.06%	1.35%		
			EUR							
			Notional	15	-	5	102	10	132	
			Average Interest Rate (%)	(0.11)%	-	0.09%	0.24%	0.22%		
USD										
Fair Value Hedge	Interest rate risk	Interest rate swap	RUB							
			Notional	-	-	21	171	29	221	
			Average Interest Rate (%)	-	-	2.00%	2.38%	2.35%		
			EUR/HUF							
			Notional	-	-	-	-	2,100	-	2,100
			Average Interest Rate (%)	-	-	-	-	7.38%	-	
Fair Value Hedge	Foreign exchange & Interest rate risk	Cross currency interest rate swap	EUR/HUF							
			Notional	-	-	-	-	2	14	28
			Average Interest Rate (%)	(1.55)%	(1.59)%	(1.60)%	(1.63)%	(1.67)%		
			Average FX Rate	311.08	310.95	310.82	310.14	308.15		

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 47: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Types of hedge accounting [continued]

Amount, timing of future cash flows and types of risk – hedging instruments as at 31 December 2020 [continued]

Type of hedge	Type of risk	Type of instrument	Within one month	Within three months and over one month	Within one year and over three months	Within five years and over one year	More than five years	Total
Fair Value Hedge	Foreign exchange risk	Cross currency interest rate swap						
		EUR/HUF						
		Notional	1	92	123	613	-	829
		Average FX Rate	360.19	354.92	360.47	356.03	-	-
		RON/HUF						
		Notional	-	-	-	1,550	-	1,550
		Average FX Rate	-	-	-	72.6	-	-
		RUB/HUF						
		Notional	-	-	-	4,100	-	4,100
		Average FX Rate	-	-	-	4.46	-	-
Other	Interest rate swap	HUF						
		Notional	-	(183)	6,940	8,342	-	15,099

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 47: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Types of hedge accounting [continued]

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

Type of hedge	Type of risk	Type of instrument	Within one month	Within three months and over one month	Within one year and over three months	Within five years and over one year	More than five years	Total
Fair Value Hedge	Interest rate risk	Interest rate swap						
		HUF						
		Notional	-	-	229,600	65,268	145,510	440,378
		Average Interest Rate (%)	-	-	1.84%	1.29%	1.26%	
		EUR						
		Notional	-	20	-	177	27	224
Average Interest Rate (%)	-	3.88%	-	0.14%	0.61%			
Fair Value Hedge	Foreign exchange & interest rate risk	Interest rate swap						
		USD						
		Notional	-	-	8	437	29	474
		Average Interest Rate (%)	-	-	2.64%	1.92%	2.35%	
		RUB						
		Notional	-	-	-	2,100	-	2,100
Average Interest Rate (%)	-	-	-	7.38%	-			
Fair Value Hedge	Cross currency interest rate swap	Interest rate swap						
		EUR/HUF						
		Notional	-	-	2	15	14	31
Average Interest Rate (%)	-	-	(1.60)%	(1.63)%	(1.66)%			
Average FX Rate	-	-	310.37	309.79	308.69			

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 47: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Types of hedge accounting [continued]

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

Type of hedge	Type of risk	Type of instrument	Within one month	Within three months and over one month	Within one year and over three months	Within five years and over one year	More than five years	Total
Fair Value Hedge	Foreign exchange risk	Cross currency interest rate swap						
		RON/HUF			150	1,050	-	1,200
		Notional	-	-	67.5	68.83	-	-
		Average FX Rate						
		RUB/HUF			2,000	9,100	-	11,100
		Notional	-	-	4.2	4.33	-	-
		Average FX Rate						
Fair Value Hedge	Other	Interest rate swap						
		HUF						
		Notional	-	(310)	13,644	15,763	-	29,097

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 47: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Types of hedge accounting [continued]

As at 31 December 2020 is as follows:

Type of hedge	Type of instrument	Type of risk	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument as at 31 December 2020	Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness for the year ended as at 31 December 2020
				Assets	Liabilities	
Fair value hedge	Interest rate swap	Interest rate risk	468,574	111	(5,267)	Derivative financial instruments designated as hedge accounting (370)
	Cross-currency swap	FX & IR risk	8,874	-	(1,618)	Derivative financial instruments designated as hedge accounting (36)
	Cross-currency swap	FX risk	438,401	6,179	(4,456)	Derivative financial instruments designated as hedge accounting (809)
	Interest rate swap	Other	16,224	530	=	Derivative financial instruments designated as hedge accounting 2
Fair value hedges total			<u>932,073</u>	<u>6,820</u>	<u>(11,341)</u>	<u>(1,213)</u>

As at 31 December 2019 is as follows:

Type of hedge	Type of instrument	Type of risk	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument as at 31 December 2019	Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness for the year ended as at 31 December 2019
				Assets	Liabilities	
Fair value hedge	Interest rate swap	Interest rate risk	687,820	2,251	(8,839)	Derivative financial instruments designated as hedge accounting 341
	Cross-currency swap	FX & IR risk	11,681	-	(488)	Derivative financial instruments designated as hedge accounting (103)
	Cross-currency swap	FX risk	137,390	3,705	(1,382)	Derivative financial instruments designated as hedge accounting (271)
	Interest rate swap	Other	30,983	1,507	=	Derivative financial instruments designated as hedge accounting 7
Fair value hedges total			<u>867,874</u>	<u>7,463</u>	<u>(10,709)</u>	<u>(26)</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 47: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Types of hedge accounting [continued]

As at 31 December 2020 is as follows:

Type of hedge	Type of risk	Carrying amount of the hedged item as at 31 December 2020		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item for the year ended 31 December 2020		Line item in the statement of financial position in which the hedged item is included
		Assets	Liabilities	Assets	Liabilities	
Fair value hedges						
- Loans	Interest rate risk	35,256	(100,299)	507	(151)	Loans
- Government bonds	Interest rate risk	177,888	-	884	-	Securities at amortized cost
- Government bonds	Interest rate risk	91,950	-	1,154	-	Securities at fair value through other comprehensive income
- Government bonds	Interest rate risk	-	-	-	-	Financial assets at fair value through profit or loss
- Other securities	Interest rate risk	47,560	-	793	-	Securities at fair value through other comprehensive income
- Loans	Foreign exchange & Interest rate risk	96,972	-	9	(1,634)	Loans
- Loans	Foreign exchange risk	303,572	-	10,855	-	Loans
- Other securities	Other risk	=	(15,032)	=	(3,144)	Liabilities from issued securities
Fair value hedges total		753,198	(115,331)	14,202	(4,929)	

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 47: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Types of hedge accounting [continued]

As at 31 December 2019 is as follows:

Type of hedge	Type of risk	Carrying amount of the hedged item as at 31 December 2019		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item for the year ended 2019	Line item in the statement of financial position in which the hedged item is included
		Assets	Liabilities		
Fair value hedges					
- Loans	Interest rate risk	36,709	-	521	- Loans
- Government bonds	Interest rate risk	578,026	-	109	- Securities at amortized cost
- Government bonds	Interest rate risk	144,234	-	1,074	- Securities at fair value through other comprehensive income
- Government bonds	Interest rate risk	-	-	-	- Financial assets at fair value through profit or loss
- Other securities	Interest rate risk	85,231	-	166	- Securities at fair value through other comprehensive income
- Loans	Foreign exchange & Interest rate risk	12,242	-	2	- Loans
- Loans	Foreign exchange risk	136,088	-	1,465	- Loans
- Other securities	Other risk	=	(29,018)	=	(5,765) Liabilities from issued securities
Fair value hedges total		992,530	(29,018)	3,337	(5,765)

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 47: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Types of hedge accounting [continued]

As at 31 December 2019 is as follows:

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

On Group level there weren't any cash-flow hedges for the year ended 31 December 2020.

According to the strategic direction designated by the Management Committee, a decision was made about closing in accounting meaning the former EUR 310 million strategic open position which was presented at the end of 2019 in the consolidated financial statements, so at the end of 2020 regarding net investment hedges for foreign subsidiaries there aren't any disclosure requirements to be presented.

Net investment hedge for foreign subsidiaries as at 31 December 2019 is as follows:

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

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 47: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) Fair value levels

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

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

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

2020	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	234,007	67,820	156,090	10,097
<i>Trading securities at fair value</i>				
through profit or loss	56,572	30,333	26,227	12
<i>Positive fair value of derivative</i>				
<i>financial assets held for trading</i>	117,623	388	117,235	-
<i>Non-trading instruments mandatorily</i>				
<i>at fair value through profit or loss</i>	57,577	37,099	10,393	10,085 ¹
<i>Financial assets designated</i>				
<i>at fair value through profit or loss</i>	2,235	-	2,235	-
Securities at fair value through				
other comprehensive income	2,136,709	1,137,821	941,982	56,906 ²
Loans mandatorily measured at fair				
value through profit or loss	802,605	1,089	2,535	798,981
Positive fair value of derivative financial				
assets designated as fair value hedge	6,820	-	6,820	-
Financial assets measured at fair value total	<u>3,180,141</u>	<u>1,206,730</u>	<u>1,107,427</u>	<u>865,984</u>
Financial liabilities designated at				
fair value through profit or loss	34,131	-	2,235	31,896
Negative fair value of held-for-trading				
derivative financial liabilities	104,823	1,386	103,437	-
Negative fair value of derivative financial				
liabilities designated as fair value hedge	11,341	-	11,341	-
Financial liabilities measured				
 at fair value total	<u>150,295</u>	<u>1,386</u>	<u>117,013</u>	<u>31,896</u>

¹ The portfolio includes mainly Visa C shares.

² The portfolio includes mainly HUF 46,124 million albanian government bonds.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 47: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) Fair value levels [continued]

2019	Total	Level 1	Level 2	Level 3
Financial assets at fair value through profit or loss	251,990	105,246	143,233	3,511
<i>Trading securities at fair value through profit or loss</i>	100,048	75,963	24,085	-
<i>Positive fair value of derivative financial assets held for trading</i>	110,624	6	110,618	-
<i>Non-trading instruments mandatorily at fair value through profit or loss</i>	39,317	29,277	6,529	3,511
<i>Financial assets designated at fair value through profit or loss</i>	2,001	-	2,001	-
Securities at fair value through other comprehensive income	2,426,779	1,591,882	775,202	59,695 ¹
Loans mandatorily measured at fair value through profit or loss	496,278	490	2,581	493,207
Positive fair value of derivative financial assets designated as fair value hedge	7,463	-	7,463	-
Financial assets measured at fair value total	<u>3,182,510</u>	<u>1,697,618</u>	<u>928,479</u>	<u>556,413</u>
Financial liabilities designated at fair value through profit or loss	30,862	-	2,001	28,861
Negative fair value of held for trading derivative financial liabilities	86,743	249	86,494	-
Negative fair value of derivative financial liabilities designated as fair value hedge	10,709	-	10,709	-
Financial liabilities measured at fair value total	<u>128,314</u>	<u>249</u>	<u>99,204</u>	<u>28,861</u>

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

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 47: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

d) Fair value levels [continued]

Movements in Level 3 financial instruments measured at fair value

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

2020	Opening balance	Purchase (+)	Issuance / Disbursement (+)	Settlement / Close (-)	Sale (-)	FVA (+/-)	Transfer (+/-)	Revaluation	Other	Closing balance
Trading securities at fair value	3,511	-	-	(5,043)	-	(362)	9,973	2,018	-	10,097
Securities at fair value through other comprehensive income	59,695	11,076	-	(9,398)	(162)	1,637	(10,812)	4,870	-	56,906
Loans mandatorily measured at fair value through profit or loss	493,207	=	333,908	(21,397)	=	(6,737)	=	=	=	798,981
Financial assets measured at fair value total	556,413	11,076	333,908	(35,838)	(162)	(5,462)	(839)	6,888	=	865,984
Financial liabilities designated at fair value through profit or loss	28,861	=	=	(1,689)	=	(1,270)	=	=	5,994	31,896
Financial liabilities designated at fair value total	28,861	=	=	(1,689)	=	(1,270)	=	=	5,994	31,896

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 47: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mm) [continued]

d) Fair value levels [continued]

Movements in Level 3 financial instruments measured at fair value

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

2019	Opening balance	Purchase (+)	Issuance /Disbursement (+)	Settlement /Close (-)	Sale (-)	FVA (+/-)	Transfer (+/-)	Revaluation	Closing balance
Trading securities at fair value	-	-	3,511	-	-	-	-	-	3,511
through profit or loss									
Securities at fair value									
through other									
comprehensive income	10,690	47,213	949	(217)	(1,295)	-	-	2,355	59,695
Loans mandatorily measured at fair value									
through profit or loss	263,534	-	266,091	(30,513)	-	(5,905)	-	-	493,207
Financial assets measured at fair value total	274,224	47,213	270,551	(30,730)	(1,295)	(5,905)	-	2,355	556,413
Financial liabilities designated at fair value									
through profit or loss	32,231	-	-	(3,349)	-	-	-	(21)	28,861
Financial liabilities designated at fair value total	32,231	-	-	(3,349)	-	-	-	(21)	28,861

There were no movements among the levels of fair value hierarchy either in the year ended 31 December 2020 or 31 December 2019 respectively.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 48: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS
(in HUF mn)

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

The operations in the Slovakian segment were discontinued. The segment information reported on the next pages does not include any amounts for these discontinued operations neither in the current year nor in the previous one, which are described in more details in Note 49.

The reportable segments of the Group on the base of IFRS 8 are the following:

OTP Core Hungary, Russia, Ukraine, Bulgaria, Romania, Serbia, Croatia, Montenegro, Albania, Moldova, Slovenia, Merkantil Group, Asset Management subsidiaries, Other subsidiaries and Corporate Center.

OTP Core is an economic unit for measuring the result of core business activity of the Group in Hungary. Financials for OTP Core are calculated from the partially consolidated financial statements of the companies engaged in the Group's underlying banking operation in Hungary. These companies include OTP Bank Hungary Plc., OTP Mortgage Bank Ltd., OTP Building Society Ltd., OTP Factoring Ltd., OTP Financial Point Ltd., and companies providing intragroup financing. The Bank Employee Stock Ownership Plan Organization was included from the fourth quarter of 2016; OTP Card Factory Ltd., OTP Facility Management Llc., Monicomp Ltd. and OTP Real Estate Lease Ltd. were included from the first quarter of 2017 (from the first quarter of 2019 OTP Real Estate Lease Ltd. was eliminated from OTP Core); OTP Mobile Service Llc., OTP Inगतlanpont Llc. were included from the first quarter of 2019 and OTP eBIZ Ltd was included from the first quarter of 2020. The consolidated accounting results of these companies are segmented into OTP Core and Corporate Centre. Latter is a virtual entity.

Within the Group, the Corporate Centre acts as a virtual entity established by the equity investment of OTP Core for managing the wholesale financing activity for all the subsidiaries within the Group but outside OTP Core. Therefore the balance sheet of the Corporate Centre is funded by the equity and intragroup lending received from OTP Core, the intragroup lending received from other subsidiaries, and the subordinated debt and senior notes arranged by OTP under its running EMTN program.

From this funding pool, the Corporate Centre is to provide intragroup lending to, and hold equity stakes in OTP subsidiaries outside OTP Core. Main subsidiaries financed by Corporate Centre are as follows: Hungarians: Merkantil Bank Ltd, Merkantil Leasing Ltd, OTP Fund Management Ltd, OTP Real Estate Fund Management Ltd, OTP Life Annuity Ltd; foreigners: banks, leasing companies, factoring companies.

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

From the first quarter of 2019 Expressbank AD and its subsidiaries, OTP Leasing EOOD and Express Factoring EOOD (altogether: Express Group) were included into the Bulgarian operation, so from the first quarter of 2019 the statement of recognized income and balance sheet of DSK Leasing AD was included into this segment too.

The Bulgarian Expressbank AD merged with its parent DSK Bank AD in April 2020.

The Serbian segment, OTP banka Srbija AD Beograd and Vojvodjanska Banka a.d. Novi Sad includes from the first quarter of 2019 the statements of profit or loss and financial positions of OTP Lizing d.o.o, OTP Services d.o.o. and from the third quarter of 2019 the financial position of the newly acquired OTP banka Srbija AD Beograd and from the fourth quarter of 2019 its statement of profit or loss too.

The Montenegrin segment, Crnogorska Komercijalna Banka a.d. and Podgoricka banka a.d. includes from the third quarter of 2019 the statement of profit or loss and financial position of the newly acquired Podgoricka banka a.d. In December 2020 Podgoricka banka a.d. merged into Crnogorska Komercijalna Banka a.d.

In the first quarter of 2019 the Albanian, and from the second half of year 2019 the Moldovan and Slovenian segments were included as new segments in the consolidated segment report.

The activities of the other subsidiaries are out of the leasing and fund management and factoring activity, such as: OTP Real Estate Ltd., OTP Life Annuity Ltd, OTP Funds Servicing and Consulting Ltd., OTP Building s.r.o., OTP Real Slovensko s.r.o.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 48: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF mn) [continued]

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

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

Adjustments

Goodwill / investment impairment and their tax saving effect:

As at 31 December 2020 HUF 9,841 million impairment was booked on the investment in OTP Bank Romania S.A. on which HUF 886 million positive tax effect was recognized. As at 31 December 2019 HUF 8,427 million was recognized on goodwill / investment impairment from which HUF 4,887 million was recognized on OTP Bank Romania S.A as goodwill impairment and HUF 3,540 million negative tax effect was recognized due to the impairment and release of impairment on investments, which is mainly related to the release of the previously recognized impairment on OTP Bank JSC (Ukraine).

Special tax on financial institutions (after income tax):

Special tax on financial institutions includes the special tax paid by the Hungarian financial institutions, the net present value effect of the once-off additional banking tax payable into the pandemic fund in 2020 (the payments are deductible from future banking taxes), the Slovakian banking levy and as well as in the fourth quarter of 2019 the banking tax paid by the Romanian bank, subsidiary of OTP Group. Besides, it also contains the Slovakian Deposit Protection Fund contributions being introduced again in 2014, and the contribution into the Resolution Fund in Slovakia, too.

Effect of acquisitions (after income tax):

The following main items appear on this line: the negative goodwill related to acquisitions which improves the accounting result, integration costs of the newly acquired banks and other direct effects due to the acquisitions (such as customer base value amortisation) and effects related to the sale of the Slovakian bank.

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 48: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS
(in HUF mn) [continued]

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

As at 31 December 2020

Main components of the Consolidated Statement of Profit or Loss in HUF million	OTP Group - consolidated - in the Consolidated Statement of Profit or Loss in HUF million		Foreign banks		OTP Group - consolidated - in the Consolidated Statement of Profit or Loss in HUF million		OTP Group - consolidated - in the Consolidated Statement of Profit or Loss in HUF million		OTP Group - consolidated - in the Consolidated Statement of Profit or Loss in HUF million		OTP Group - consolidated - in the Consolidated Statement of Profit or Loss in HUF million		OTP Group - consolidated - in the Consolidated Statement of Profit or Loss in HUF million		OTP Group - consolidated - in the Consolidated Statement of Profit or Loss in HUF million		OTP Group - consolidated - in the Consolidated Statement of Profit or Loss in HUF million		OTP Group - consolidated - in the Consolidated Statement of Profit or Loss in HUF million	
	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t
Net profit for the year from continued and discontinued operations	23,379,771	0	1,192,249	19,689,776	4,343,625	2,315,669	2,892,332	1,553,772	1,102,183	779,912	688,980	477,676	285,686	249,971	1,118,927	647,120	35,584	416,223	246,511	6,517,972
Net profit for the year from discontinued operations	5,590	5,590																		
Net profit for the year from continued operations	23,379,771	5,590	1,192,249	19,689,776	4,343,625	2,315,669	2,892,332	1,553,772	1,102,183	779,912	688,980	477,676	285,686	249,971	1,118,927	647,120	35,584	416,223	246,511	6,517,972
Adjustments (total)	(5,623)	(5,623)																		
Dividends and net cash transfers (after income tax)	233	233																		
Goodwill / investment impairment (after income tax)	886	886																		
Bank tax on financial institutions (after income tax)	(17,365)	(17,365)																		
Effect of acquisition (after income tax)	(12,441)	(12,441)																		
Impact of fines imposed by the Hungarian Competition Authority (after income tax)	749	749																		
Expected one-off negative effect of the debt repayment moratorium in Hungary (after income tax)	(2,362)	(2,362)																		
Consolidated adjusted net profit for the year	23,379,771	5,590	1,192,249	19,689,776	4,343,625	2,315,669	2,892,332	1,553,772	1,102,183	779,912	688,980	477,676	285,686	249,971	1,118,927	647,120	35,584	416,223	246,511	6,517,972
Profit before income tax	31,422	31,422																		
Adjusted operating profit	3,724,85	3,724,85																		
Adjusted total income	(37,829)	(37,829)																		
Adjusted net interest income	782,671	782,671																		
Adjusted net profit from fees and commissions	397,633	397,633																		
Adjusted other net non-interest income	71,655	71,655																		
Adjusted other administrative expenses	(20,667)	(20,667)																		
Total risk costs	(18,679)	(18,679)																		
Adjusted provision for impairment on loan and job-cost losses (without the effect of revaluation of FX)	(18,679)	(18,679)																		
Other provisions (adjustment)	(25,274)	(25,274)																		
Total other adjustment (see-off items) ¹	0	0																		
Income tax	(67,376)	(67,376)																		
Total Asset ²	23,379,771	0	1,192,249	19,689,776	4,343,625	2,315,669	2,892,332	1,553,772	1,102,183	779,912	688,980	477,676	285,686	249,971	1,118,927	647,120	35,584	416,223	246,511	6,517,972
Total Liabilities ³	24,793,243	0	1,192,249	19,689,776	4,343,625	2,315,669	2,892,332	1,553,772	1,102,183	779,912	688,980	477,676	285,686	249,971	1,118,927	647,120	35,584	416,223	246,511	6,517,972

(1) Net of provisions, impairment and expenses
(2) One-off item in the total amount consist of the credit of the treasury share swap agreement at OTP Core
(3) Relating to the discontinued operations the assets were HUF 6,879 million
Relating to the discontinued operations the liabilities were HUF 5,486 million

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 48: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS
(in HUF mn) [continued]

Information regarding the Group's reportable segments is presented below [continued]

As at 31 December 2019

Main components of the Consolidated Statement of Profit or Loss in HUF million	OTP Group - consolidated - in the Consolidated Statement of Profit or Loss in HUF million		OTP Group - consolidated - in the Consolidated Statement of Profit or Loss in HUF million		OTP Group - consolidated - in the Consolidated Statement of Profit or Loss in HUF million		OTP Group - consolidated - in the Consolidated Statement of Profit or Loss in HUF million		OTP Group - consolidated - in the Consolidated Statement of Profit or Loss in HUF million		OTP Group - consolidated - in the Consolidated Statement of Profit or Loss in HUF million		OTP Group - consolidated - in the Consolidated Statement of Profit or Loss in HUF million		OTP Group - consolidated - in the Consolidated Statement of Profit or Loss in HUF million		OTP Group - consolidated - in the Consolidated Statement of Profit or Loss in HUF million	
	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r
Net profit for the year from continued and discontinued operations	417,582		417,582		417,582		417,582		417,582		417,582		417,582		417,582		417,582	
Net profit for the year from discontinued operations	668		668		668		668		668		668		668		668		668	
Adjustments (net)	(1,843)		(1,843)		(1,843)		(1,843)		(1,843)		(1,843)		(1,843)		(1,843)		(1,843)	
Dividends and net cash transfers (after income tax)	505		505		505		505		505		505		505		505		505	
Goodwill impairment (after income tax)	(4,227)		(4,227)		(4,227)		(4,227)		(4,227)		(4,227)		(4,227)		(4,227)		(4,227)	
Bank tax on financial institutions (after income tax)	(16,170)		(16,170)		(16,170)		(16,170)		(16,170)		(16,170)		(16,170)		(16,170)		(16,170)	
Effect of acquisition (after income tax)	23,933		23,933		23,933		23,933		23,933		23,933		23,933		23,933		23,933	
One-off impact of regulatory changes related to FX consumer contracts in Serbia (after income tax)	(1,644)		(1,644)		(1,644)		(1,644)		(1,644)		(1,644)		(1,644)		(1,644)		(1,644)	
Consolidated Adjusted net profit for the year	417,582		417,582		417,582		417,582		417,582		417,582		417,582		417,582		417,582	
Profit before income tax	467,152		467,152		467,152		467,152		467,152		467,152		467,152		467,152		467,152	
Adjusted operating profit	523,839		523,839		523,839		523,839		523,839		523,839		523,839		523,839		523,839	
Adjusted total income	1,165,066		1,165,066		1,165,066		1,165,066		1,165,066		1,165,066		1,165,066		1,165,066		1,165,066	
Adjusted net interest income	699,041		699,041		699,041		699,041		699,041		699,041		699,041		699,041		699,041	
Adjusted net profit from fee and commission	374,181		374,181		374,181		374,181		374,181		374,181		374,181		374,181		374,181	
Adjusted other net non-interest income	91,824		91,824		91,824		91,824		91,824		91,824		91,824		91,824		91,824	
Adjusted other administrative expenses	(61,217)		(61,217)		(61,217)		(61,217)		(61,217)		(61,217)		(61,217)		(61,217)		(61,217)	
Total risk costs	(54,877)		(54,877)		(54,877)		(54,877)		(54,877)		(54,877)		(54,877)		(54,877)		(54,877)	
Adjusted provision for impairment on loan and placement	(56,677)		(56,677)		(56,677)		(56,677)		(56,677)		(56,677)		(56,677)		(56,677)		(56,677)	
Interest (after the effect of provision of FX)	(17,653)		(17,653)		(17,653)		(17,653)		(17,653)		(17,653)		(17,653)		(17,653)		(17,653)	
Other provisions (adjustment)	0		0		0		0		0		0		0		0		0	
Total other adjustments (one-off items) ¹	3,834		3,834		3,834		3,834		3,834		3,834		3,834		3,834		3,834	
Income tax	2,981		2,981		2,981		2,981		2,981		2,981		2,981		2,981		2,981	
Total Assets ²	19,659,636		19,659,636		19,659,636		19,659,636		19,659,636		19,659,636		19,659,636		19,659,636		19,659,636	
Total Liabilities ³	17,467,963		17,467,963		17,467,963		17,467,963		17,467,963		17,467,963		17,467,963		17,467,963		17,467,963	

¹ Used as provisions, impairment and expenses
² One-off items in the total amount considered the result of the treasury share repurchase agreement at OTP Core
³ Relating to the discontinued operations the assets were HUF 442,071 million
⁴ Relating to the discontinued operations the liabilities were HUF 342,416 million

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 49: DISCONTINUED OPERATIONS (in HUF mn)

On 31 December 2020, the Group classified the operations of its Croatian subsidiary, OTP Osiguranje d.d. as discontinued operations. The classification was needed because there is intention for the sale.

These operations, which are expected to be sold within 12 months, have been classified as a discontinued operation, so the assets, liabilities of these discontinued operations and their losses are presented separately in both the statement of financial position and statement of profit or loss.

The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

	2020	2019
Cash, amounts due from banks and balances with the National Banks	2	-
Placements with other banks, net of loss allowance for placements, net of repo receivables	244	221
Non-trading instruments mandatorily at fair value through profit or loss	1,188	1,143
Securities at fair value through other comprehensive income	3,410	4,122
Securities at amortized cost	1,031	719
Tangible assets on net value	92	88
Right-of-use assets on net value	42	62
Other assets on net value	<u>61</u>	<u>79</u>
Non-current assets and disposal group classified as held-for-sale	<u>6,070</u>	<u>6,434</u>
Leasing liabilities	44	63
Other liabilities	<u>5,442</u>	<u>5,098</u>
Disposal group liabilities classified as held-for-sale	<u>5,486</u>	<u>5,161</u>
	2020	2019
Income	1,548	2,029
Expense	<u>(1,334)</u>	<u>(1,733)</u>
Profit before income tax	<u>214</u>	<u>296</u>
Income tax expense of OTP Osiguranje d.d.	<u>(15)</u>	<u>(25)</u>
Gain from non-current assets and disposal groups classified as held-fo-sale not qualifying as discontinued operations	<u>199</u>	<u>271</u>

The Croatian insurance company cash-flow contributed to the Group's operating activity with HUF 431 million, to the Group's investing activity with HUF 327 million, and in respect of the Group's financing activity with HUF 232 million which were modified by the eliminations during the consolidation by HUF 988 million as at 31 December 2020.

The financial transaction regarding the sale of the Slovakian subsidiary was closed, presented in these consolidated financial statements as discontinued operations.

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

	2020	2019
Income	15,503	16,942
Expense	<u>(17,216)</u>	<u>(15,522)</u>
Profit before income tax	<u>(1,713)</u>	<u>1,420</u>
Income tax expense of OTP Banka Slovensko a.s.	(142)	(56)
Expected gain / (loss) of the sale of OTP Banka Slovensko a.s.	7,887	(6,032)
Income tax effect of the discontinued operation	<u>(641)</u>	=
Gain / (Loss) from sale of the Slovakian subsidiary	<u>5,391</u>	<u>(4,668)</u>

OTP BANK PLC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTE 49: DISCONTINUED OPERATIONS (in HUF mn) [continued]

The Slovakian subsidiary bank cash-flow contributed to the Group's operating activity with HUF (8,231) and (48,377) million, to the Group's investing activity with HUF (9,653) and (1,197) million, and in respect of the Group's financing activity with HUF 86,281 and (1,086) million which were modified by the eliminations during the consolidation by HUF (67,767) and 23,788 million as at 31 December 2020 and 2019, respectively.

NOTE 50: SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2020

1) Term Note Program

See details in Note 21.

2) Sale of OTP Osiguranje d.d.

The Croatian subsidiary of the Bank, OTP banka d.d., has signed a share purchase agreement to sell its 100% stake in the Croatian insurance company OTP Osiguranje d.d. to Groupama Biztosító Zrt.

The financial closure of the transaction is expected to take place in first half of 2021, subject to obtaining the necessary supervisory approvals.

3) Sale of OTP Banka Slovensko a.s.

The transaction, based on the share purchase agreement signed with KBC Bank NV on 17 February 2020, has been financially closed, as a result of which the 99.44% shareholding in its Slovakian subsidiary, OTP Banka Slovensko was acquired by KBC Bank NV.

NOTE 51: POST BALANCE SHEET EVENTS

1) Determination of expected credit loss

Compliance with the executive circular issued in January 2021 by the National Bank of Hungary on the "use of macroeconomic information in applying IFRS 9 and factors indicating a significant increase in credit risk" does not significantly impact the determination of expected credit losses as at 31 December 2020.

2) Supreme Court ruling in Croatia

In September 2019, the Supreme Court of the Republic of Croatia made a ruling, which to a large extent confirms the earlier ruling of the High Commercial Court of the Republic of Croatia dated June 2018 in the case of protection of collective interest and rights of the consumers who had taken loans with principals indexed to Swiss franc (Ruling No. Rev- 2221/2018- 11 of the Supreme Court of the Republic of Croatia, hereinafter referred to as "the Ruling"). In February 2021, the Constitutional Court of the Republic of Croatia rejected and dismissed the constitutional complaints of seven Croatian banks filed against the judgments of the Supreme Court of the Republic of Croatia and the High Commercial Court of the Republic of Croatia in a collective dispute initiated by the Consumer Association due to unfair contractual provisions related to the Swiss franc.

In the Group's view, in this regard, since the decisions of the Supreme Court as well as the decisions of lower courts are final and the courts are already acting on them, there has been no increase in consumer rights (CHF loan clients) or an increase in liabilities on the part of banks. Accordingly, the Group does not expect an increase in the number of lawsuits that would result in additional provisions above the amounts reserved and provided for as of 31 December 2020. Possible liabilities of the Group arising from decisions of the courts related to such individual consumer lawsuits are considered unforeseeable liabilities. As permitted by IAS 37.92, in order not to prejudice the outcomes of the proceedings and the interests of the Group, no further disclosures are made about the contingent liabilities in connection with the Ruling.