

# **OTP MORTGAGE BANK LTD.**

SEPARATE FINANCIAL STATEMENTS  
IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL REPORTING  
STANDARDS AS ADOPTED BY  
THE EUROPEAN UNION AND INDEPENDENT AUDITOR'S REPORT  
  
FOR THE YEAR ENDED  
31 DECEMBER 2020

## INDEPENDENT AUDITOR'S REPORT

To the Shareholder of OTP Mortgage Bank Ltd.

### ***Report on the Audit of the Separate Financial Statements***

#### ***Opinion***

We have audited the separate financial statements of OTP Mortgage Bank Ltd. (the “Bank”) for the year 2020, which comprise the separate statement of financial position as at December 31, 2020, which shows total assets of HUF 1,587,165 million, the related separate statement of profit or loss and the separate statement of comprehensive income, which shows a net loss for the period of HUF 5,365 million, the separate statement of changes in equity, and the separate statement of cash-flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

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

#### ***Basis for Opinion***

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

We are independent of the Bank in compliance with the relevant effective Hungarian regulations and the “Rules of conduct (ethical rules) of the auditor profession and the disciplinary process” of the Chamber of Hungarian Auditors and, in respect of matters not regulated therein, the Code of Ethics for Professional Accountants (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 judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the matter
<b>Calculation of expected credit losses on retail loans</b>	
<p>(See notes 8. and 29. to the separate financial statements for the details)</p> <p>As described in the notes to the financial statements, the impairment losses have been determined in accordance with IFRS 9 Financial Instruments, which requires significant judgment to determine the expected credit losses (“ECLs”). At the year-end, the Bank reported total gross loans measured at amortised cost of HUF 1,001,739 million and provisions for impairment on loan losses of HUF 20,262 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 the application of portfolio based collective impairment models. The most significant assumptions applied in determining the provision are the following:</p> <ul style="list-style-type: none"> <li>- the interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Bank’s expected credit loss model;</li> <li>- IFRS 9 credit risk staging methodology and application, including the identification of exposures with a significant deterioration in credit quality;</li> <li>- model used for impairment calculations reflecting the characteristics of the portfolio, such as valuation of collateral, probability of default and recovery rates, macroeconomic factors; and</li> <li>- the application of assumptions, where there was limited or incomplete data.</li> </ul> <p>The COVID-19 pandemic has resulted in an increase in the uncertainty of assumptions underlying the economic outlook. This combined with varying government responses, has raised the complexity of assessing and monitoring customers' financial health, necessitating an elevated level of judgement required by the Bank in calculating the ECL.</p>	<p>Our response as auditors included:</p> <ul style="list-style-type: none"> <li>- testing and assessment of the modeling techniques and methodology applied by the Group in order to estimate ECLs, and evaluation of its compliance with the requirements of IFRS 9;</li> <li>- 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;</li> <li>- 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;</li> <li>- 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;</li> <li>- assessing on a sample basis, whether the staging and impairment triggers are captured appropriately and whether the estimation of the allowance is reasonable;</li> <li>- assessing the requirement for additional allowances considering the Bank’s ECL model, particularly in light of the extreme volatility in economic scenarios caused by the current COVID-19 pandemic and government responses;</li> <li>- performing loan portfolio analysis to identify unexpected or anti-trend movements in the loan portfolio regarding stage migration and loss allowance movements; and</li> <li>- assessing the adequacy of the disclosures in the financial statements.</li> </ul>

### ***Other Information***

Other information comprises the business report of the Bank for 2020, which we obtained prior to the date of this auditor's report, and the annual report for 2020, which is expected to be made available to us after that date, but does not include the separate financial statements and our independent auditor's report thereon. Management is responsible for the other information and for the preparation of the business report in accordance with the relevant provisions of the Accounting Act and other regulations. Our opinion on the separate financial statements provided in the section of our independent auditor's report entitled "*Opinion*" does not apply to the other information.

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

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

In our opinion, the business report of the Bank for 2020 corresponds to the financial statements of the Bank 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.

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

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

### ***Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements***

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

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

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

### ***The Auditor's Responsibilities for the Audit of the Separate Financial Statements***

Our objectives during the audit are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue, on the basis of the above, an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Hungarian National Standards on Auditing and the effective Hungarian

laws and other regulations on audits will always detect a material misstatement when it exists. Misstatements can arise from fraud or error, and they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify the opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the notes to the separate financial statements, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

### ***Report on Other Legal and Regulatory Requirements***

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

#### ***Appointment of the Auditor and the Period of Engagement***

We were appointed as the auditors of the Bank by the Shareholder's resolution on March 31, 2020 and our uninterrupted engagement has lasted for 20 years.

#### ***Consistence with the Additional Report to the Audit Committee***

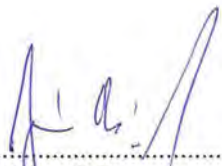
We confirm that our audit opinion on the separate financial statements expressed herein is consistent with the additional report to the Audit Committee of the Bank, which we issued on March 17, 2021 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

#### ***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 Bank. In addition, there are no other non-audit services which were provided by us to the Bank and its controlled undertakings and which have not been disclosed in the business report.

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

Budapest, March 23, 2021



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



Mádi-Szabó Zoltán  
Statutory registered auditor  
Registration number: 003247

**OTP MORTGAGE BANK LTD.  
SEPARATE FINANCIAL STATEMENTS**

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**OTP MORTGAGE BANK LTD.**  
**SEPARATE STATEMENT OF FINANCIAL POSITION AS AT**  
**31 DECEMBER 2020 (in HUF million)**

	Note	2020	2019
Cash, amounts due from banks and balances with the National Bank of Hungary	5.	5,395	2,111
Placements with other banks, net of allowance for placement losses	6.	125,781	135,963
Financial assets at fair value through other comprehensive income	7.	18,273	18,922
Loans	8.	1,319,783	1,179,515
Investments in subsidiaries	9.	3,063	1,997
Securities at amortised cost	10.	108,455	-
Intangible assets	11.	192	184
Property and equipment	11.	20	22
Right of use assets	11.	226	276
Derivative financial assets designated as hedge accounting relationships	12.	442	229
Current tax assets		1,038	96
Other assets	13.	<u>4,497</u>	<u>1,974</u>
<b>TOTAL ASSETS</b>		<b><u>1,587,165</u></b>	<b><u>1,341,289</u></b>
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	14.	692,906	676,962
Liabilities from issued securities	15.	807,513	569,344
Derivative financial liabilities designated as hedge accounting relationship	16.	780	822
Deferred tax liabilities		86	108
Leasing liabilities	27.	232	280
Other liabilities	17.	<u>6,546</u>	<u>9,412</u>
<b>TOTAL LIABILITIES</b>		<b><u>1,508,063</u></b>	<b><u>1,256,928</u></b>
Share capital	18.	37,000	37,000
Retained earnings and reserves	19.	<u>42,102</u>	<u>47,361</u>
<b>TOTAL SHAREHOLDER'S EQUITY</b>		<b><u>79,102</u></b>	<b><u>84,361</u></b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>		<b><u>1,587,165</u></b>	<b><u>1,341,289</u></b>

Budapest, 23 March 2021

.....  
András Becsei  
Chief Executive Officer

OTP JELZÁLOGBANK Zrt  
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.....  
Petra Szudárovicsné Csonka  
Chief Financial Officer

The accompanying notes to consolidated financial statements on pages 9 to 70 form an integral part of these separate financial statements.



**OTP MORTGAGE BANK LTD.**  
**SEPARATE STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED**  
**31 DECEMBER 2020 (in HUF million)**

	Note	2020	2019
Interest income:	21.		
Interest income calculated using the effective interest method		70,122	62,020
Income similar to interest income		(421)	(232)
<b>Total Interest Income</b>		<b>69,701</b>	<b>61,788</b>
<b>Total Interest Expense</b>	21.	<b>(34,738)</b>	<b>(33,624)</b>
<b>NET INTEREST INCOME</b>		<b><u>34,963</u></b>	<b><u>28,164</u></b>
Loss allowance / (Release of loss allowance) on loan, placement and repo receivables losses		(16,261)	3,190
<i>from this: loss from derecognition of loans at amortised cost</i>		(189)	(584)
Loss allowance / (Release of loss allowance) on securities at fair value through other comprehensive income and on securities at amortised cost		(184)	(6)
Provision for loan commitments and financial guarantees given		(214)	311
Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit of loss		(2,851)	18
<b>Risk cost total</b>	22.	<b>(19,510)</b>	<b>3,513</b>
<b>NET INTEREST INCOME AFTER RISK COST</b>		<b><u>15,453</u></b>	<b><u>31,677</u></b>
<b>MODIFICATION LOSS</b>	4.	<b><u>(9,584)</u></b>	<b>-</b>
Income from fees and commissions	23.	1,790	1,426
Expenses from fees and commissions	23.	<u>(6,302)</u>	<u>(3,199)</u>
<b>Net loss from fees and commissions</b>		<b><u>(4,512)</u></b>	<b><u>(1,773)</u></b>
Foreign exchange gains/(losses)		1	(2)
(Losses) / Gains on financial instruments at fair value through profit or loss	24.	(1,016)	1,035
Net other operating (expense) / income	24.	(602)	20
Other operating expenses	24.	<u>203</u>	<u>391</u>
<b>Net operating (expense) / income</b>		<b><u>(1,414)</u></b>	<b><u>1,444</u></b>
Personnel expenses	24.	(655)	(646)
Depreciation and amortization	24.	(183)	(148)
Other administrative expenses	24.	<u>(4,470)</u>	<u>(2,958)</u>
<b>Other administrative expenses</b>		<b><u>(5,308)</u></b>	<b><u>(3,752)</u></b>
<b>(LOSS) / PROFIT BEFORE INCOME TAX</b>		<b><u>(5,365)</u></b>	<b><u>27,596</u></b>
Income tax expense	26.	-	(424)
<b>NET (LOSS) / PROFIT FOR THE PERIOD</b>		<b><u>(5,365)</u></b>	<b><u>27,172</u></b>
Earnings per share (in HUF)			
Basic and diluted	28.	<u>(14,500)</u>	<u>73,438</u>

The accompanying notes to consolidated financial statements on pages 9 to 70 form an integral part of these separate financial statements.

**OTP MORTGAGE BANK LTD.**  
**SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED**  
**31 DECEMBER 2020 (in HUF million)**

	Note	2020	2019
<b>NET (LOSS) / PROFIT FOR THE PERIOD</b>		<b><u>(5,365)</u></b>	<b><u>27,172</u></b>
<b>Items that may be reclassified subsequently from other comprehensive income to profit or loss:</b>			
Fair value adjustment of securities fair value through other comprehensive income		(240)	1,094
Deferred tax related to securities fair value through other comprehensive income		23	(98)
Fair value adjustment of derivative financial instruments		292	(2,124)
<b>Other comprehensive income, net of income tax</b>		<b><u>75</u></b>	<b><u>(1,128)</u></b>
<b>NET COMPREHENSIVE (LOSS) / INCOME</b>		<b><u>(5,290)</u></b>	<b><u>26,044</u></b>

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**OTP MORTGAGE BANK LTD.**  
**SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020**  
(in HUF million)

	Share Capital	Retained earnings and other reserves	Total
<b>Balance as at 1 January 2019</b>	<b><u>27,000</u></b>	<b><u>48,784</u></b>	<b><u>75,784</u></b>
Net profit for the period	-	27,172	27,172
Other comprehensive income	-	(1,128)	(1,128)
<b>Total comprehensive income</b>	<b><u>-</u></b>	<b><u>26,044</u></b>	<b><u>26,044</u></b>
Share-based payment	-	33	33
Dividend for the year 2018	-	(27,500)	(27,500)
Share capital raise	10,000	-	10,000
<b>Balance as at 31 December 2019</b>	<b><u>37,000</u></b>	<b><u>47,361</u></b>	<b><u>84,361</u></b>
<b>Balance as at 1 January 2020</b>	<b><u>37,000</u></b>	<b><u>47,361</u></b>	<b><u>84,361</u></b>
Net loss for the period	-	(5,365)	(5,365)
Other comprehensive income	-	75	75
<b>Total comprehensive loss</b>	<b><u>-</u></b>	<b><u>(5,290)</u></b>	<b><u>(5,290)</u></b>
Share-based payment	-	31	31
<b>Balance as at 31 December 2020</b>	<b><u>37,000</u></b>	<b><u>42,102</u></b>	<b><u>79,102</u></b>

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**OTP MORTGAGE BANK LTD.**  
**SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020**  
(in HUF million)

	Note	2020	2019
<b>OPERATING ACTIVITIES</b>			
<b>(Loss) / Profit before income tax</b>		(5,365)	27,596
Net interest paid		(20,702)	(3,266)
Depreciation and amortization		183	148
Loss allowance / (Release of loss allowance) on loans and placements	22.	16,261	(3,190)
Loss allowance on securities at fair value through other comprehensive income	22.	11	6
Loss allowance on securities at amortised cost	22.	173	-
Loss allowance on other assets	13.	18	7
Provision on off-balance sheet commitments and contingent liabilities		(23)	(1,708)
Share-based payment	31.	31	33
Unrealised losses / (Gains) on fair value adjustment of financial instruments at fair value through profit or loss	22.	2,851	(18)
Unrealised losses on fair value adjustment of derivative financial instruments		3,228	-
Interest expense from leasing liabilities	27.	(7)	(8)
<b><u>Net changing in assets and liabilities in operating activities</u></b>			
Net increase in loans		(138,308)	(112,980)
Increase in other assets, excluding advances for investments and before provisions for losses	13.	(2,984)	(614)
(Decrease) in other liabilities	17.	(3,372)	(2,320)
Income tax paid	26.	-	688
<b>Net cash used by operating activities</b>		<b><u>(148,005)</u></b>	<b><u>(95,626)</u></b>
<b>INVESTING ACTIVITIES</b>			
Net decrease / (increase) in placements with other banks before allowance for placement losses	6.	9,935	(8,355)
Proceeds from sale of securities at fair value through other comprehensive income	7.	727	-
Purchase securities at fair value through other comprehensive income	7.	-	(9,430)
Change in derivative financial instruments designated as hedge accounting		(3,483)	2,356
Increase in investments in subsidiaries	9.	(1,066)	(660)
Increase in securities at amortised cost	10.	(109,852)	-
Redemption of securities at amortised cost	10.	1,870	-
Additions to property, equipment and intangible assets	11.	(162)	(109)
Disposal of property, equipment and intangible assets	11.	24	-
<b>Net cash used in investing activities</b>		<b><u>(102,007)</u></b>	<b><u>(16,198)</u></b>

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The accompanying notes to consolidated financial statements on pages 9 to 70 form an integral part of these separate financial statements.

**OTP MORTGAGE BANK LTD.**  
**SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020**  
(in HUF million)

<b>FINANCING ACTIVITIES</b>	<b>Note</b>	<b>2020</b>	<b>2019</b>
Net increase in amounts due to banks and deposits from the National Bank of Hungary and other banks	14.	15,835	168,099
Leasing payments		(42)	(34)
Cash received from issuance of securities	15.	310,100	-
Cash used for redemption of issued securities	15.	(72,597)	(39,522)
Share capital raise		-	10,000
Dividends paid		<u>-</u>	<u>(27,500)</u>
<b>Net cash provided by financing activities</b>		<b><u>253,296</u></b>	<b><u>111,043</u></b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>3,284</b>	<b>(781)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>2,100</b>	<b>2,881</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>5,384</b>	<b>2,100</b>

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The accompanying notes to consolidated financial statements on pages 9 to 70 form an integral part of these separate financial statements.

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**31 DECEMBER 2020**

**NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS**

**1.1. General information**

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

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

These separate financial statements authorised for issue on 23 March 2021.

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

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

Internet homepage: [https://www.otpbank.hu/OTP\\_JZB/online/index.jsp](https://www.otpbank.hu/OTP_JZB/online/index.jsp)

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

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

Due to Hungarian legislation audit services are statutory for OTP Mortgage Bank. Disclosure information about the auditor: Deloitte Auditing and Consulting Ltd. (000083), 1068 Budapest Dózsa György Street 84/C. Registered under 01-09-071057 by Budapest-Capital Regional Court, as registry court. Statutory registered auditor: Zoltán Mádi-Szabó, registration number: 003247.

Audit service fee agreed by the Articles of Association for the year ended 2020 is HUF 49,6 million + VAT.

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

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

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

As the sole shareholder, OTP Bank provides financial and administrative support to the Bank. Details of related party balances and transactions are summarised in Note 33 to these financial statements.

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

As at 31 December 2020 and 2019 the number and the average number of the employees at the Bank were 39 and 38 respectively.

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**31 DECEMBER 2020**

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

**1.2. Base of Accounting**

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

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

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

The separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

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

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

- **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 Bank's financial statements.

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

- **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)

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS [continued]**

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the 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 date of publication of these 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),
- **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 Bank anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the financial statements of the Bank in the period of initial application.



**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**31 DECEMBER 2020**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**2.1. Basis of presentation**

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

The presentation of separate financial statements in conformity with IFRS as adopted by the European Union requires management of the Bank to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities (see Note 3) as at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Future changes in economic conditions, business strategies, regulatory requirements, accounting rules and other factors could result in a change in estimates that could have a material impact on future financial statements.

**2.2. Foreign currency translation**

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

**2.3. Consolidated financial statements**

These financial statements present the separate financial position and results of operations of the Bank. Consolidated financial statements are prepared by the Bank and consolidated net loss for the year and shareholders' equity differ significantly from that presented in these separate financial statements. See Note 2.4 for the description of the method of accounting for investments in subsidiaries in these separate financial statements. The consolidated financial statements and the separate financial statements are published on the same date. As the parent company, the Mortgage Bank is preparing consolidated financial statements of the Group of the Bank. The OTP Mortgage Bank Ltd. is also part of a larger consolidation, which is made by OTP Bank, as an ultimate parent company managing the group.

**2.4. Investments in subsidiaries**

Investments in subsidiaries comprise those investments where the Bank, through direct and indirect ownership interest, controls the investee. Control is achieved when the Bank has power over the investee, is exposed or has rights, to variable returns from its involvement with the investee and has the ability to use its power to affect its returns.

Investments in subsidiaries are recorded at the cost of acquisition, less impairment for permanent diminution in value, when appropriate. After initial measurement investments in subsidiaries are measured at cost.

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

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**31 DECEMBER 2020**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.5. Securities at amortised cost**

The Bank 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 Bank 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 (Eir based) 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 Government bonds and corporate bonds.

**2.6. Financial assets at fair value through profit or loss**

**2.6.1 Securities at fair value through other comprehensive income (“FVOCI securities”)**

FVOCI securities are held within a business model whose objective is achieved by both collecting of contractual cash flows and selling securities. Furthermore, contractual terms of FVOCI securities give rise on specified dates to cash flows that are solely payment of principal and interest on the principal amount outstanding.

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

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

The provision for impairment is calculated based on discounted cash-flow methodology for debt instruments and calculated based on fair value on equity instruments, using the expected future cash-flow and original effective interest rate if there is objective evidence of impairment based on significant or prolonged decrease on fair value. FVOCI securities are remeasured at fair value based on quoted prices or values derived from cash-flow models. In circumstances where the quoted market prices are not readily available, the fair value of debt securities is estimated using the present value of the future cash-flows and the fair value of any unquoted equity instruments are calculated using the EPS ratio.

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

**2.6.2. Derivative financial instruments**

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

Derivative financial instruments are accounted for on a trade date basis and are initially measured at fair value and at subsequent reporting dates also at fair value. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. The Mortgage Bank adopts multi curve valuation approach for calculating the net present value of future cash flows – based on different curves used for determining forward rates and used for discounting purposes. It shows the best estimation of such derivative deals that are collateralised as OTP Bank has almost all of its open derivative transactions collateralised.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss and included in the Separate Statement of Profit or Loss for the period. Each derivative deal is determined as asset when fair value is positive and as liability when fair value is negative.

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

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE 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]**

**2.6.2. Derivative financial instruments [continued]**

***Foreign currency contracts***

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

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

***Interest rate swaps***

Interest rate swaps obligate two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount (the base of the interest calculation). Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps. Such notional principal amounts are often used to express the volume of these transactions but are not actually exchanged between the counterparties. The Bank's interest rate swaps were used for management of interest rate exposures and have been accounted for at mark-to-market fair value.

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

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

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

Changes in fair value of derivatives that are designated and qualify as the effective portion of the cash flow hedges and that prove to be highly effective in relation to hedged risk are recognized as reserve in other comprehensive income. Amounts deferred in equity are transferred to the Separate Statement of Profit or Loss and classified as revenue or expense in the periods during which the hedged assets and liabilities affect the Separate Statement of Profit or Loss for the period. The ineffective element of the hedge is charged directly to the Separate Statement of Profit or Loss.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to the hedged risk, are recorded in the separate statement of profit or loss along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. The ineffective element of the hedge is charged directly to the separate statement of profit or loss. The conditions of hedge accounting applied by the Bank are the following: formally designed as hedge, proper hedge documentation is prepared, effectiveness test is performed and based on it the hedge is qualified as effective.

Changes in fair value of derivatives that are designated and qualify as cash-flow hedges and that prove to be highly effective in relation to hedged risk are recognized as reserve in other comprehensive income. Amounts deferred in equity are transferred to the separate statement of profit or loss and classified as revenue or expense in the periods during which the hedged assets and liabilities effect the separate statement of recognized and comprehensive income for the period. The ineffective element of the hedge is charged directly to the separate statement of profit or loss.

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

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**31 DECEMBER 2020**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.7. Offsetting**

Financial assets and liabilities may be offset and the net amount is reported in the statement of financial position when the Bank has a legally enforceable right to set off the recognised amounts and the transactions are intended to be reported in the statement of financial position on a net basis.

The Bank does not offset any financial assets and financial liabilities.

**2.8. Embedded derivatives**

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

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

The Bank has not had embedded derivatives in 2020 and in 2019.

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

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

Loans, placements with other banks and repo receivables are accounted at amortised cost, stated at the principal amounts outstanding including accrued interest, net of allowance for loan or placement losses, respectively. Transaction fees and charges should adjust the carrying amount at initial recognition and be included in effective interest calculation. Loans, placements with other banks and repo receivables are derecognised when the contractual rights to the cash flows expire or they are transferred. When a financial asset is derecognised the difference of the carrying amount and the consideration received is recognised in the profit or loss. When the contractual cash flows of a financial asset are modified and the modification does not result in the derecognition of the financial asset the Bank recalculate the gross carrying amount of the financial asset by discounting the expected future cash flows with the original effective interest rate of the asset. The difference between the carrying amount and the present value of the expected cash flows is recognised as a modification gain or loss in the profit or loss. Interest and amortised cost are accounted for using the effective interest rate method.

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

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

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

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

The gross carrying amount and loss allowance of the loans shall be written off in the same amount to the estimated maximum recovery amount while the net carrying value remains unchanged.

If there are reasonable expectations of recovery for a financial asset that is written-off fully or partially, OTP Bank shall re-estimate cash flows of a financial asset and write-off reversal is applied in the financial statements.

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**31 DECEMBER 2020**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.10 Loss allowance**

Allowance for losses on loans and placements with other banks are recognised by the Bank based on the expected credit loss model in accordance with IFRS 9. Based on the three stage model provision for impairment is recognised in amount of 12 month expected credit loss from the initial recognition. Financial assets with significantly increased credit risk or credit impaired financial assets (based on objective evidences) provision for impairment is recognised in amount of lifetime expected credit loss.

In case of purchased or originated credit impaired financial assets provision for impairment is recognised in amount of lifetime expected credit loss since initial recognition. Impairment gain is recognised if lifetime expected credit loss for purchased or originated credit impaired financial assets at measurement date are less than the estimated credit loss at initial recognition.

The allowances for loan and placement losses are maintained to cover losses that have been specifically identified. Collective impairment losses of portfolios of loans, for which no objective evidence of impairment has been identified on an individual basis, are maintained to reduce the carrying amount of the portfolios of financial assets with similar credit risk characteristics to their estimated recoverable amounts at the balance sheet date. The expected cash-flows for portfolios of similar assets are estimated based on historical loss experience.

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

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

**Classification into risk classes**

According to the requirements of the IFRS9 standard, the Bank classifies financial assets measured at amortised cost and fair value through other comprehensive income, and loan commitments and financial guarantees into the following categories in accordance with IFRS9:

Stage 1	Performing
Stage 2	Performing, but compared to the initial recognition it shows significant increase in credit risk
Stage 3	Non-performing
POCI	Purchased or originated credit impaired

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

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

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**31 DECEMBER 2020**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.10. Loss allowance [continued]**

Credit risk of financial assets increases significantly at the following conditions:

- the payment delay exceeds 30 days,
- it is classified as performing forborne,
- based on individual decision, its currency suffered a significant "shock" since the disbursement of the loan,
- the transaction/client rating exceeds a predefined value or falls into a determined range, or compared to the historic value it deteriorates to a predefined degree,
- in the case household mortgage loans, the loan-to-value ratio ("LTV") exceeds a predefined rate,
- default on another loan of the retail client, if no cross-default exists,
- in case of corporate and municipal clients:
  - financial difficulty (capital requirements, liquidity, impairment of asset quality),
  - significant decrease of activity and liquidity in the market of the asset,
  - client's rating reflects higher risk, but better than default,
  - collateral value drops significantly, from which the client pays the loan,
  - more than 50% decrease in owner's equity due to net losses,
  - client under dissolution,
  - negative information from Central Credit Information System: the payment delay exceeds 30 days

Financial assets classifies as non-performing, if the following conditions are met:

- default,
- non-performing forborne exposures,
- in case of corporate and municipal clients:
  - breach of contract terms and conditions
  - critical financial difficulty of the client (capital requirements, liquidity, impairment of asset quality),
  - liquidation, dissolution or debt clearing procedures against client,
  - forced deregistration procedures from company registry,
  - terminated loans by the Bank,
  - in case of fraud,
  - negative information from Central Credit Information System: the payment delay exceeds 90 days,
  - cessation of active markets of the financial asset,
  - default of ISDA based contracts.

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

Expected credit losses are measured in a way that reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes,
- the time value of money, and

reasonable and supportable information that is available without undue cost of effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

**2.11. Liabilities from issued securities**

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

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.12. Property, equipment and intangible assets**

Property, equipment and intangible assets are stated at cost, less accumulated depreciation and amortization and impairment, if any. The depreciable amount (book value less residual value) of the non-current assets must be allocated over their useful lives. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets based on the following annual percentages:

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

Depreciation and amortization on properties, equipment and intangible assets starts on the day when such assets are placed into service. At each balance sheet date, the Bank reviews the carrying value of its tangible and intangible assets to determine if there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated to determine the extent (if any) of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where the carrying value of property, equipment, other tangible fixed assets and intangible assets is greater than the estimated recoverable amount, it is written down immediately to the estimated recoverable amount.

**2.13. Leases**

An agreement is a lease or contains a lease if it transfers the rights to control the use of an identified asset for a given period in exchange for compensation.

Expenses related to the use of lease assets, the majority of which were previously recognised in external services costs, will be currently classified as depreciation/amortisation and interest costs. Usufruct rights are depreciated using a straight line method, while lease liabilities are settled using an effective discount rate.

**Recognition of lease liabilities**

The Bank will recognise lease liabilities related to leases which were previously classified as "operating leases" in accordance with IAS 17 Leases. These liabilities will be measured at the present value of lease payments receivable as at the date of commencement of the application of IFRS 16. Lease payments shall be discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate. Interest rate applied by the Bank: weighted average lessee's incremental borrowing rate: ~2.9375%

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

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

The Bank makes use of expedients with respect to short-term leases (less than 12 months) as well as in the case of leases in respect of which the underlying asset has a low value (less than HUF 1.5 million) and for which agreements it will not recognise financial liabilities nor any respective right-of-use assets. These types of lease payments will be recognised as costs using the straight-line method during the life of the lease.

**Recognition of right-of-use assets**

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

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

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

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**31 DECEMBER 2020**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.13. Leases [continued]**

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

**2.14. Share capital**

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

**2.15. Interest income and interest expense**

Interest income and expenses are recognised in profit or loss in the period to which they relate, using the effective interest rate method. Interest from loans and deposits are accrued on a daily basis. Interest income and expenses include relevant transaction costs and the amortisation of any discount or premium between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

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

**2.16. Fees and Commissions**

Fees and commissions are recognised using effective interest method referring to provisions of IFRS 9, when they relate and have to be included in the amortised cost model. Certain fees and commissions that are not involved in the amortised cost model are recognised in the separate statement of profit or loss on an accrual basis based on IFRS 15. (See further details in Note 23). These fees are those do not arise at the start of the loan term and cannot be estimated.

**2.17. Income tax**

The annual taxation charge is based on the tax payable under Hungarian fiscal law, adjusted for deferred taxation. Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences between the tax bases of assets and liabilities and their carrying value for financial reporting purposes, measured at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates that have been enacted at the date of the balance sheet. Deferred tax assets are recognized by the Bank for the amounts of income taxes that are recoverable in future periods in respect of deductible temporary differences as well as the carry forward of unused tax losses and the carry forward of unused tax credits. The Bank is obliged to pay banking tax based on Act LIX of 2006. As the calculation is not based on the taxable profit (but the adjusted Assets total calculated based on the Separate Financial Statements for the second period preceding the current tax year), banking tax is not considered as income tax.

**2.18. Off-balance sheet commitments and contingent liabilities**

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

Those commitments and contingent liabilities which are under IAS 37 Management determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

The Bank recognizes a provision for off-balance sheet commitment and contingent liabilities in accordance with IAS 37 when it has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the obligation



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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.19. Government subsidies**

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

**2.20. Share-based payment and employee benefit**

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

The Bank issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the year, based on the Bank's estimate of shares that will eventually vest. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on Management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. The Bank has applied the requirement of IAS 19 Employee Benefits. IAS 19 requires to recognise employee benefits to be paid as a liability and as an expense in financial statements.

**2.21. Statement of Cash Flows**

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

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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.22. Comparative figures**

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

In 2020, the Bank 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 Bank's accounting policy, these loans were measured at amortised cost. For the year ended 31 December 2020, the Bank 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 Bank's financial position and financial performance in the financial statements.

In parallel with the change in accounting policy, the Bank also changed the structure of the balance sheet. In the statement of financial position, the Bank presents loans in a uniform manner, based on the nature of the instruments, on the line Loans, regardless of their classification and valuation category. The amounts presented under Loans are disclosed in the relevant Note by valuation category.

The new accounting policy is applied retrospectively by the Bank as if it had always applied this accounting policy. The Bank 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 Bank did not change the related balance sheet values for the adjustment relating to periods before those presented, the statement, the 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 Bank 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 Bank 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 Bank 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 Bank presents the change in the fair value of loans measured at fair value through profit or loss, broken down into two components:
  - The Bank 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.
  - The Bank 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.

Please see the impact visualization in the reconciliation table to facilitate the understanding of the reclassification.

In accordance with the new accounting policy, the Bank has amended its respective disclosure notes. 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 Bank 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. These amendments have been marked "Reclassified" in the notes.

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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.22. Comparative figures**

Line item	2020	2019 Revised presentation	Reclassification of amounts related to mandatorily measured at fair value through profit or loss	2019 As previously presented
Interest income calculated using the effective interest method	70,122	62,020	(1,025)	63,045
Income similar to interest income	(421)	(232)	-	(232)
<b>Interest income</b>	<b>69,701</b>	<b>61,788</b>	<b>(1,025)</b>	<b>62,813</b>
<b>Interest expense</b>	<b>(34,738)</b>	<b>(33,624)</b>	<b>-</b>	<b>(33,624)</b>
Loss allowance / (Release of loss allowance) on loan losses	(16,000)	3,214	(28)	3,242
Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit or loss	(2,851)	18	18	-
Further items of risk cost	(659)	281	-	281
<b>Risk cost total</b>	<b><u>(19,510)</u></b>	<b><u>3,513</u></b>	<b><u>(10)</u></b>	<b><u>3,523</u></b>
<b>NET INTEREST INCOME AFTER RISK COST</b>	<b><u>15,453</u></b>	<b><u>31,677</u></b>	<b><u>(1,035)</u></b>	<b><u>32,712</u></b>
<b>(Losses) / Gains on financial instruments at fair value through profit or loss</b>	<b><u>(1,016)</u></b>	<b><u>1,035</u></b>	<b><u>1,035</u></b>	<b><u>-</u></b>
<b>NET OPERATING (LOSS) / INCOME</b>	<b><u>(1,414)</u></b>	<b><u>1,444</u></b>	<b><u>1,035</u></b>	<b><u>409</u></b>

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

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

**3.1.        Impairment on loans and placements**

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

**3.2.        Valuation of instruments without direct quotations**

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

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

**3.3.        Provisions**

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

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

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

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

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**NOTE 4: COVID-19**

Covid-19 has had substantial implications for the operations of the Bank during 2020. Below are some of the more important Covid-19 related events that occurred in Hungary:

- 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 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 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).
- The new special tax amounts to HUF 1.926 billion in the case of the OTP Mortgage Bank Ltd. 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.

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**NOTE 4: COVID-19**

- 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.
- 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 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 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 forborne 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.

	<b>Current volume in moratorium (in HUF million)</b>	<b>Current participation ratio</b>
OTP Mortgage Bank	677,341	50.4%

**Financial assets modified during the period related to moratorium**

	<b>2020</b>	<b>2019</b>
Gross carrying amount before modification	431,039	408,430
Loss allowance before modification	<u>(13,387)</u>	<u>(2,809)</u>
<b>Net amortised cost before modification</b>	<b><u>417,652</u></b>	<b><u>405,621</u></b>
Modification loss due to the payment moratoria	<u>(9,584)</u>	-
<b>Net amortised cost after modification</b>	<b><u>408,068</u></b>	<b><u>405,621</u></b>

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**NOTE 5: CASH, AMOUNTS DUE FROM BANKS AND BALANCES WITH THE NATIONAL BANK OF HUNGARY (in HUF million)**

Amounts due from banks and balances with the NBH:

	<b>2020</b>	<b>2019</b>
Within one year		
in HUF	5,390	2,106
in foreign currency	<u>5</u>	<u>5</u>
	<b><u>5,395</u></b>	<b><u>2,111</u></b>
<b>Total</b>	<b><u>5,395</u></b>	<b><u>2,111</u></b>
From this: amounts due from OTP Bank	3,386	8
Compulsory reserve	11	11
Rate of the compulsory reserve	1%	1%

The main amount of cash due from banks shows the balance of the nostro accounts placed at OTP Bank of HUF 3,386 million and HUF 8 million as at 31 December 2020 and 2019, respectively. The remaining amounts represent the balances of the Bank's clearing account placed at the NBH.

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

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

**NOTE 6: PLACEMENTS WITH OTHER BANKS (in HUF million)**

	<b>2020</b>	<b>2019</b>
Within one year		
in HUF	9,735	39,018
Over one year		
in HUF	116,446	97,084
<b>Subtotal</b>	<b><u>126,181</u></b>	<b><u>136,102</u></b>
Impairment	<u>(400)</u>	<u>(139)</u>
<b>Total</b>	<b><u>125,781</u></b>	<b><u>135,963</u></b>
From this: amounts due from OTP Bank	1,306	31,781
Interest conditions on placements with other banks	<b>2020</b>	<b>2019</b>
Within one year		
in HUF	0.36%-0.75%	0.1%-0.12%
Over one year		
in foreign currency	1.45%-1.71%	1.08%-1.12%
Average interest of placements with other banks	<b>2020</b>	<b>2019</b>
in HUF	1.41%	0.13%

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

	<b>2020</b>	<b>2019</b>
Hungarian government bonds	<u>18,273</u>	<u>18,922</u>
<b>Total</b>	<b><u>18,273</u></b>	<b><u>18,922</u></b>

The whole portfolio was denominated in HUF as at 31 December 2020.

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

	<b>2020</b>	<b>2019</b>
Over one year, fixed interest	17,832	18,487
Interest conditions of securities available for sale	5.5%	5.5%

The valuation of the securities at fair value through other comprehensive income was as follows as at 31 December 2020:

	<b>2020</b>	
	<b>Amortized cost</b>	<b>Net fair value</b>
Hungarian government bonds	<u>16,905</u>	<u>17,832</u>
<b>Total</b>	<b><u>16,905</u></b>	<b><u>17,832</u></b>

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

	<b>2019</b>	
	<b>Amortized cost</b>	<b>Net fair value</b>
Hungarian government bonds	<u>17,309</u>	<u>18,487</u>
<b>Total</b>	<b><u>17,309</u></b>	<b><u>18,487</u></b>



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**NOTE 8:**        **LOANS (in HUF million)**

**Loans measured at fair value through profit or loss**

	<b>2020</b>	<b>2019</b>
Within one year	23,039	17,742
Over one year	<u>295,005</u>	<u>239,201</u>

<b>Loans measured at fair value through profit or loss total</b>	<b><u>318,044</u></b>	<b><u>256,943</u></b>
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Loans measured at fair value through profit or loss are mandatorily measured at fair value through profit or loss.

**Loans measured at amortised cost, net of allowance for loan losses**

	<b>2020</b>	<b>2019</b>	<b>2019 as previously presented</b>
Within one year	91,291	73,451	91,248
Over one year	<u>930,710</u>	<u>853,625</u>	<u>1,093,918</u>
<b>Loans gross total</b>	<b><u>1,022,001</u></b>	<b><u>927,076</u></b>	<b><u>1,185,166</u></b>
Provision for impairment on loan losses	<u>(20,262)</u>	<u>(4,504)</u>	<u>(5,651)</u>
<b>Total</b>	<b><u>1,001,739</u></b>	<b><u>922,572</u></b>	<b><u>1,179,515</u></b>

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

	<b>2020</b>	<b>2019</b>
In HUF	99.98%	99.97%
In foreign currency	<u>0.02%</u>	<u>0.03%</u>
<b>Total</b>	<b><u>100.00%</u></b>	<b><u>100.00%</u></b>

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

	<b>2020</b>	<b>2019</b>
Loans denominated in HUF	0.77% - 12.83%	0.63%-8.6%
Average interest on loans denominated in HUF	4.70%	4.80%

Interest rates of the loan portfolio measured at amortised cost are as follows (%):

	<b>2020</b>	<b>2019</b>
Loans denominated in HUF, with a maturity within one year	0.79%- 21.47%	0.21%-16.84%
Loans denominated in HUF, with a maturity over one year	0.79%- 21.47%	0.21%-16.84%
Loans denominated in foreign currency	3.82%-8.65%	4.45%-7.9%
Average interest on loans denominated in HUF	5.17%	5.58%
Average interest on loans denominated in foreign currency	4.93%	5.11%

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**NOTE 8: LOANS (in HUF million) [continued]**

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

	<b>2020</b>		<b>2019</b>	
Mortgage loans	1,019,040	75.82%	922,965	77.88%
Retail and corporate loans	2,961	0.22%	4,111	0.35%
<b>Loans at amortised cost total</b>	<b>1,022,001</b>	<b>76.04%</b>	<b>927,076</b>	<b>78.22%</b>
<b>Loans at fair value total</b>	<b>322,062</b>	<b>23.96%</b>	<b>258,110</b>	<b>21.78%</b>
<b>Gross loans total</b>	<b>1,344,063</b>	<b>100.00%</b>	<b>1,185,186</b>	<b>100.00%</b>

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

	<b>2020</b>	<b>2019</b>	<b>2019 as previously presented</b>
<b>Balance as at 1 January</b>	<b>4,504</b>	<b>8,300</b>	<b>9,477</b>
Provision for the period	23,159	9,397	12,288
Release of provision	(7,252)	(13,050)	(15,940)
Other movement	(45)	-	-
Partial write-off	(104)	(143)	(174)
<b>Closing balance</b>	<b><u>20,262</u></b>	<b><u>4,504</u></b>	<b><u>5,651</u></b>

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

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

Loss allowance on loans at amortised cost and placements with other banks is summarized as below:

	<b>2020</b>	<b>2019</b>
Loss allowance on placements with other banks	261	24
Loss allowance on loans at amortised cost	<u>16,000</u>	<u>(4,052)</u>
<b>Total</b>	<b><u>16,261</u></b>	<b><u>(4,028)</u></b>

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

**NOTE 9: INVESTMENTS IN SUBSIDIARIES (in HUF million)**

	<b>2020</b>	<b>2019</b>
Investments in subsidiaries		
OTP Ingatlanpont Ltd.	1,867	1,577
OTP Pénzügyi Pont Llc.	<u>1,196</u>	<u>420</u>
<b>Total</b>	<b><u>3,063</u></b>	<b><u>1,997</u></b>

The OTP Mortgage Bank acquired a 100% shareholding in OTP Ingatlanpont Kft. in December 2016, the Mortgage Bank also made a capital increase in Ingatlanpont Kft. The acquisition was registered by the Court of Registration in January 2017. In March 2020, the Mortgage Bank made another capital increase of 230 million HUF in OTP Ingatlanpont Kft.

The OTP Mortgage Bank acquired a 100% shareholding in OTP Pénzügyi Pont Zrt. in July 2019, The Mortgage Bank also made a capital increase in Pénzügyi Pont Zrt. The acquisition was registered by the Court of Registration in October 2019. In March 2020, the Mortgage Bank made another capital increase of 776 million HUF in OTP Pénzügyi Pont Zrt..

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**NOTE 10:      SECURITIES AT AMORTISED COST (in HUF million)**

	<b>2020</b>	<b>2019</b>
Government bonds	108,628	-
<b>Subtotal</b>	<b><u>108,628</u></b>	<b>=</b>
Provision for impairment	<u>(173)</u>	=
<b>Total</b>	<b><u>108,455</u></b>	<b>=</b>

An analysis of change in the loss allowance on securities at amortised cost:

	<b>2020</b>	<b>2019</b>
<b>Balance as at 1 January</b>	-	-
Loss allowance	366	-
Release of loss allowance	(193)	-
<b>Closing balance</b>	<b><u>173</u></b>	<b>=</b>

The distribution of the securities at amortised cost by currency (%):

	<b>2020</b>	<b>2019</b>
Interest rates on securities at amortised cost	1% - 3%	-
Average interest on securities at amortised cost denominated in HUF	2.13%	-

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

	<b>2020</b>	<b>2019</b>
Over one year:		
fixed interest	<u>107,982</u>	=
<b>Total</b>	<b><u>107,982</u></b>	<b>=</b>

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

**For the year ended 31 December 2020**

<b><u>Cost</u></b>	<b>Intangible assets</b>	<b>Office equipment and vehicles</b>	<b>Construction in progress</b>	<b>Right of use assets</b>	<b>Total</b>
Balance as at 1 January 2020	1,831	100	2	323	2,256
Additions	274	12	9	-	295
Disposals	(145)	-	(11)	-	(156)
<b>Balance as at 31 December 2020</b>	<b><u>1,960</u></b>	<b><u>112</u></b>	<b><u>-</u></b>	<b><u>323</u></b>	<b><u>2,395</u></b>

**Accumulated Depreciation and  
Amortization**

Balance as at 1 January 2020	1,647	80	-	47	1,774
Charge for the year	121	12	-	50	183
Disposals	-	-	-	-	-
<b>Balance as at 31 December 2020</b>	<b><u>1,768</u></b>	<b><u>92</u></b>	<b><u>-</u></b>	<b><u>97</u></b>	<b><u>1,957</u></b>

**Net book value**

Balance as at 1 January 2020	184	20	2	276	482
<b>Balance as at 31 December 2020</b>	<b><u>192</u></b>	<b><u>20</u></b>	<b><u>-</u></b>	<b><u>226</u></b>	<b><u>438</u></b>

**For the year ended 31 December 2019**

<b><u>Cost</u></b>	<b>Intangible assets</b>	<b>Office equipment and vehicles</b>	<b>Construction in progress</b>	<b>Right of use assets</b>	<b>Total</b>
Balance as at 1 January 2019	1,728	98	2	-	1,828
Additions	103	5	5	323	436
Disposals	-	(3)	(5)	-	(8)
<b>Balance as at 31 December 2019</b>	<b><u>1,831</u></b>	<b><u>100</u></b>	<b><u>2</u></b>	<b><u>323</u></b>	<b><u>2,256</u></b>

**Accumulated Depreciation and  
Amortization**

Balance as at 1 January 2019	1,555	74	-	-	1,629
Charge for the year	92	9	-	47	148
Disposals	-	(3)	-	-	(3)
<b>Balance as at 31 December 2019</b>	<b><u>1,647</u></b>	<b><u>80</u></b>	<b><u>-</u></b>	<b><u>47</u></b>	<b><u>1,774</u></b>

**Net book value**

Balance as at 1 January 2019	173	24	2	-	199
<b>Balance as at 31 December 2019</b>	<b><u>184</u></b>	<b><u>20</u></b>	<b><u>2</u></b>	<b><u>276</u></b>	<b><u>482</u></b>

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**NOTE 12:**      **FAIR VALUE OF DERIVATIVE FINANCIAL ASSETS DESIGNATED AS HEDGING ACCOUNTING (in HUF million)**

	<b>2020</b>	<b>2019</b>
Interest rate swaps designated as fair value hedge	309	-
Interest rate swaps designated as cash flow hedge	<u>133</u>	<u>229</u>
<b>Total</b>	<b><u>442</u></b>	<b><u>229</u></b>

**NOTE 13:**      **OTHER ASSETS (in HUF million)**

	<b>2020</b>	<b>2019</b>
<b>Other financial assets</b>		
Receivables from OTP Employee Stock Ownership Program (OTP ESOP)	550	352
Prepayments and accrued income	64	51
Trade receivables	88	363
Receivables from suppliers	8	4
Other	324	111
Loss allowance	<u>(23)</u>	<u>(9)</u>
<b>Other financial assets total</b>	<b><u>1,011</u></b>	<b><u>872</u></b>
<b>Other non-financial assets</b>		
Prepayments and accrued income	12	<u>18</u>
Receivable related to Hungarian Government subsidies	1,000	1,084
Current income tax receivable	3,005	97
Other	512	-
Provision for impairment on other assets	<u>(5)</u>	<u>(1)</u>
<b>Other non-financial assets total</b>	<b><u>4,524</u></b>	<b><u>1,198</u></b>
<b>Total</b>	<b><u>5,535</u></b>	<b><u>2,070</u></b>

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

	<b>2020</b>	<b>2019</b>
<b>Balance as at 1 January</b>	9	3
Charge for the period	26	20
Release of loss allowance	(12)	(14)
<b>Balance as at 31 December</b>	<b><u>23</u></b>	<b><u>9</u></b>

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

	<b>2020</b>	<b>2019</b>
<b>Balance as at 1 January</b>	1	-
Charge for the period	7	1
Release of provision	<u>(3)</u>	-
<b>Balance as at 31 December</b>	<b><u>5</u></b>	<b><u>1</u></b>

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**NOTE 14:**      **AMOUNTS DUE TO BANKS AND HUNGARIAN GOVERNMENT, DEPOSITS FROM THE NATIONAL BANK OF HUNGARY AND OTHER BANKS (in HUF million)**

	<b>2020</b>	<b>2019</b>
Within one year		
In HUF	545,506	636,396
In EUR	11	10
In JPY	289	326
In CHF	10	9
Total in foreign currency	<u>310</u>	<u>345</u>
	<b><u>545,816</u></b>	<b><u>636,741</u></b>
Over one year		
in HUF	<u>147,090</u>	<u>40,221</u>
	<b><u>692,906</u></b>	<b><u>676,962</u></b>
<b>Total</b>	<b><u>692,906</u></b>	<b><u>676,962</u></b>
From this: amounts due to OTP Bank	585,732	676,761

Interest conditions on amounts due to OTP Bank and other banks

	<b>2020</b>	<b>2019</b>
Within one year		
In HUF	0%-0.75%	0.16%-0.21%
In foreign currency	(0.5)% -(0.05)%	(0.7)%-(0.05)%
Over one year		
In HUF	0.6%-1.01%	0.46%-0.5%

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**NOTE 15: LIABILITIES FROM ISSUED SECURITIES (in HUF million)**

	<b>2020</b>	<b>2019</b>
Within one year:		
In HUF	130,430	18,070
Over one year		
In HUF	677,083	551,274
<b>Total</b>	<b><u>807,513</u></b>	<b><u>569,344</u></b>
Issued mortgage bonds during the period (nominal value)	310,100	-
Mortgage bonds became due or repurchased during the period (nominal value)	70,000	39,250
Interest conditions on issued securities		
	<b>2020</b>	<b>2019</b>
In HUF	1.05%-11.00%	0.72%-11.00%
A reconciliation of the face value and the amortized cost is as follows:		
	<b>2020</b>	<b>2019</b>
Nominal value of the issued securities	798,200	558,100
Unamortized premiums	246	3,227
Fair value hedge adjustment	<u>384</u>	<u>-</u>
<b>Amortized cost</b>	<b><u>798,830</u></b>	<b><u>561,327</u></b>

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

There was a maturing mortgage bond in amount of HUF 10 billion. It has been revoked in amount of HUF 60 billion. Mortgage bonds were issued in amount of HUF 310.1 billion in 2020.

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**NOTE 15: LIABILITIES FROM ISSUED SECURITIES (in HUF million) [continued]**

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

Name	Date of issue	Maturity	Nominal value in HUF million	Amortised cost in HUF million	Interest condition in % p.a.	Hedged
OJB2021/I	2017/02/15	2021/10/27	122,100	122,215	2.00% fix	not hedged
OJB2023/I	2018/04/05	2023/11/24	45,000	45,652	1.75% fix	not hedged
OJB2024/A	2018/09/17	2024/05/20	70,000	70,023	1.35% variable	not hedged
OJB2024/C	2020/02/24	2024/10/24	100,000	99,999	1.05% variable	not hedged
OJB2024/II	2018/10/10	2024/10/24	101,000	100,095	2.50% fix	not hedged
OJB2025/I	2009/07/31	2025/07/31	150,000	161,595	11.00% fix	not hedged
OJB2025/II	2020/02/03	2025/11/26	90,000	89,489	1.50% fix	hedged
OJB2027/I	2020/07/23	2027/10/27	120,100	118,445	1.25% fix	not hedged
<b>Total issued securities</b>			<b>798,200</b>	<b>807,513</b>		

**NOTE 16: FAIR VALUE OF DERIVATIVE FINANCIAL LIABILITIES DESIGNATED AS HEDGE ACCOUNTING (in HUF million)**

	2020	2019
IRS designated as cash flow hedge	780	822
	<b><u>780</u></b>	<b><u>822</u></b>

**NOTE 17: OTHER LIABILITIES (in HUF million)**

	2020	2019
<b>Other financial liabilities</b>		
Accounts payable	1,865	5 983
Provision on off-balance sheet commitments, contingent liabilities	732	518
Accrued expenses	617	900
Other	<u>2,560</u>	<u>1,218</u>
<b>Other financial liabilities total</b>	<b><u>5,774</u></b>	<b><u>8,619</u></b>
<b>Other non-financial liabilities</b>		
Current income tax payable	529	419
Social contribution	56	26
Accrued expenses	95	6
Provision on off-balance sheet commitments, contingent liabilities	42	279
Provision and settlement accounts	5	54
Other	<u>45</u>	<u>9</u>
<b>Other non-financial liabilities total</b>	<b><u>772</u></b>	<b><u>793</u></b>
<b>Other liabilities total</b>	<b><u>6,546</u></b>	<b><u>9,412</u></b>



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**NOTE 18: SHARE CAPITAL (in HUF million)**

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

	2020	2019
Share capital (in HUF million)	<u>37,000</u>	<u>37,000</u>

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

**NOTE 19: RETAINED EARNINGS AND RESERVES (in HUF million)**

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

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

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

**Share capital**

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

**Retained earnings**

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

Balance as at 1 January, 2020	Share capital	Capital reserve	Retained earnings and reserves	Evaluation reserve	Net income after income taxes	Share capital total
<b>Capital items according to IFRS</b>	<b>37,000</b>	-	<b>47,361</b>	-	-	<b>84,361</b>
Other comprehensive income	-	-	(1,090)	1,090	-	-
Net profit for the year	-	-	(27,172)	-	27,172	-
General reserve	-	<u>18,109</u>	<u>(18,109)</u>	-	-	-
<b>Capital items according to 114/B.§ of Accounting Act</b>	<b><u>37,000</u></b>	<b><u>18,109</u></b>	<b><u>990</u></b>	<b><u>1,090</u></b>	<b><u>27,172</u></b>	<b><u>84,361</u></b>

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**NOTE 19: RETAINED EARNINGS AND RESERVES (in HUF million) [continued]**

Balance as at 31 December, 2020	Share capital	Capital reserve	Retained earnings and reserves	Evaluation reserve	Net income after income taxes	Share capital total
<b>Capital items according to IFRS</b>	<b>37,000</b>	-	<b>42,102</b>	-	-	<b>79,102</b>
Other comprehensive income	-	-	(75)	75	-	-
Net loss for the year	-	-	5,365	-	(5,365)	-
General reserve	-	<u>18,109</u>	<u>(18,109)</u>	-	-	-
<b>Capital items according to 114/B.§ of Accounting Act</b>	<b><u>37,000</u></b>	<b><u>18,109</u></b>	<b><u>29,283</u></b>	<b><u>75</u></b>	<b><u>(5,365)</u></b>	<b><u>79,102</u></b>
						<b>2020</b>
Retained earnings				42,102		47,361
Net loss for the year				<u>(5,365)</u>		<u>27,172</u>
<b>Untied retained earnings</b>				<b><u>36,737</u></b>		<b><u>74,533</u></b>
						<b>2020</b>
Retained earnings				31,219		4,047
Other reserves				18,109		18,109
Fair value of financial instruments measured at fair value through other comprehensive income				874		1,091
Share-based payment reserve				64		33
Fair value of derivative financial instruments designated as cash-flow hedge				(2,799)		(3,091)
Net (loss) / profit for the year				<u>(5,365)</u>		<u>27,172</u>
<b>Retained earnings and other reserves</b>				<b><u>42,102</u></b>		<b><u>47,361</u></b>
<b><u>Fair value adjustment of securities at fair value through other comprehensive income:</u></b>						<b>2020</b>
<b>Balance as at 1 January</b>				1,072		82
Change of fair value correction				(251)		1,088
Deferred tax related to change of fair value correction				23		(98)
<b>Closing balance</b>				<b><u>844</u></b>		<b><u>1,072</u></b>
<b><u>Expected credit loss on securities at fair value through other comprehensive income:</u></b>						<b>2020</b>
<b>Balance as at 1 January</b>				18		12
Increase of loss allowance				<u>11</u>		<u>6</u>
<b>Closing balance</b>				<b><u>29</u></b>		<b><u>18</u></b>

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**NOTE 20: INTEREST SUBSIDIES RELATED TO HOUSING LOANS**

During 2020 5 types of interest-subsidised loans were among OTP Mortgage Bank's portfolio:

- (i) loans granted before 16 June 2003
- (ii) loans granted between 16 June 2003 and 21 December 2003
- (iii) loans granted between 22 December 2003 and 30 June 2009
- (iv) loans granted after 1 October 2009
- (v) Family Housing loans granted after 2012 including interest subsidy of families with three or more children, and including interest subsidy of housing loans at preferred townships.

Interest subsidised loans fulfil the following conditions

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

Relevant elements of the currently available interest subsidised loans:

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

The interest subsidy of housing loans at preferred townships is granted by the State for the first 25 years of the term. By the end of 2020, OTP Mortgage Bank had disbursed HUF 366,773 million of Family Housing Loans, its closing balance at the year was HUF 282,163 million.

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**NOTE 21:**      **INTEREST INCOME AND EXPENSES (in HUF million)**

	<b>2020</b>	<b>2019</b>
<b>Interest income accounted for using the effective interest rate method from / on</b>		
Loans at amortised cost	59,877	49,393
FVOCI securities	426	507
Placements with other banks	1,881	1,138
Amounts due from banks and balances with National Bank of Hungary	61	17
Securities at amortised cost	763	-
Interest subsidy on housing loans financed by mortgage bonds	<u>7,114</u>	<u>10,965</u>
<b>Subtotal</b>	<b><u>70,122</u></b>	<b><u>62,020</u></b>
 <b>Income similar to interest income</b>		
Swap and forward deals related to Placements with other banks	(421)	(232)
<b>Subtotal</b>	<b><u>(421)</u></b>	<b><u>(232)</u></b>
 <b>Interest income total</b>	<b><u>69,701</u></b>	<b><u>61,788</u></b>
 <b>Interest expense due to / from / on</b>		
Amounts due to banks and deposits from the National Bank of Hungary and other banks	7,674	8,968
Leasing liabilities	7	8
Liabilities from issued securities	27,057	24,648
<b>Subtotal</b>	<b><u>34,738</u></b>	<b><u>33,624</u></b>

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**NOTE 22:      RISK COST (in HUF million)**

	<b>2020</b>	<b>2019</b>
<b>Loss allowance of loans at amortised cost</b>		
Loss allowance	(23,056)	(9,252)
Release of loss allowance	7,245	13,050
Loan losses	<u>(189)</u>	<u>(584)</u>
<b>Total</b>	<b><u>(16,000)</u></b>	<b><u>3,214</u></b>
<b>Loss allowance of placements with other banks</b>		
Loss allowance	(354)	(51)
Release of loss allowance	<u>93</u>	<u>27</u>
<b>Total</b>	<b><u>(261)</u></b>	<b><u>(24)</u></b>
<b>Loss allowance of FVOCI securities</b>		
Loss allowance	(25)	(53)
Release of loss allowance	<u>14</u>	<u>47</u>
<b>Total</b>	<b><u>(11)</u></b>	<b><u>(6)</u></b>
<b>Loss allowance of securities at amortised cost</b>		
Loss allowance	<u>(366)</u>	=
Release of loss allowance	<u>193</u>	=
<b>Total</b>	<b><u>(173)</u></b>	<b><u>=</u></b>
<b>Provision on loan commitments and financial guarantees</b>		
Provision for the period	(2,563)	(3,092)
Release of provision	<u>2,349</u>	<u>3,403</u>
<b>Total</b>	<b><u>(214)</u></b>	<b><u>311</u></b>
<b>Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit of loss</b>	(2,851)	(10)
Loss allowance	<u>-</u>	<u>28</u>
Release of loss allowance	<b><u>(2,851)</u></b>	<b><u>18</u></b>
<b>Total</b>		
<b>Net loss allowance / (release of loss allowance) total</b>	<b><u>(19,510)</u></b>	<b><u>3,513</u></b>

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**NOTE 23: NET PROFIT FROM FEES AND COMMISSIONS (in HUF million)**

**Income from fees and commissions**

	<b>2020</b>	<b>2019</b>
Fees and commissions relating to lending	1,506	1,139
Other	<u>284</u>	<u>287</u>
<b>Total</b>	<b><u>1,790</u></b>	<b><u>1,426</u></b>

**Contract balances**

Receivables, which are included in 'other assets'	64	51
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**Expense from fees and commissions**

	<b>2020</b>	<b>2019</b>
Fees and commissions relating to issued securities	293	244
Fees and commissions relating to lending	5,618	2,522
Others	<u>391</u>	<u>433</u>
<b>Total</b>	<b><u>6,302</u></b>	<b><u>3,199</u></b>

<b>Net loss from fees and commissions</b>	<b><u>(4,512)</u></b>	<b><u>(1,773)</u></b>
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The other fees mainly consist of the cost of services in connection with lending activity and mortgage bond issues, which are not directly attributable to separate issuance.

**Performance obligations and revenue recognition policies:**

Fee type	Nature and timing of satisfaction of performance obligations, and the significant payment terms	Revenue recognition under IFRS 15
Net insurance fee income	Due to the fact that the Bank does not provide insurance services to its clients, only acts as an agent, the fee income charged to the customers and fees payable to the insurance company are presented net in the fee income.	
Other	<p>Fees that are not significant in the Banks total income are included in Other fees category. Such fees are special procedure fee, account rent fee, fee of a copy of document, etc.</p> <p>Other fees may include charges for continuous services or for ad hoc administration services. Continuous fees are charged monthly at the beginning of the period, typically at a fixed rate. Fees for ad hoc services are charged immediately after the service obligation had been met, typically also in a fixed amount.</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 places.</p>

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**NOTE 24:**      **NET OTHER OPERATING INCOME AND EXPENSES OTHER ADMINISTRATIVE EXPENSES (in HUF million)**

	<b>2020</b>	<b>2019</b>
<b>Net other operating income</b>		
Other direct costs of mortgage bond raising	(774)	-
Other	172	20
<b>Total</b>	<b><u>(602)</u></b>	<b><u>20</u></b>
<b>Other operating expense</b>		
Provisions for future liabilities	216	1,387
Non- repayable assets contributed	(2)	(991)
Other	(11)	(5)
<b>Total</b>	<b><u>203</u></b>	<b><u>391</u></b>
<b>Personnel expenses</b>		
Wages	(502)	(486)
Taxes related to personnel expenses	(89)	(98)
Other personnel expenses	(64)	(62)
<b>Total</b>	<b><u>(655)</u></b>	<b><u>(646)</u></b>
<b>Depreciation and amortization</b>	<b><u>(183)</u></b>	<b><u>(148)</u></b>
Taxes, other than income tax:		
<i>Bank tax</i>	(2,161)	(991)
<i>Other taxes</i>	<u>(1,041)</u>	<u>(896)</u>
<b>Total taxes, other than income tax</b>	<b>(3,202)</b>	<b>(1,887)</b>
Services	(554)	(594)
Professional fees	(687)	(444)
Rental fees	(7)	(13)
Material type expenses	(5)	(4)
Administration expenses	(15)	(15)
Advertising	-	(1)
<b>Total</b>	<b><u>(4,470)</u></b>	<b><u>(2,958)</u></b>

Taxes, other than income taxes are Credit institution's contribution that is payable by the Bank on HUF denominated loans having interest subsidy from the Hungarian government, bank tax and other local taxes in 2020.

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**NOTE 24: OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF million) [continued]**

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

	<b>2020</b>	<b>2019</b>
Annual audit	49.6	47
<b>Total</b>	<b><u>49.6</u></b>	<b><u>47</u></b>

**NOTE 25: COMPENSATION OF KEY MANAGEMENT PERSONNEL (in HUF million)**

	<b>2020</b>	<b>2019</b>
Key executives (Managing Director and Deputies)	68	54
<b>Total</b>	<b><u>68</u></b>	<b><u>54</u></b>

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

**NOTE 26: INCOME TAX (in HUF million)**

The Bank is presently liable for income tax at a rate of 9% of taxable income.

A reconciliation of the total income tax charge for the years ended 31 December 2020 and 2019 is as follows:

	<b>2020</b>	<b>2019</b>
Current tax expense	-	688
Deferred tax (benefit)	=	(264)
<b>Total income tax expense</b>	<b>=</b>	<b><u>424</u></b>

A reconciliation of the deferred tax liability as at 31 December 2020 and 2019 is as follows:

	<b>2020</b>	<b>2019</b>
<b>Balance as at 1 January</b>	<b>(108)</b>	<b>(274)</b>
Recognized in other comprehensive income as tax benefit	22	(98)
Deferred tax benefit	=	264
<b>Balance as at 31 December</b>	<b><u>(86)</u></b>	<b><u>(108)</u></b>

A reconciliation of deferred tax assets and liabilities as at 31 December 2020 and 2019 is as follows:

	<b>2020</b>	<b>2019</b>
Fair value adjustment for at fair value through other comprehensive income financial assets	(83)	(106)
Difference in depreciation and amortization	(3)	(2)
<b>Deferred tax liabilities</b>	<b><u>(86)</u></b>	<b><u>(108)</u></b>
<b>Net deferred tax liabilities</b>	<b><u>(86)</u></b>	<b><u>(108)</u></b>

A reconciliation of the effective tax rate as at 31 December 2020 and 2019 is as follows:

	<b>2020</b>	<b>2019</b>
Profit before income tax	(5,365)	27,596
Income tax at statutory tax rate	-	2,484
<i>Income tax adjustments due to permanent differences are as follows:</i>		
Permanent differences due to local tax	-	-
Tax allowance for the year	-	-
Tax allowance (group membership)	-	(2,081)
Other	=	21
<b>Income tax</b>	<b>=</b>	<b><u>424</u></b>
<i>Effective tax-rate</i>	-	1.54%



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**NOTE 27: LEASE (in HUF million)**

**The Bank as a lessee:**

<b>Amounts recognised at initial application</b>	<b>1 January 2019</b>
Lease liability	272
Prepaid or accrued lease payments as at 31 December 2018	<u>-</u>
Right-of-use asset	272
Cumulative impact recognized as an adjustment to the equity at the date of initial application	-

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

<b>Amounts recognised in profit and loss</b>	<b>2020</b>	<b>2019</b>
Interest expense on lease liabilities	7	8
Expense relating to short-term leases	7	13

Leasing liabilities by maturities:

	<b>2020</b>	<b>2019</b>
Within one year	55	48
Over one year	<u>177</u>	<u>232</u>
<b>Total</b>	<b>232</b>	<b>280</b>

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

<b>Gross carrying amount</b>	<b>Right of uses of real estate</b>	
	<b>2020</b>	<b>2019</b>
<b>Balance as at 1 January</b>	323	272
Change due to revaluation and modification	<u>-</u>	<u>51</u>
<b>Closing balance</b>	<b><u>323</u></b>	<b><u>323</u></b>
<b>Depreciation</b>		
<b>Balance as at 1 January</b>	47	-
Depreciation charge	50	47
<b>Closing balance</b>	<b><u>97</u></b>	<b><u>47</u></b>
<b>Net carrying amount</b>	<b><u>226</u></b>	<b><u>276</u></b>

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**NOTE 28: EARNINGS PER SHARE**

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

	<b>2020</b>	<b>2019</b>
Net profit for the year (in HUF million)	(5.365)	27,172
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	370.000	370,000
<b>EPS (in HUF) basic and diluted</b>	<b><u>(14,500)</u></b>	<b><u>73,438</u></b>

**NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF million)**

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

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

**29.1. Credit risk**

The Bank takes on exposure to credit risk which is the risk that a counter-party will be unable to pay amounts in full when due. The risk of the mortgage lending activity is controlled and the safety is enhanced by the legal environment, which provides that loans can only be extended against a specific collateral of real property and with certain legal assurances.

In the treasury activity the Group structures the levels of credit risk it undertakes by placing limits to each counter-party. Actual exposures against limits are monitored daily.

**29.1.1. Analysis by loan types**

**Defining the expected credit loss on individual and collective basis**

**On individual basis:**

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

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

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

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

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

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**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]**

**29.1. Credit risk [continued]**

**29.1.1. Analysis by loan types [continued]**

**On collective basis:**

The following exposures are subject to collective assessment:

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

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

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

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

The impairment parameters should be backtested at least annually.

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

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

**29.1. Credit risk [continued]**

**29.1.1. Analysis by loan types [continued]**

Gross carrying amount and accumulated impairment of financial assets at amortized cost by IFRS 9 stages as at 31 December 2020:

	Carrying amount	Stage 1	Stage 2	Stage 3	Gross carrying amount Purchased or originated credit impaired financial assets	Total	Stage1	Stage 2	Stage 3	Purchased or originated credit impaired financial assets	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	5,395	5,395	-	-	-	5,395	-	-	-	-	-
Placements with other banks, net of allowance for placement losses	125,781	126,181	-	-	-	126,181	400	-	-	-	400
<i>Mortgage loans</i>	998,358	781,191	219,138	17,744	476	1,018,549	2,289	14,075	3,761	66	20,191
<i>Corporate loans</i>	3,381	3,133	277	42	-	3,452	15	45	11	-	71
Loans at amortized cost	1,001,739	784,324	219,415	17,786	476	1,022,001	2,304	14,120	3,772	66	20,262
FVOCI securities <sup>1</sup>	18,273	18,273	-	-	-	18,273	29	-	-	-	29
Securities at amortised cost	108,455	108,628	-	-	-	108,628	173	-	-	-	173
<i>Other financial assets</i>	1,011	1,000	30	4	-	1,034	-	22	1	-	23
<i>Other non-financial assets</i>	4,524	4,529	-	-	-	4,529	5	-	-	-	5
Other assets	5,535	5,529	30	4	-	5,563	5	22	1	-	28
<b>Financial assets total</b>	<b><u>1,265,178</u></b>	<b><u>1,048,330</u></b>	<b><u>219,445</u></b>	<b><u>17,790</u></b>	<b><u>476</u></b>	<b><u>1,286,041</u></b>	<b><u>2,911</u></b>	<b><u>14,142</u></b>	<b><u>3,773</u></b>	<b><u>66</u></b>	<b><u>20,892</u></b>
Off balance sheet items	40,052	35,108	5,405	271	-	40,784	162	523	47	-	732

<sup>1</sup> FVOCI securities are recognised and measured at fair value in the Separate Statement of Financial Position (Please see in Note 7.). Loss allowance on FVOCI securities is recognised in the Statement of Comprehensive Income, which is included in this table as a part of the loss allowance.

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

**29.1. Credit risk [continued]**

**29.1.1. Analysis by loan types [continued]**

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

	Carrying amount	Stage 1	Stage 2	Stage 3	Gross carrying amount Purchased or originated credit impaired financial assets	Total	Stage1	Stage 2	Stage 3	Purchased or originated credit impaired financial assets	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	2,111	2,111	-	-	-	2,111	-	-	-	-	-
Placements with other banks, net of allowance for placement losses	135,963	136,102	-	-	-	136,102	139	-	-	-	139
<i>Mortgage loans</i>	918,554	881,620	26,464	14,556	323	922,963	2,104	834	1,453	18	4,409
<i>Corporate loans</i>	4,017	3,939	128	45	-	4,111	41	28	25	-	94
Loans at amortized cost	922,572	885,559	26,592	14,601	323	927,074	2,145	862	1,478	18	4,503
FVOCI securities <sup>1</sup>	18,922	18,922	-	-	-	18,922	18	-	-	-	18
<i>Other financial assets</i>	872	477	399	5	-	881	-	8	1	-	9
<i>Other non-financial assets</i>	1,198	1,085	114	-	-	1,199	1	-	-	-	1
Other assets	2,070	1,562	513	5	-	2,080	1	8	1	-	10
<b>Financial assets total</b>	<b><u>1,081,638</u></b>	<b><u>1,044,255</u></b>	<b><u>27,105</u></b>	<b><u>14,606</u></b>	<b><u>323</u></b>	<b><u>1,086,289</u></b>	<b><u>2,303</u></b>	<b><u>870</u></b>	<b><u>1,479</u></b>	<b><u>18</u></b>	<b><u>4,670</u></b>
Off balance sheet items	48,008	44,569	3,579	378	-	48,526	248	210	60	-	518

<sup>1</sup> FVOCI securities are recognised and measured at fair value in the Separate Statement of Financial Position (Please see in Note 7.). Loss allowance on FVOCI securities is recognised in the Statement of Comprehensive Income, which is included in this table as a part of the loss allowance.

**OTP MORTGAGE BANK LTD.**  
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**NOTE 29: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]**

**29.1. Credit risk [continued]**

**29.1.1. Analysis by loan types [continued]**

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

**Loans at amortised cost**

<b>2020.12.31</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI</b>	<b>Total</b>
Loss allowance as at 1 January 2020 IFRS 9	<b>2,145</b>	<b>862</b>	<b>1,478</b>	<b>18</b>	<b>4,503</b>
Transfer to Stage 1	8	(68)	(18)	-	(78)
Transfer to Stage 2	(529)	11,783	(74)	-	11,180
Transfer to Stage 3	(8)	(102)	965	-	855
Net remeasurement of loss allowance	269	1,274	1,495	50	3,088
New financial assets originated or purchased	671	440	110	-	1,221
Financial assets derecognised (other than write-offs)	(244)	(68)	(184)	(2)	(498)
Unwind of discount	(9)	-	103	1	95
Write-offs	<u>-</u>	<u>-</u>	<u>(103)</u>	<u>(1)</u>	<u>(104)</u>
<b>Loss allowance as at 31 December 2019</b>	<b><u>2,303</u></b>	<b><u>14,121</u></b>	<b><u>3,772</u></b>	<b><u>66</u></b>	<b><u>20,262</u></b>

**Loans at amortised cost**

<b>2019.12.31</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI</b>	<b>Total</b>
Loss allowance as at 1 January 2019 IFRS 9	<b>2,771</b>	<b>2,813</b>	<b>2,696</b>	<b>20</b>	<b>8,300</b>
Transfer to Stage 1	74	(1,498)	(128)	-	(1,552)
Transfer to Stage 2	(116)	541	(532)	-	(107)
Transfer to Stage 3	(73)	(427)	1,207	-	707
Net remeasurement of loss allowance	(1,089)	(829)	(1,428)	(1)	(3,347)
New financial assets originated or purchased	866	374	121	-	1,361
Financial assets derecognised (other than write-offs)	(288)	(112)	(458)	(1)	(859)
Unwind of discount	-	-	142	1	143
Write-offs	<u>-</u>	<u>-</u>	<u>(142)</u>	<u>(1)</u>	<u>(143)</u>
<b>Loss allowance as at 31 December 2019</b>	<b><u>2,145</u></b>	<b><u>862</u></b>	<b><u>1,478</u></b>	<b><u>18</u></b>	<b><u>4,503</u></b>

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

**29.1. Credit risk [continued]**

**29.1.1. Analysis by loan types [continued]**

**Placements with other banks, net of allowance for placement losses**

<b>2020.12.31</b>	<b>Stage 1</b>	<b>Total</b>
Loss allowance as at 1 January 2020	<b>139</b>	<b>139</b>
Financial assets derecognised (other than write-offs)	400	400
Net remeasurement of loss allowance	<u>(139)</u>	<u>(139)</u>
<b>Loss allowance as at 31 December 2020</b>	<b><u>400</u></b>	<b><u>400</u></b>

**Placements with other banks, net of allowance for placement losses**

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

**FVOCI Securities**

<b>2020.12.31</b>	<b>Stage 1</b>	<b>Total</b>
Loss allowance as at 1 January 2020	<b>18</b>	<b>18</b>
New financial assets originated or purchased	29	29
Financial assets derecognised (other than write-offs)	<u>(18)</u>	<u>(18)</u>
<b>Loss allowance as at 31 December 2020</b>	<b><u>29</u></b>	<b><u>29</u></b>

**FVOCI Securities**

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

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

**29.1. Credit risk [continued]**

**29.1.1. Analysis by loan types [continued]**

**Securities at amortised cost**

<b>2020.12.31</b>	<b>Stage 1</b>	<b>Total</b>
Loss allowance as at 1 January 2020	-	-
New financial assets originated or purchased	173	173
<b>Loss allowance as at 31 December 2020</b>	<b><u>173</u></b>	<b><u>173</u></b>

**Off Balance sheet items**

<b>2020.12.31</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Loss allowance as at 1 January 2020	<b>248</b>	<b>210</b>	<b>60</b>	<b>518</b>
Transfer from Stage 1 to Stage 2	1	(55)	(7)	(61)
Transfer from Stage 1 to Stage 3	(20)	67	(16)	31
Transfer from Stage 2 to Stage 1	(3)	(2)	19	14
Net remeasurement of loss allowance	(191)	(89)	(24)	(304)
New financial assets originated or purchased	141	395	24	560
Financial assets derecognised (other than write-offs)	(14)	(3)	(9)	(26)
<b>Loss allowance as at 31 December 2020</b>	<b><u>162</u></b>	<b><u>523</u></b>	<b><u>47</u></b>	<b><u>732</u></b>

**Off Balance sheet items**

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



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

**29.1. Credit risk [continued]**

**Collateral**

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

<b>Types of collateral</b>	<b>2020</b>	<b>2019</b>
Government guarantees	32,062	38,565
Deposit, securities	21,111	-
Mortgage	<u>3,658,702</u>	<u>3,434,086</u>
<b>Total</b>	<b><u>3,711,875</u></b>	<b><u>3,472,651</u></b>

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

<b>Types of collateral</b>	<b>2020</b>	<b>2019</b>
Government guarantees	20,728	38,371
Deposit, securities	13,640	-
Mortgage	<u>1,231,471</u>	<u>1,174,789</u>
<b>Total</b>	<b><u>1,265,839</u></b>	<b><u>1,213,160</u></b>

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

**The collateral value of non-performing loans at amortized cost**

<b>2020</b>	<b>Gross carrying amount</b>	<b>Loss allowance</b>	<b>Carrying amount</b>	<b>Collateral value</b>
Mortgage loans	18,003	(3,805)	14,198	54,641
Corporate loans	42	(11)	31	375
<b>Total</b>	<b>18,045</b>	<b>(3,816)</b>	<b>14,229</b>	<b>55,016</b>

**The collateral value of loans measured at fair value through profit or loss**

<b>2020</b>	<b>Gross carrying amount</b>	<b>Loss allowance</b>	<b>Carrying amount</b>	<b>Collateral value</b>
Mortgage loans	2,780	(465)	2,315	7,968
Corporate loans	-	-	-	-
<b>Total</b>	<b>2,780</b>	<b>(465)</b>	<b>2,315</b>	<b>7,968</b>

**The collateral value of non-performing loans at amortized cost**

<b>2019</b>	<b>Gross carrying amount</b>	<b>Loss allowance</b>	<b>Carrying amount</b>	<b>Collateral value</b>
Mortgage loans	14,613	(1,463)	13,150	41,337
Corporate loans	44	(25)	19	252
<b>Total</b>	<b>14,657</b>	<b>(1,488)</b>	<b>13,169</b>	<b>41,589</b>

**The collateral value of loans measured at fair value through profit or loss**

<b>2019</b>	<b>Gross carrying amount</b>	<b>Loss allowance</b>	<b>Carrying amount</b>	<b>Collateral value</b>
Mortgage loans	2,215	(319)	1,896	6,217
Corporate loans	-	-	-	-
<b>Total</b>	<b>2,215</b>	<b>(319)</b>	<b>1,896</b>	<b>6,217</b>

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

**29.1. Credit risk [continued]**

**Restructured loans**

	<b>2020</b>		<b>2019</b>	
	Gross portfolio	Allowance	Gross portfolio	Allowance
Retail loans	<u>3,845</u>	<u>(459)</u>	<u>5,216</u>	<u>(169)</u>
<b>Total</b>	<b><u>3,845</u></b>	<b><u>(459)</u></b>	<b><u>5,216</u></b>	<b><u>(169)</u></b>

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

**At fair value through other comprehensive income securities as at 31 December 2020**

	<b>Baa3</b>		<b>Not rated</b>		<b>Total</b>
Hungarian government bonds	18,273	100.00%	-	0.00%	18,273
<b>Total</b>	<b><u>18,273</u></b>	<b><u>100.00%</u></b>	<b>-</b>	<b><u>0.00%</u></b>	<b><u>18,273</u></b>

**Securities at amortised cost as at 31 December 2020**

	<b>Baa3</b>		<b>Not rated</b>		<b>Total</b>
Hungarian government bonds	108,455	100.00%	-	0.00%	108,455
<b>Total</b>	<b><u>108,455</u></b>	<b><u>100.00%</u></b>	<b>-</b>	<b><u>0.00%</u></b>	<b><u>108,455</u></b>

**29.2. Market risk**

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

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

**29.2.1. Interest rate sensitivity analysis<sup>1</sup>**

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

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

The simulation were prepared by assuming two scenarios:

1. HUF base rate stays unchanged and BUBOR decreases gradually by 15 bps over the next year(scenario 1)
2. HUF base rate stays unchanged and BUBOR decreases gradually by 30 bps over the next year (scenario 2)

The net interest income in a one year period beginning with January 1, 2021 would be increased by HUF 246 million (scenario 1) and increased by HUF 984 million (scenario 2) as a result of these simulation.

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

Description	Effects to the net interest income in one year period	
	2020	2019
HUF (0.1%) parallel shift	272	178
HUF 0.1% parallel shift	(275)	(178)
<b>Total</b>	<b>(275)</b>	<b>(178)</b>

**29.2.2. Foreign exchange rate sensitivity analysis<sup>2</sup>**

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

The total net open position of OTP Mortgage Bank was 1 million HUF short on 31th December 2020 (compared to 23 million HUF as of 31/12/2019), which consisted of EUR, CHF and JPY exposure. Since OTP Mortgage Bank has completed the conversion of foreign currency consumer mortgage loans into HUF, from its operation does not arise material FX exposures. The potential loss on current open foreign exchange exposure is marginal compared to the regulatory capital of the Bank.

<sup>1</sup> Quantitative data on interest rate risk are shown in Note 26

<sup>2</sup> Quantitative data on foreign exchange rate risk are shown in Note 25

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

**29.3. Capital management**

The primary objective of the capital management of the Bank is to ensure the prudent operation, the entire compliance with the prescriptions of the regulator for a persistent business operation and maximising the shareholder value, accompanied by an optimal financing structure.

The capital management of the Bank includes the management and evaluation of the shareholder's equity available for hedging risks, other types of funds to be recorded in the equity and all material risks to be covered by the capital.

The basis of the capital management of the Bank in the short run is the continuous monitoring of its capital position, in the long run the strategic and the business planning process, which includes the monitoring and forecast of the capital position of the Bank.

The Bank maintains the capital adequacy required by the regulatory bodies and the planned risk taking mainly by means of ensuring and developing its profitability. In case the planned risk level of the Bank exceeded its Core and Supplementary capital, the Bank ensures the prudent operation by occasional measures - by including the owner of the Bank.

**Capital adequacy**

The capital adequacy of the Bank is supervised based on the financial statements data prepared in accordance with the International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB) and accepted by the European Union, rulings and indicators defined by the Basel Committee.

The Bank has entirely complied with the regulatory capital requirements for the year similar to prior years.

The capital adequacy calculations of the Bank for the year 2019 are prepared based on the data of the audited financial statements prepared in accordance with IFRS. The Bank uses the standard method for determining the regulatory capital requirements of the credit risk and market risk, and the alternative standard method in case of the operational risk. In 2020 the Mortgage Bank's solvency ratio is 15.8%. Regulatory capital is 96,710 million HUF; the total required regulatory capital is 49,047 million HUF.

<b>In HUF million</b>	<b>2020 IFRS</b>	<b>2019 IFRS</b>
Core capital	96,710	76,897
Supplementary capital	-	-
<b>Regulatory capital</b>	<b>96,710</b>	<b>76,897</b>
Credit risk capital requirement	47,560	42,028
Market risk capital requirement	-	-
Operational risk capital requirement	1,487	1,867
<b>Total required regulatory capital</b>	<b>49,047</b>	<b>43,895</b>
<b>Surplus capital</b>	<b><u>47,663</u></b>	<b><u>33,002</u></b>
<b>Capital ratio</b>	<b><u>15.8%</u></b>	<b><u>14.0%</u></b>

**Capital adequacy [continued]**

The positive components of the Core capital are the following:

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

The negative components of the Core capital are the following:

Prudential filter, Intangible assets

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 30:**      **OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS**  
**(in HUF million)**

In the normal course of business, the Bank becomes a party to various financial transactions that are not reflected on the statement of financial position and are referred to as off-balance sheet financial instruments. The following represents notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

**Off balance sheet items**

	<b>2020</b>	<b>2019</b>
Current litigations	1,144	1,465
Loan facilities	40,783	48,527
Other	<u>-</u>	<u>180</u>
<i>Contingent and future liabilities total</i>	<b><u>41,927</u></b>	<b><u>50,172</u></b>

**Legal disputes**

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

The Bank believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation.

Provision due to legal disputes was HUF 42 million and HUF 99 million as at 31 December 2020 and 2019, respectively.

**Commitments to extend credit**

The primary purpose of these instruments is to ensure that funds are available to a customer as required.

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

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

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 31: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF million)**

Key management personnel affected by the Bank Group Policy receive compensation based on performance assessment generally in the form of cash bonus and equity shares in a ratio of 50-50%. Assignment is based on OTP shares, furthermore performance based payments are deferred in accordance with the rules of Credit Institutions Act.

OTP Bank ensures the share-based payment part for the management personnel of OTP Group members.

The quantity of usable shares for individuals calculated for settlement of share-based payment shall be determined as the ratio of the amount of share-based payment and share price determined by Supervisory Board<sup>1</sup>.

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

In 2020, the following values were used as a personal expense for locally identified executives in share-based remuneration:

	<b>The year 2016</b>	<b>The year 2017</b>	<b>The year 2018</b>	<b>The year 2019</b>	<b>Total</b>
JZB	1,29	2,62	6,87	21,11	31,89

**NOTE 32: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK**  
**(in HUF million)**

**As at 31 December 2020**

	<b>CHF</b>	<b>EUR</b>	<b>JPY</b>	<b>Total</b>
Assets	9	13	280	302
Liabilities	(10)	(44)	(289)	(343)
<b>Net position</b>	<b><u>(1)</u></b>	<b><u>(31)</u></b>	<b><u>(9)</u></b>	<b><u>(41)</u></b>

**As at 31 December 2019**

	<b>CHF</b>	<b>EUR</b>	<b>JPY</b>	<b>Total</b>
Assets	10	12	326	348
Liabilities	(9)	(39)	(326)	(374)
<b>Net position</b>	<b><u>1</u></b>	<b><u>(27)</u></b>	<b><u>:</u></b>	<b><u>(26)</u></b>

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

<sup>1</sup> Until the end of 2014 Board of Directors

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 33: RELATED PARTY TRANSACTIONS (in HUF million)**

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

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

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

<b>Assets</b>	<b>2020</b>	<b>2019</b>
Cash, amounts due from OTP Bank	3,386	8
Placements with OTP Bank	1,306	31,781
Accrued receivables	25	25
<b>Liabilities</b>	<b>2020</b>	<b>2019</b>
Amounts due to OTP Bank and other banks	(585,732)	(676,761)
Face value of issued mortgage bonds held by OTP Bank	(221,333)	(99,465)
Accrued interest expense due to OTP Bank	(3,345)	(3,053)
Other liabilities due to OTP Bank	(1,602)	(5,884)

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

	<b>2020</b>	<b>2019</b>
Interest income	1,223	1,498
Interest expense	(3,763)	(21,774)
Account handling fees paid to OTP Bank	2,933	7,101
Other fees and commissions relating to lending received from OTP Bank	807	(570)
Other fees and commissions relating to lending paid to OTP Bank	(4,457)	(2,743)
Revenue from the value appraisal activity from OTP Bank	798	561

**33.2. Outstanding balances related to key management personnel**

The management, the members of the Board of Directors and the Supervisory Board and their close relatives have loans of HUF 2,095 million as at 31 December 2020. These loans were covered by HUF 4,299 million mortgages, which can be categorized into 3 different interest periods:

5 years:	1.15% - 9.6%
10 years:	2.74% - 4.74%
20 years:	2.49% - 4.24%

The APR<sup>1</sup> rate at the time the loan is disbursed is based on current market rates.

<b>Compensations</b>	<b>2020</b>	<b>2019</b>
Share-based payment	32	33
Long-term employee benefits (on the basis of IAS 19)	<u>7</u>	<u>10</u>
<b>Total</b>	<b><u>39</u></b>	<b><u>43</u></b>

**33.3. Outstanding balances/Transactions related to other related party<sup>2</sup>**

**33.3.1. Transactions related to OTP Building Society Ltd.**

	<b>2020</b>	<b>2019</b>
Face value of issued mortgage bonds held by OTP Building Society Ltd.	77,646	52,742
Accrued interest expense	(1,972)	(1,889)

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

	<b>2020</b>	<b>2019</b>
Book value of non-performing loans sold to OTP Faktoring Ltd.	350	1,049
Selling price of the non-performing loans related to OTP Faktoring Ltd.	278	930

<sup>1</sup> Annual Percentage Rate

<sup>2</sup>The Bank has significant transactions with OTP Building Society Ltd., OTP Faktoring Ltd. and Merkantil Bank Ltd. in OTP Group, these transactions are highlighted.

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 33: RELATED PARTY TRANSACTIONS (in HUF million) [continued]**

**33.3.3. Transactions related to Merkantil Bank Ltd.**

	<b>2020</b>	<b>2019</b>
Face value of issued mortgage bonds held by Merkantil Bank Ltd.	49,700	45,000
Accrued interest expense	(2,150)	(2,069)

**33.3.4. Further Outstanding balances/Transactions related to other related party**

	<b>2020</b>	<b>2019</b>
Other liabilities due to other related party	(1,682)	-
Other operating income from other related party	162	17
Revenue from the value appraisal activity from OTP Faktoring Ltd. and from other related party	531	504

Compensation of key management personnel is shown in Note 25.

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

**NOTE 34: INTEREST RATE RISK MANAGEMENT**

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

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

In addition, the significant spread existing between the different types of interest bearing assets and liabilities provides a higher level of flexibility for the Bank in handling the interest rate adjustments and the interest rate risk exposure.

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



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**NOTE 34: INTEREST RATE RISK MANAGEMENT [continued]**

31 December 2020	Within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest - bearing		Total		Total
ASSETS	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	
Cash, amounts due from banks and balances with the National Bank of Hungary	3,381	5	-	-	2,009	-	-	-	-	-	-	-	5,390	5	5,395
<i>fixed interest</i>	3,381	5	-	-	2,009	-	-	-	-	-	-	-	5,390	5	5,395
Placements with other banks	-	-	-	-	1,303	-	-	-	124,478	-	-	-	125,781	-	125,781
<i>variable interest</i>	-	-	-	-	1,303	-	-	-	124,478	-	-	-	125,781	-	125,781
Securities at fair value through other comprehensive income	-	-	-	-	18,273	-	-	-	-	-	-	-	18,273	-	18,273
<i>fixed interest</i>	-	-	-	-	18,273	-	-	-	-	-	-	-	18,273	-	18,273
Loans measured at amortised cost	19	-	216	-	1,220	4	6,441	1	993,547	291	-	-	1,001,443	296	1,001,739
<i>fixed interest</i>	-	-	-	-	-	-	-	-	44,329	-	-	-	44,329	-	44,329
<i>variable interest</i>	19	-	216	-	1,220	4	6,441	1	949,218	291	-	-	957,114	296	957,410
Loans mandatorily measured at fair value through profit or loss	1	-	9	-	164	-	342	-	317,528	-	-	-	318,044	-	318,044
<i>variable interest</i>	1	-	9	-	164	-	342	-	317,528	-	-	-	318,044	-	318,044
Securities at amortised cost	-	-	-	-	108,455	-	-	-	-	-	-	-	108,455	-	108,455
<i>fixed interest</i>	-	-	-	-	108,455	-	-	-	-	-	-	-	108,455	-	108,455
Derivative financial assets designated as hedge accounting relationships	-	-	-	-	442	-	-	-	-	-	-	-	442	-	442
<i>variable interest</i>	-	-	-	-	442	-	-	-	-	-	-	-	442	-	442
Other financial assets	-	-	-	-	-	-	-	-	-	-	1,011	-	1,011	-	1,011
<i>non-interest bearing</i>	-	-	-	-	-	-	-	-	-	-	1,011	-	1,011	-	1,011

**OTP MORTGAGE BANK LTD.**  
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**NOTE 34: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]**

31 December 2020	Within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest -bearing		Total		Total
LIABILITIES	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	
<b>Amounts due to OTP Bank and other banks</b>	-	-	-	310	545,318	-	-	-	147,278	-	-	-	692,596	310	692,906
<i>fixed interest</i>	-	-	-	310	-	-	-	-	106,999	-	-	-	106,999	310	107,309
<i>variable interest</i>	-	-	-	-	545,318	-	-	-	40,279	-	-	-	585,597	-	585,597
<b>Liabilities from issued securities</b>	-	-	-	-	292,238	-	-	-	515,275	-	-	-	807,513	-	807,513
<i>fixed interest</i>	-	-	-	-	122,215	-	-	-	515,275	-	-	-	637,490	-	637,490
<i>variable interest</i>	-	-	-	-	170,023	-	-	-	-	-	-	-	170,023	-	170,023
<b>Derivative financial liabilities designated as hedge accounting relationships</b>	-	-	-	-	780	-	-	-	-	-	-	-	780	-	780
<i>variable interest</i>	-	-	-	-	780	-	-	-	-	-	-	-	780	-	780
<b>Leasing liabilities</b>	5	-	9	-	42	-	55	-	121	-	-	-	232	-	232
<i>fixed interest</i>	5	-	9	-	42	-	55	-	121	-	-	-	232	-	232
<b>Other financial liabilities</b>	-	-	-	-	-	-	-	-	-	-	5,774	-	5,774	-	5,774
<i>non-interest bearing</i>	-	-	-	-	-	-	-	-	-	-	5,774	-	5,774	-	5,774
<b>NET POSITION</b>	3,396	5	216	(310)	(706,512)	4	6,728	1	777,879	291	(4,763)		71,944	(9)	71,935

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**31 DECEMBER 2020**

**NOTE 34**      **INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]**

31 December 2019	Within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest - bearing		Total		Total
ASSETS	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	
Cash, amounts due from banks and balances with the National Bank of Hungary	-	-	2,106	5	-	-	-	-	-	-	-	-	2,106	5	2,111
<i>fixed interest</i>	-	-	2,106	5	-	-	-	-	-	-	-	-	2,106	5	2,111
Placements with other banks	-	-	38,966	-	-	-	96,997	-	-	-	-	-	135,963	-	135,963
<i>fixed interest</i>	-	-	38,966	-	-	-	96,997	-	-	-	-	-	135,963	-	135,963
Securities at fair value through other comprehensive income	-	-	-	-	-	-	-	-	18,922	-	-	-	18,922	-	18,922
<i>fixed interest</i>	-	-	-	-	-	-	-	-	18,922	-	-	-	18,922	-	18,922
Loans measured at amortised cost	126,769	170	264,137	171	98,272	2	57,710	-	375,341	-	-	-	922,229	343	922,572
<i>fixed interest</i>	-	-	-	-	-	-	-	-	375,341	-	-	-	375,341	-	375,341
<i>variable interest</i>	126,769	170	264,137	171	98,272	2	57,710	-	-	-	-	-	546,888	343	547,231
Loans mandatorily measured at fair value through profit or loss	194	-	100	-	1 129	-	461	-	255 059	-	-	-	256,943	-	256,943
<i>variable interest</i>	194	-	100	-	1,129	-	461	-	255,059	-	-	-	256,943	-	256,943
Derivative financial assets designated as hedge accounting relationships	-	-	-	-	-	-	-	-	229	-	-	-	229	-	229
<i>variable interest</i>	-	-	-	-	-	-	-	-	229	-	-	-	229	-	229
Other financial assets	-	-	-	-	352	-	-	-	-	-	520	-	872	-	872
<i>fixed interest</i>	-	-	-	-	352	-	-	-	-	-	-	-	352	-	352
<i>non-interest bearing</i>	-	-	-	-	-	-	-	-	-	-	520	-	520	-	520

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**31 DECEMBER 2020**

**NOTE 34: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]**

31 December 2019	Within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest -bearing		Total		Total
LIABILITIES	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	
Amounts due to OTP Bank and other banks	-	-	-	-	636,373	345	-	-	40,244	-	-	-	676,617	345	676,962
<i>fixed interest</i>	-	-	-	-	636,373	345	-	-	40,244	-	-	-	676,617	345	676,962
Liabilities from issued securities	-	-	131,816	-	437,528	-	-	-	-	-	-	-	569,344	-	569,344
<i>fixed interest</i>	-	-	-	-	437,528	-	-	-	-	-	-	-	437,528	-	437,528
<i>variable interest</i>	-	-	131,816	-	-	-	-	-	-	-	-	-	131,816	-	131,816
Derivative financial liabilities designated as hedge accounting relationships	-	-	-	-	-	-	-	-	822	-	-	-	822	-	822
<i>variable interest</i>	-	-	-	-	-	-	-	-	822	-	-	-	822	-	822
Leasing liabilities	4	-	8	-	36	-	49	-	183	-	-	-	280	-	280
<i>fixed interest</i>	4	-	8	-	36	-	49	-	183	-	-	-	280	-	280
Other financial liabilities	-	-	-	-	-	-	-	-	-	-	8,619	-	8,619	-	8,619
<i>non-interest bearing</i>	-	-	-	-	-	-	-	-	-	-	8,619	-	8,619	-	8,619
NET POSITION	126.959	170	173.485	176	(974.184)	(343)	155.199	-	608.302	-	(8,099)	-	81.582	3	81.585

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**31 DECEMBER 2020**

**NOTE 35: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF million)**

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

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

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

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

As at 31 December 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, due from banks and balances with the National Bank of Hungary	5,395	-	-	-	-	5,395
Placements with other banks, net of allowance for placement losses	2,622	7,113	116,446	-	-	126,181
Securities at fair value through other comprehensive income	441	-	15,000	-	-	15,441
Loans measured at amortised cost	40,143	50,939	269,435	656,103	-	1,016,620
Loans mandatorily measured at fair value through profit or loss	9,502	13,519	71,424	223,384	-	317,829
Securities at amortised cost	646	-	96,590	9,600	-	106,836
Property and equipment	-	-	-	-	20	20
Derivative financial assets designated as hedge accounting relationships	-	-	341	101	-	442
Intangible assets	-	-	-	-	192	192
Other financial assets	<u>1,034</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,034</u>
<b>TOTAL ASSETS</b>	<b><u>59,783</u></b>	<b><u>71,571</u></b>	<b><u>569,236</u></b>	<b><u>889,188</u></b>	<b><u>212</u></b>	<b><u>1,589,990</u></b>
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	635	365,006	119,063	28,027	-	512,731
Liabilities from issued securities	8,705	122,100	556,000	120,100	-	806,905
Derivative financial instruments designated as hedging instruments	-	-	103	677	-	780
Leasing liabilities	14	41	177	-	-	<u>232</u>
Other financial liabilities	<u>5,042</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,042</u>
<b>TOTAL LIABILITIES</b>	<b><u>14,396</u></b>	<b><u>487,147</u></b>	<b><u>675,343</u></b>	<b><u>148,804</u></b>	<b><u>=</u></b>	<b><u>1,325,690</u></b>
Receivables from derivative financial instruments designated as fair value hedge	-	-	341	101	-	442
Liabilities from derivative financial instruments designated as fair value hedge	-	-	103	677	-	780
Net position of financial instruments designated as fair value hedge	<u>-</u>	<u>-</u>	<u>238</u>	<u>-576</u>	<u>-</u>	<u>-338</u>
<b>Net position of derivative financial instruments total</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>238</u></b>	<b><u>-576</u></b>	<b><u>-</u></b>	<b><u>-338</u></b>
Commitments to extend credit	40,783	-	-	-	-	40,783
<b>Off-balance sheet commitments</b>	<b>40,783</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>40,783</b>

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**31 DECEMBER 2020**

**NOTE 35: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF million) [continued]**

As at 31 December 2019	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, due from banks and balances with the National Bank of Hungary	2,111	-	-	-	-	2,111
Placements with other banks, net of allowance for placement losses	33,474	5,527	97,100	-	-	136,101
Securities at fair value through other comprehensive income	435	-	-	15,000	-	15,435
Loans measured at amortised cost	17,976	52,127	270,821	591,985	-	932,909
Loans mandatorily measured at fair value through profit or loss	3,694	12,298	61,609	174,657	-	252,258
Intangible assets	-	-	-	-	184	184
Derivative financial assets designated as hedge accounting relationships	-	-	32	197	-	229
Property and equipment	-	-	-	-	22	22
Other financial assets	881	-	-	-	-	881
<b>TOTAL ASSETS</b>	<b><u>58,571</u></b>	<b><u>69,952</u></b>	<b><u>429,562</u></b>	<b><u>781,839</u></b>	<b><u>206</u></b>	<b><u>1,340,130</u></b>
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	201	636,509	12,204	28,049	-	676,963
Liabilities from issued securities	8,017	10,001	398,100	150,000	-	566,118
Derivative financial instruments designated as hedging instruments	-	-	264	558	-	822
Leasing liabilities	12	36	207	25	-	280
Other financial liabilities	8,101	-	-	-	-	8,101
<b>TOTAL LIABILITIES</b>	<b><u>16,331</u></b>	<b><u>646,546</u></b>	<b><u>410,775</u></b>	<b><u>178,632</u></b>	<b><u>-</u></b>	<b><u>1,252,284</u></b>
Receivables from derivative financial instruments designated as fair value hedge	-		32	197	-	229
Liabilities from derivative financial instruments designated as fair value hedge	-		264	558	-	822
Net position of financial instruments designated as fair value hedge	<u>-</u>	<u>-</u>	<u>(232)</u>	<u>(361)</u>	<u>-</u>	<u>(593)</u>
<b>Net position of derivative financial instruments total</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>(232)</u></b>	<b><u>(361)</u></b>	<b><u>-</u></b>	<b><u>(593)</u></b>
Commitments to extend credit	4,207	801	43,519	-	-	48,527
<b>Off-balance sheet commitments</b>	<b>4,207</b>	<b>801</b>	<b>43,519</b>	<b>-</b>	<b>-</b>	<b>48,527</b>

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**31 DECEMBER 2020**

**NOTE 36: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million)**

In determining the fair value of a financial asset or liability the Bank in the case of instruments that are quoted on an active market uses the market price. In most cases, reliable and public market information is not available so the Bank has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 38.e) for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.

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

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

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

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

**Fair value of financial assets and liabilities**

	<b>2020</b>		<b>2019</b>	
	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>
Cash, due from banks and balances with the National Bank of Hungary	5,395	5,395	2,111	2,111
Placements with other banks	125,781	125,781	135,963	135,963
Securities at fair value through other comprehensive income	18,273	18,273	18,922	18,922
Loans at amortised cost	1,001,739	1,302,678	922,572	1,223,200
Loans mandatorily measured at fair value through profit or loss	318,044	318,044	256,943	256,943
Securities at amortised cost	108,455	128,197	-	-
Derivative financial assets designated as hedge accounting relationships	442	442	229	229
Other financial assets	<u>1,011</u>	<u>1,011</u>	<u>872</u>	<u>872</u>
<b>FINANCIAL ASSETS TOTAL</b>	<b><u>1,579,140</u></b>	<b><u>1,899,821</u></b>	<b><u>1,337,612</u></b>	<b><u>1,638,240</u></b>
Amounts due to OTP Bank and other banks	692,906	693,429	676,962	677,903
Liabilities from issued securities	807,513	869,870	569,344	664,775
Derivative financial instruments designated as hedging instruments	780	780	822	822
Leasing liabilities	232	232	280	280
Other financial liabilities	<u>5,774</u>	<u>5,774</u>	<u>8,619</u>	<u>8,619</u>
<b>FINANCIAL LIABILITIES TOTAL</b>	<b><u>1,507,205</u></b>	<b><u>1,570,085</u></b>	<b><u>1,256,027</u></b>	<b><u>1,352,399</u></b>

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**31 DECEMBER 2020**

**NOTE 36: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]**

**Fair value hierarchy**

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

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

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

**As at 31 December 2020**

	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Loans mandatorily measured at fair value through profit or loss	318,044	-	-	318,044
FVOCI securities	18,273	18,273	-	-
Positive fair value of derivative financial instruments designated as fair value hedge	442	-	442	-
Negative fair value of derivative financial instruments designated as fair value hedge	(780)	-	(780)	-
<b>Total</b>	<b><u>335,979</u></b>	<b><u>18,273</u></b>	<b><u>(338)</u></b>	<b><u>318,044</u></b>

**As at 31 December 2019**

	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Loans mandatorily measured at fair value through profit or loss	256,943	-	-	256,943
FVOCI securities	18,922	18,922	-	-
Positive fair value of derivative financial instruments designated as fair value hedge	229	-	229	-
Negative fair value of derivative financial instruments designated as fair value hedge	(822)	-	(822)	-
<b>Total</b>	<b><u>275,272</u></b>	<b><u>18,922</u></b>	<b><u>(593)</u></b>	<b><u>256,943</u></b>

**Valuation techniques and sensitivity analysis on Level 3 instruments**

Sensitivity analysis is performed on products with significant unobservable inputs (Level 3) to generate a range of reasonably possible alternative valuations. The sensitivity methodologies applied take account of the nature of the valuation techniques used, as well as the availability and reliability of observable proxy and historical data and the impact of using alternative models.

The calculation is based on range or spread data of reliable reference source or a scenario based on relevant market analysis alongside the impact of using alternative models. Sensitivities are calculated without reflecting the impact of any diversification in the portfolio.

**Unobservable inputs used in measuring fair value**

<b>Type of financial instrument</b>	<b>Valuation technique</b>	<b>Significant unobservable input</b>	<b>Range of estimates for unobservable input</b>
Loans mandatory measured at fair value through profit and loss	Discounted cash flow model	Probability of default	+/- 20%



**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**31 DECEMBER 2020**

**NOTE 36:** **FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]**

**Reconciliation of the opening and closing balances of Level 3 instruments for the year ended 31 December 2020**

	Opening balance	Issuance/ Disbursement	FVA	Settlement	Closing balance
Loans at fair value through other comprehensive income	256,943	74,579	(4,182)	-9,296	318,044
<b>Total</b>	<b>256,943</b>	<b>74,579</b>	<b>(4,182)</b>	<b>-9,296</b>	<b>318,044</b>

**Reconciliation of the opening and closing balances of Level 3 instruments for the year ended 31 December 2019**

	Opening balance	Issuance/ Disbursement	FVA	Settlement	Closing balance
Loans at fair value through other comprehensive income	218,824	58,281	333	(20,495)	256,943
<b>Total</b>	<b>218,824</b>	<b>58,281</b>	<b>333</b>	<b>(20,495)</b>	<b>256,943</b>

**Amount, timing and uncertainty of future cash flows - hedging instruments**

2020			Maturity		
Interest interest	rate rate	risk- swap (HUF)	One year to five years	More than five years	Total
<b>Fair value hedge</b>					
	Notional		15,000	-	15,000
	Average FX Rate		1.5%	-	-
<b>Cash flow hedge</b>					
	Notional		12,194	28,027	40,221
	Average FX Rate		1.01%	1.58%	-

2019			Maturity		
Interest interest	rate rate	risk- swap (HUF)	One year to five years	More than five years	Total
<b>Cash flow hedge</b>					
	Notional		12,194	28,027	40,221
	Average FX Rate		1.77%	2.46%	-

**Derivatives held for hedging – as at 31 December 2020**

	Assets	Liabilities
<b>Derivatives designated in cash fair value hedges</b>		
Interest rate swaps	309	-
<b>Derivatives designated in cash flow hedges</b>		
Interest rate swaps	133	780
<b>Total derivatives designated in cash flow hedges</b>	<b>442</b>	<b>780</b>

**Derivatives held for hedging – as at 31 December 2019**

	Assets	Liabilities
<b>Derivatives designated in cash flow hedges</b>		
Interest rate swaps	229	822
<b>Total derivatives designated in cash flow hedges</b>	<b>229</b>	<b>822</b>

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**31 DECEMBER 2020**

**NOTE 36: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]**

**Hedge accounting – hedge instruments– as at 31 December 2020**

Interest rate risk	Nominal amount	Carrying amount		Line item in the statement of financial position	Ineffectiveness for 2020
		Assets	Liabilities		
Interest rate swaps					
<b>Fair value hedge</b>	15,000	309	-	Derivative assets (liabilities) held for risk management	(75)
<b>Cash flow hedge</b>	40,221	133	780	Derivative assets (liabilities) held for risk management	2,151
Interest rate risk	Cash flow hedge reserve	Hedge effectiveness recognised in profit or loss		Line item in profit or loss that includes hedge ineffectiveness	
Interest rate swap	292		2,151	Interest Income/Placements with other banks, net of allowance for placement losses	

**Hedge accounting – hedge instruments– as at 31 December 2019**

Interest rate risk	Nominal amount	Carrying amount		Line item in the statement of financial position	Ineffectiveness for 2019
		Assets	Liabilities		
Interest rate swaps					
	40,221	229	822	Derivative assets (liabilities) held for risk management	392
Interest rate risk	Cash flow hedge reserve	Hedge effectiveness recognised in profit or loss		Line item in profit or loss that includes hedge ineffectiveness	
Interest rate swap	(2,124)		(392)	Interest Income/Placements with other banks, net of allowance for placement losses	

**Hedge accounting – hedge items– as at 31 December 2020**

Type of risk	Carrying amount of the hedging instrument for the year ended 31 December 2020		Changes in fair value used for calculating hedge ineffectiveness for the year ended 31 December 2020		Changes in fair value used for calculating hedge ineffectiveness for the year ended 31 December 2020
	Assets	Liabilities	Assets	Liabilities	
<b>Fair value hedge</b>					
<i>Interest rate risk</i>					
- Other securities	-	(14,921)	-	-	Liabilities from (25) issued securities
<b>Cash flow hedge</b>					
<i>Interest rate risk</i>					
- Loans	-	(40,221)	-	-	Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other (201) banks

**OTP MORTGAGE BANK LTD.**  
**NOTES TO SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
**31 DECEMBER 2020**

**NOTE 37:                      SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2020**

The pandemic impact of COVID 19 was a significant event in 2020. See Note 4 for details.

**NOTE 38:                      POST BALANCE SHEET EVENTS**

27 July 2020 NBH set minimum requirements for calculating impairments for potential loan losses, simultaneously formulated more flexible prudential criteria through modifying its circular on applying IFRS9 standards regarding macroeconomic information and credit risk standards. Credit institutions can use the modified criteria aimed at moderating the consequences of COVID-19 pandemic from 27 July 2020 until the end of 2021 the latest. One particular modification is that in case of restructuring beyond the payment moratorium deadline banks may dispense with classifying the restructuring as a significant credit risk factor provided such restructuring decision was made on an assumption that both the financial difficulties of the client and the restructuring aimed curing that are having a temporary nature.

# **OTP MORTGAGE BANK LTD.**

CONSOLIDATED FINANCIAL STATEMENTS  
IN ACCORDANCE WITH  
INTERNATIONAL FINANCIAL REPORTING  
STANDARDS AS ADOPTED BY  
THE EUROPEAN UNION AND INDEPENDENT AUDITOR'S REPORT  
  
FOR THE YEAR ENDED  
31 DECEMBER 2020

## INDEPENDENT AUDITOR'S REPORT

To the Shareholder of OTP Mortgage Bank Ltd.

### *Report on the Audit of the Consolidated Financial Statements*

#### *Opinion*

We have audited the consolidated financial statements of OTP Mortgage Bank Ltd. and its subsidiaries (the “Group”) for the year 2020 which comprise the consolidated statement of financial position as at December 31, 2020, which shows total assets of HUF 1,584,919 million, the related consolidated statement of profit or loss and the consolidated statement of comprehensive income, which shows a net loss for the year of HUF 6,585 million, the consolidated statement of changes in equity, and the consolidated statement of cash-flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the matter
<b>Calculation of expected credit losses on retail loans (ECL)</b>	
<p>(See notes 8. and 28. 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 Financial Instruments, which requires significant judgment to determine the expected credit losses (“ECLs”). At the year-end, the Group reported total gross loans measured at amortised cost of HUF 1,001,739 million and provisions for impairment on loan losses of HUF 20,262 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 the application of portfolio based collective impairment models. The most significant assumptions applied in determining the provision are the following:</p> <ul style="list-style-type: none"> <li>- The interpretation of the requirements to determine impairment under application of IFRS 9, which is reflected in the Group’s expected credit loss model;</li> <li>- IFRS 9 credit risk staging methodology and application, including the identification of exposures with a significant deterioration in credit quality;</li> <li>- model used for impairment calculations reflecting the characteristics of the portfolio, such as valuation of collateral, probability of default and recovery rates, macroeconomic factors; and</li> <li>- the application of assumptions, where there was limited or incomplete data.</li> </ul> <p>The COVID-19 pandemic has resulted in an increase in the uncertainty of assumptions underlying the economic outlook. This combined with varying government responses, has raised the complexity of assessing and monitoring customers' financial health, necessitating an elevated level of judgement required by the Bank in calculating the ECL.</p>	<p>Our response as auditors included:</p> <ul style="list-style-type: none"> <li>- testing and assessment of the modeling techniques and methodology applied by the Group in order to estimate ECLs, and evaluation of its compliance with the requirements of IFRS 9;</li> <li>- 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;</li> <li>- assessing the collective model methodology and testing the calculations in terms of risk parameters (probability of default – PD, loss given default – LGD, expected credit loss – ECL, and macroeconomic factors) applied by the collective models including involving our specialists;</li> <li>- 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;</li> <li>- assessing on a sample basis, whether the staging and impairment triggers are captured appropriately and whether the estimation of the allowance is reasonable;</li> <li>- assessing the requirement for additional allowances considering the Bank’s ECL model, particularly in light of the extreme volatility in economic scenarios caused by the current COVID-19 pandemic and government responses;</li> <li>- performing loan portfolio analysis to identify unexpected or anti-trend movements in the loan portfolio regarding stage migration and loss allowance movements; and</li> <li>- assessing the adequacy of the disclosures in the consolidated financial statements.</li> </ul>

## ***Other Information***

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

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

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

In our opinion, the consolidated business report of the Group for 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.

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

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

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

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

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

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

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

Our objectives during the audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue, on the basis of the above, an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Hungarian National Standards on Auditing and the effective Hungarian

laws and other regulations on audits will always detect a material misstatement when it exists. Misstatements can arise from fraud or error, and they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify the opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the notes to the consolidated financial statements, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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



### ***Report on Other Legal and Regulatory Requirements***

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

#### ***Appointment of the Auditor and the Period of Engagement***

We were appointed as the auditors of OTP Mortgage Bank Ltd. by the Shareholder's resolution on March 21, 2020 and our uninterrupted engagement has lasted for 20 years.

#### ***Consistence with the Additional Report to the Audit Committee***

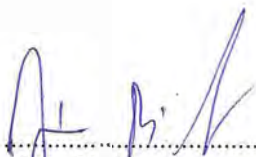
We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of OTP Mortgage Bank Ltd., which we issued on March 17, 2021 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament 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 Mortgage Bank Ltd. and its controlled undertaking which have not been disclosed in the consolidated business report.

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

Budapest, March 23, 2021



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



Mádi-Szabó Zoltán  
Statutory registered auditor  
Registration number: 003247

**OTP MORTGAGE BANK LTD.  
CONSOLIDATED FINANCIAL STATEMENTS**

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**OTP MORTGAGE BANK LTD.**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020**  
(in HUF million)

	Note	2020	2019
Cash, amounts due from banks and balances with the National Bank of Hungary	5.	6,313	2,584
Placements with other banks, net of allowance for placement losses	6.	125,781	135,963
Securities at fair value through other comprehensive income	7.	18,273	18,922
Loans	8.	1,318,867	1,179,175
Securities at amortised cost	9.	108,455	-
Intangible assets	10.	192	184
Property and equipment	10.	66	90
Right of use assets	10.	462	405
Derivative financial assets designated as hedge accounting relationships	11.	442	229
Current tax assets		1,061	129
Other assets	12.	<u>5,007</u>	<u>2,541</u>
<b>TOTAL ASSETS</b>		<b><u>1,584,919</u></b>	<b><u>1,340,222</u></b>
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	13.	692,906	676,962
Liabilities from issued securities	14.	807,513	569,344
Derivative financial liabilities designated as hedge accounting relationship	15.	780	822
Deferred tax liabilities		4	77
Leasing liabilities	26.	492	414
Other liabilities	16.	<u>7,346</u>	<u>10,249</u>
<b>TOTAL LIABILITIES</b>		<b><u>1,509,041</u></b>	<b><u>1,257,868</u></b>
Share capital	17.	37,000	37,000
Retained earnings and reserves	18.	<u>38,878</u>	<u>45,354</u>
<b>TOTAL SHAREHOLDER'S EQUITY</b>		<b><u>75,878</u></b>	<b><u>82,354</u></b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>		<b><u>1,584,919</u></b>	<b><u>1,340,222</u></b>

Budapest, 23 March 2020

  
.....  
András Becsei  
Chief Executive Officer

  
.....

  
.....  
Petra Szudárovicsné Csonka  
Chief Financial Officer

**OTP MORTGAGE BANK LTD.**  
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED**  
**31 DECEMBER 2020 (in HUF million)**

	Note	2020	2019
<i>Interest income:</i>			
Interest income calculated using the effective interest method	20.	70,199	62,033
Income similar to interest income	20.	(421)	(232)
<b>Total Interest Income</b>		<b>69,778</b>	<b>61,801</b>
<b>Total Interest Expense</b>	<b>20.</b>	<b>(34,740)</b>	<b>(33,625)</b>
<b>NET INTEREST INCOME</b>		<b><u>35,038</u></b>	<b><u>28,176</u></b>
Loss allowance on loan, placement and repo receivables losses		(16,250)	3,190
<i>from this: loss from derecognition of loans at amortised cost</i>		(178)	(584)
Loss allowance / (Release of loss allowance) on securities at fair value through other comprehensive income and on securities at amortised cost		(184)	(6)
Provision for loan commitments and financial guarantees given		(214)	311
Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit of loss		(2,851)	18
Risk cost total	21.	(19,499)	3,513
<b>NET INTEREST INCOME AFTER RISK COST</b>		<b><u>15,539</u></b>	<b><u>31,689</u></b>
<b>MODIFICATION LOSS</b>	<b>4.</b>	<b>(9,584)</b>	<b>-</b>
Income from fees and commissions	22.	3,941	1,349
Expenses from fees and commissions	22.	<u>(8,398)</u>	<u>(3,199)</u>
<b>Net profit from fees and commissions</b>		<b><u>(4,457)</u></b>	<b><u>(1,850)</u></b>
Foreign exchange gains		(9)	(6)
(Losses) / Gains on financial instruments at fair value through profit or loss		(921)	1,035
Net other operating (expense) / income	23.	(539)	926
Other operating expenses	23.	<u>64</u>	<u>332</u>
<b>Net operating (expense) / income</b>		<b><u>(1,405)</u></b>	<b><u>2,287</u></b>
Personnel expenses	23.	(1,326)	(1,270)
Depreciation and amortization	23.	(293)	(199)
Other administrative expenses	23.	<u>(5,110)</u>	<u>(3,904)</u>
<b>Other administrative expenses</b>		<b><u>(6,729)</u></b>	<b><u>(5,373)</u></b>
<b>(LOSS) / PROFIT BEFORE INCOME TAX</b>		<b><u>(6,636)</u></b>	<b><u>26,753</u></b>
Income tax expense	25.	<u>51</u>	<u>(393)</u>
<b>NET (LOSS) / PROFIT FOR THE PERIOD</b>		<b><u>(6,585)</u></b>	<b><u>26,360</u></b>
Earnings per share (in HUF)			
Basic and diluted	27.	<u>(17,797)</u>	<u>71,243</u>

**OTP MORTGAGE BANK LTD.**  
**CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR**  
**ENDED 31 DECEMBER 2020 (in HUF million)**

	Note	2020	2019
<b>NET (LOSS) / PROFIT FOR THE PERIOD</b>		<b><u>(6,585)</u></b>	<b><u>26,360</u></b>
<b>Items that may be reclassified subsequently from other comprehensive income to profit or loss:</b>			
Fair value adjustment of securities fair value through other comprehensive income		(240)	1,094
Deferred tax related to securities fair value through other comprehensive income		23	(98)
Fair value adjustment of derivative financial instruments		292	(2,124)
<b>Other comprehensive income, net of income tax</b>		<b><u>75</u></b>	<b><u>(1,128)</u></b>
<b>NET COMPREHENSIVE (LOSS) / INCOME</b>		<b><u>(6,510)</u></b>	<b><u>25,232</u></b>

**OTP MORTGAGE BANK LTD.**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31**  
**DECEMBER 2020 (in HUF million)**

	Share Capital	Capital reserve	Retained earnings and other reserves	Total
<b>Balance as at 1 January 2019</b>	<b><u>27,000</u></b>	<b><u>476</u></b>	<b><u>47,174</u></b>	<b><u>74,650</u></b>
Net profit for the period	-	-	26,360	26,360
Other comprehensive income	-	-	(1,128)	(1,128)
<b>Total comprehensive income</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>25,232</u></b>	<b><u>25,232</u></b>
Dividend for the year 2018	-	-	(27,500)	(27,500)
Share-based payment	-	-	36	36
Consolidation difference on acquisition of OTP Financial Point. Ltd.	-	-	(64)	(64)
Share capital raise	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>10,000</u>
<b>Balance as at 31 December 2019</b>	<b><u>37,000</u></b>	<b><u>476</u></b>	<b><u>44,878</u></b>	<b><u>82,354</u></b>
 <b>Balance as at 1 January 2020</b>	 <b><u>37,000</u></b>	 <b><u>476</u></b>	 <b><u>44,878</u></b>	 <b><u>82,354</u></b>
Net loss for the period	-	-	(6,585)	(6,585)
Other comprehensive income	-	-	75	75
<b>Total comprehensive loss</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>(6,510)</u></b>	<b><u>(6,510)</u></b>
Share-based payment	<u>-</u>	<u>-</u>	<u>34</u>	<u>34</u>
<b>Balance as at 31 December 2020</b>	<b><u>37,000</u></b>	<b><u>476</u></b>	<b><u>38,402</u></b>	<b><u>75,878</u></b>

**OTP MORTGAGE BANK LTD.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020**  
(in HUF million)

	Note	2020	2019
<b>OPERATING ACTIVITIES</b>			
<b>(Loss) / Profit before income tax</b>		(6,636)	26,753
Net interest paid		(20,036)	(3,266)
Depreciation and amortization		293	199
Loss allowance /(Release of loss allowance) on loans and placements	21.	16,250	(3,190)
Loss allowance on securities at fair value through other comprehensive income	21.	11	6
Loss allowance on securities at amortised cost	21.	173	-
Loss allowance on other assets	12.	57	30
Provision on off-balance sheet commitments and contingent liabilities		45	(1,708)
Share-based payment	30.	34	36
Unrealised losses/ (gains) on fair value adjustment of financial instruments at fair value through profit or loss	21.	2,851	(18)
Unrealised losses on fair value adjustment of derivative financial instruments		3,228	-
Interest expense from leasing liabilities	26.	(7)	(8)
<b><u>Net changing in assets and liabilities in operating activities</u></b>			
Net increase in loans		(137,741)	(112,640)
Increase in other assets, excluding advances for investments and before provisions for losses	12.	(3,455)	(927)
Decrease in other liabilities	16.	(2,978)	(2,153)
Income tax paid	25.	-	688
<b>Net cash used by operating activities</b>		<b><u>(147,911)</u></b>	<b><u>(96,218)</u></b>
<b>INVESTING ACTIVITIES</b>			
Net decrease / (increase) in placements with other banks before allowance for placement losses	6.	9,935	(8,355)
Proceeds from sale of securities at fair value through other comprehensive income	7.	727	-
Purchase securities at fair value through other comprehensive income	7.	-	(9,430)
Change in derivative financial instruments designated as hedge accounting		(3,483)	2,356
Increase in investments in subsidiaries		-	45
Increase in securities at amortised cost	9.	(109,852)	-
Redemption of securities at amortised cost	9.	1,224	-
Additions to property, equipment and intangible assets	10.	(156)	(134)
Disposal of property, equipment and intangible assets	10.	15	-
<b>Net cash used in investing activities</b>		<b><u>(101,590)</u></b>	<b><u>(15,518)</u></b>

**OTP MORTGAGE BANK LTD.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020**  
(in HUF million)

<b>FINANCING ACTIVITIES</b>		<b>2020</b>	<b>2019</b>
Net increase in amounts due to banks and deposits from the National Bank of Hungary and other banks	13.	15,835	168,099
Leasing payments		(108)	(62)
Cash received from issuance of securities	14.	310,100	-
Cash used for redemption of issued securities	14.	(72,597)	(39,522)
Share capital raise		-	10,000
Consolidation difference on acquisition of OTP Financial Point. Ltd.		-	64
Dividends paid		_____	<u>(27,500)</u>
<b>Net cash provided by financing activities</b>		<b><u>253,230</u></b>	<b><u>110,951</u></b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>3,729</b>	<b>(785)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>2,573</b>	<b>3,358</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>6,302</b>	<b>2,573</b>



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

**NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS**

**1.1. General information**

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

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

These consolidated financial statements authorised for issue on 23 March 2021.

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

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

Internet homepage: [https://www.otpbank.hu/OTP\\_JZB/online/index.jsp](https://www.otpbank.hu/OTP_JZB/online/index.jsp)

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

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

Due to Hungarian legislation audit services are statutory for OTP Mortgage Bank. Disclosure information about the auditor: Deloitte Auditing and Consulting Ltd. (000083), 1068 Budapest Dózsa György Street 84/C. Registered under 01-09-071057 by Budapest-Capital Regional Court, as registry court. Statutory registered auditor: Zoltán Mádi- Szabó, registration number: 003247.

Audit service fee agreed by the Articles of Association for the year ended 2020 is an amount of HUF 60.9 million + VAT.

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

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

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

As the sole shareholder, OTP Bank provides financial and administrative support to the Group. Details of related party balances and transactions are summarised in Note 32 to these financial statements.

A significant proportion of mortgage loans are extended for periods for more than ten or fifteen years whereas mortgage bonds generally have a shorter maturity (1-10 years). The remaining average maturity of the loan portfolio of the Group is 16,16 years. The Group is lengthening the average maturity of its outstanding mortgage bonds to reduce the liquidity gaps.

As at 31 December 2020 and 2019 the number and the average number of the employees at the Bank were 103 and 109 respectively.

**OTP MORTGAGE BANK LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS [continued]**

**1.2. Base of Accounting**

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

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

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). As adopted by the European Union Some of the accounting principles prescribed for statutory purposes are different from those generally recognized in international financial markets.

**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 Bank's financial statements.

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

- **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)

**OTP MORTGAGE BANK LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS [continued]**

**1.2. Base of Accounting [continued]**

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the 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 date of publication of these 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),
- **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 Bank anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

**OTP MORTGAGE BANK LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**2.1. Basis of presentation**

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

The presentation of separate financial statements in conformity with IFRS as adopted by the European Union requires management of the OTP Bank to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities (see Note 3) as at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Future changes in economic conditions, business strategies, regulatory requirements, accounting rules and other factors could result in a change in estimates that could have a material impact on future financial statements.

**2.2. Foreign currency translation**

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

**2.3. Consolidated financial statements**

These financial statements present the separate financial position and results of operations of the Group. Consolidated financial statements are prepared by the Group and consolidated net profit for the year and shareholders' equity differ significantly from that presented in these separate financial statements. See Note 2.4 for the description of the method of accounting for investments in subsidiaries and associated companies in these separate financial statements. The consolidated financial statements and the separate financial statements are published on the same date. As the ultimate parent, the Mortgage Bank is preparing consolidated financial statements of the Group of the Bank.

**2.4. Investments in subsidiaries**

Investments in subsidiaries comprise those investments where the Group, through direct and indirect ownership interest, controls the investee. Control is achieved when the Group has power over the investee, is exposed or has rights, to variable returns from its involvement with the investee and has the ability to use its power to affect its returns.

Investments in subsidiaries are recorded at the cost of acquisition, less impairment for permanent diminution in value, when appropriate. After initial measurement investments in subsidiaries are measured at cost.

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

**2.5. Securities at amortised cost**

The Bank 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 Bank 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 (Eir based) 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 Government bonds and corporate bonds.

**OTP MORTGAGE BANK LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.6 Financial assets at fair value through profit or loss**

**2.6.1 Securities at fair value through other comprehensive income (“FVOCI securities”)**

FVOCI securities are held within a business model whose objective is achieved by both collecting of contractual cash flows and selling securities. Furthermore, contractual terms of FVOCI securities give rise on specified dates to cash flows that are solely payment of principal and interest on the principal amount outstanding.

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

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

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

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

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

**2.6.2. Derivative financial instruments**

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

Derivative financial instruments are accounted for on a trade date basis and are initially measured at fair value and at subsequent reporting dates also at fair value. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. The Mortgage Bank adopts multi curve valuation approach for calculating the net present value of future cash flows – based on different curves used for determining forward rates and used for discounting purposes. It shows the best estimation of such derivative deals that are collateralised as OTP Bank has almost all of its open derivative transactions collateralised.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss and included in the Consolidate Statement of Profit or Loss for the period. Each derivative deal is determined as asset when fair value is positive and as liability when fair value is negative.

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

***Foreign currency contracts***

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

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

**OTP MORTGAGE BANK LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.6. Financial assets at fair value through profit or loss**

**2.6.2. Derivative financial instruments [continued]**

***Interest rate swaps***

Interest rate swaps obligate two parties to exchange one or more payments calculated with reference to fixed or periodically reset rates of interest applied to a specific notional principal amount (the base of the interest calculation). Notional principal is the amount upon which interest rates are applied to determine the payment streams under interest rate swaps. Such notional principal amounts are often used to express the volume of these transactions but are not actually exchanged between the counterparties. The Group's interest rate swaps were used for management of interest rate exposures and have been accounted for at mark-to-market fair value.

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

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

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

Changes in fair value of derivatives that are designated and qualify as the effective portion of the cash flow hedges and that prove to be highly effective in relation to hedged risk are recognized as reserve in other comprehensive income. Amounts deferred in equity are transferred to the Consolidate Statement of Profit or Loss and classified as revenue or expense in the periods during which the hedged assets and liabilities affect the Consolidate Statement of Profit or Loss for the period. The ineffective element of the hedge is charged directly to the Consolidate Statement of Profit or Loss.

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

Changes in fair value of derivatives that are designated and qualify as cash-flow hedges and that prove to be highly effective in relation to hedged risk are recognized as reserve in other comprehensive income. Amounts deferred in equity are transferred to the separate statement of profit or loss and classified as revenue or expense in the periods during which the hedged assets and liabilities effect the separate statement of recognized and comprehensive income for the period. The ineffective element of the hedge is charged directly to the separate statement of profit or loss.

**2.7. Offsetting**

Financial assets and liabilities may be offset and the net amount is reported in the statement of financial position when the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be reported in the statement of financial position on a net basis.

The Group does not offset any financial assets and financial liabilities.

**2.8. Embedded derivatives**

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

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

The Group has not had embedded derivatives in 2020 and in 2019.

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

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

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

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

Loans, placements with other banks and repo receivables are accounted at amortised cost, stated at the principal amounts outstanding including accrued interest, net of allowance for loan or placement losses, respectively. Transaction fees and charges should adjust the carrying amount at initial recognition and be included in effective interest calculation. Loans, placements with other banks and repo receivables are derecognised when the contractual rights to the cash flows expire or they are transferred. When a financial asset is derecognised the difference of the carrying amount and the consideration received is recognised in the profit or loss. When the contractual cash flows of a financial asset are modified and the modification does not result in the derecognition of the financial asset the Bank recalculate the gross carrying amount of the financial asset by discounting the expected future cash flows with the original effective interest rate of the asset. The difference between the carrying amount and the present value of the expected cash flows is recognised as a modification gain or loss in the profit or loss. Interest and amortised cost are accounted for using the effective interest rate method.

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

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

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

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

The gross carrying amount and loss allowance of the loans shall be written off in the same amount to the estimated maximum recovery amount while the net carrying value remains unchanged.

If there are reasonable expectations of recovery for a financial asset that is written-off fully or partially, OTP Bank shall re-estimate cash flows of a financial asset and write-off reversal is applied in the financial statements.

**2.10 Loss allowance**

Allowance for losses on loans and placements with other banks are recognised by the Bank based on the expected credit loss model in accordance with IFRS 9. Based on the three stage model provision for impairment is recognised in amount of 12 month expected credit loss from the initial recognition. Financial assets with significantly increased credit risk or credit impaired financial assets (based on objective evidences) provision for impairment is recognised in amount of lifetime expected credit loss.

In case of purchased or originated credit impaired financial assets provision for impairment is recognised in amount of lifetime expected credit loss since initial recognition. Impairment gain is recognised if lifetime expected credit loss for purchased or originated credit impaired financial assets at measurement date are less than the estimated credit loss at initial recognition.

The allowances for loan and placement losses are maintained to cover losses that have been specifically identified. Collective impairment losses of portfolios of loans, for which no objective evidence of impairment has been identified on an individual basis, are maintained to reduce the carrying amount of the portfolios of financial assets with similar credit risk characteristics to their estimated recoverable amounts at the balance sheet date. The expected cash-flows for portfolios of similar assets are estimated based on historical loss experience.

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

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.10. Loss allowance [continued]**

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

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

**Classification into risk classes**

According to the requirements of the IFRS9 standard, the Bank classifies financial assets measured at amortised cost and fair value through other comprehensive income, and loan commitments and financial guarantees into the following categories in accordance with IFRS9:

Stage 1	Performing
Stage 2	Performing, but compared to the initial recognition it shows significant increase in credit risk
Stage 3	Non-performing
POCI	Purchased or originated credit impaired

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

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



**OTP MORTGAGE BANK LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.21. Loss allowance [continued]**

Credit risk of financial assets increases significantly at the following conditions:

- the payment delay exceeds 30 days,
- it is classified as performing forborne,
- based on individual decision, its currency suffered a significant "shock" since the disbursement of the loan,
- the transaction/client rating exceeds a predefined value or falls into a determined range, or compared to the historic value it deteriorates to a predefined degree,
- in the case household mortgage loans, the loan-to-value ratio ("LTV") exceeds a predefined rate,
- default on another loan of the retail client, if no cross-default exists,
- in case of corporate and municipal clients:
  - financial difficulty (capital requirements, liquidity, impairment of asset quality),
  - significant decrease of activity and liquidity in the market of the asset,
  - client's rating reflects higher risk, but better than default,
  - collateral value drops significantly, from which the client pays the loan,
  - more than 50% decrease in owner's equity due to net losses,
  - client under dissolution,
  - negative information from Central Credit Information System: the payment delay exceeds 30 days

Financial assets classifies as non-performing, if the following conditions are met:

- default,
- non-performing forborne exposures,
- in case of corporate and municipal clients:
  - breach of contract terms and conditions
  - critical financial difficulty of the client (capital requirements, liquidity, impairment of asset quality),
  - liquidation, dissolution or debt clearing procedures against client,
  - forced deregistration procedures from company registry,
  - terminated loans by the Bank,
  - in case of fraud,
  - negative information from Central Credit Information System: the payment delay exceeds 90 days,
  - cessation of active markets of the financial asset,
  - default of ISDA based contracts.

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

Expected credit losses are measured in a way that reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes,
- the time value of money, and

reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

**2.11. Liabilities from issued securities**

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

**OTP MORTGAGE BANK LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.12. Property, equipment and intangible assets**

Property, equipment and intangible assets are stated at cost, less accumulated depreciation and amortization and impairment, if any. The depreciable amount (book value less residual value) of the non-current assets must be allocated over their useful lives. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets based on the following annual percentages:

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

Depreciation and amortization on properties, equipment and intangible assets starts on the day when such assets are placed into service. At each balance sheet date, the Group reviews the carrying value of its tangible and intangible assets to determine if there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated to determine the extent (if any) of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where the carrying value of property, equipment, other tangible fixed assets and intangible assets is greater than the estimated recoverable amount, it is written down immediately to the estimated recoverable amount.

**2.13. Leases**

An agreement is a lease or contains a lease if it transfers the rights to control the use of an identified asset for a given period in exchange for compensation.

Expenses related to the use of lease assets, the majority of which were previously recognised in external services costs, will be currently classified as depreciation/amortisation and interest costs. Usufruct rights are depreciated using a straight line method, while lease liabilities are settled using an effective discount rate.

**Recognition of lease liabilities**

The Bank will recognise lease liabilities related to leases which were previously classified as "operating leases" in accordance with IAS 17 Leases. These liabilities will be measured at the present value of lease payments receivable as at the date of commencement of the application of IFRS 16. Lease payments shall be discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate. Interest rate applied by the Bank: weighted average lessee's incremental borrowing rate: ~2.9375%

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

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

The Bank makes use of expedients with respect to short-term leases (less than 12 months) as well as in the case of leases in respect of which the underlying asset has a low value (less than HUF 1.5 million) and for which agreements it will not recognise financial liabilities nor any respective right-of-use assets. These types of lease payments will be recognised as costs using the straight-line method during the life of the lease.

**Recognition of right-of-use assets**

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

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

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

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

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.13. Leases [continued]**

Average weighted amount of the implicit interest rate/incremental borrowing rate applied as at 1 January 2020 to recognize the lease liabilities: ~2.9375 %

**2.14. 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

**2.15. Interest income and interest expense**

Interest income and expenses are recognised in profit or loss in the period to which they relate, using the effective interest rate method. Interest from loans and deposits are accrued on a daily basis. Interest income and expenses include relevant transaction costs and the amortisation of any discount or premium between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

The Group recognizes interest income when it assumes that the interest associated with the transaction will flow to the Group and the amount of the revenue can be reasonably measured. All interest income and expense arising from loans, placements with other banks, securities at fair value through other comprehensive income and amounts due to OTP Bank and other banks, liabilities from issued securities, subordinated bonds and loans are presented under these lines of the financial statements.

**2.16. Fees and Commissions**

Fees and commissions are recognised using effective interest method referring to provisions of IFRS 9, when they relate and have to be included in the amortised cost model. On the other hand certain fees and commissions that are not involved in the amortised cost model are recognised in the separate statement of profit or loss on an accrual basis based on IFRS 15. (See further details in Note 22). These fees are those do not arise at the start of the loan term and cannot be estimated.

**2.17. Income tax**

The annual taxation charge is based on the tax payable under Hungarian fiscal law, adjusted for deferred taxation. Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences between the tax bases of assets and liabilities and their carrying value for financial reporting purposes, measured at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates that have been enacted at the date of the balance sheet. Deferred tax assets are recognized by the Group for the amounts of income taxes that are recoverable in future periods in respect of deductible temporary differences as well as the carry forward of unused tax losses and the carry forward of unused tax credits. The Group is obliged to pay banking tax based on Act LIX of 2006. As the calculation is not based on the taxable profit (but the adjusted Assets total calculated based on the Consolidated Financial Statements for the second period preceding the current tax year), banking tax is not considered as income tax.

**2.18. Off-balance sheet commitments and contingent liabilities**

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

Those commitments and contingent liabilities which are under IAS 37 Management determines the adequacy of the provision based upon reviews of individual items, recent loss experience, current economic conditions, the risk characteristics of the various categories of transactions and other pertinent factors.

The Bank recognizes a provision for off-balance sheet commitment and contingent liabilities in accordance with IAS 37 when it has a present obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the obligation

**2.19. Government subsidies**

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 2:**        **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.20.    Share-based payment and employee benefit**

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

The Bank issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the year, based on the Bank's estimate of shares that will eventually vest. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on Management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. The Bank has applied the requirement of IAS 19 Employee Benefits. IAS 19 requires to recognise employee benefits to be paid as a liability and as an expense in financial statements.

**2.21.    Statement of Cash Flows**

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

**OTP MORTGAGE BANK LTD.**  
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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.22. Comparative figures**

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

In 2020, the Bank 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 Bank's accounting policy, these loans were measured at amortised cost. For the year ended 31 December 2020, the Bank 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 Bank's financial position and financial performance in the financial statements.

In parallel with the change in accounting policy, the Bank also changed the structure of the balance sheet. In the statement of financial position, the Bank presents loans in a uniform manner, based on the nature of the instruments, on the line Loans, regardless of their classification and valuation category. The amounts presented under Loans are disclosed in the relevant Note by valuation category.

The new accounting policy is applied retrospectively by the Bank as if it had always applied this accounting policy. The Bank 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 Bank did not change the related balance sheet values for the adjustment relating to periods before those presented, the statement, the 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 Bank 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 Bank 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 Bank 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 Bank presents the change in the fair value of loans measured at fair value through profit or loss, broken down into two components:
  - The Bank 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.
  - The Bank 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.

Please see the impact visualization in the reconciliation table to facilitate the understanding of the reclassification.

In accordance with the new accounting policy, the Bank has amended its respective disclosure notes. 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 Bank 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. These amendments have been marked "Reclassified" in the notes.

**OTP MORTGAGE BANK LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]**

**2.22. Comparative figures [continued]**

Line item	2020	2019 Revised presentation	Reclassification of amounts related to mandatorily measured at fair value through profit or loss	2019 As previously presented
Interest income calculated using the effective interest method	70,199	62,033	(1,025)	63,058
Income similar to interest income	(421)	(232)	-	(232)
<b>Interest income</b>	<b>69,778</b>	<b>61,801</b>	<b>(1,025)</b>	<b>62,826</b>
<b>Interest expense</b>	<b>(34,740)</b>	<b>33,625</b>	<b>-</b>	<b>33,625</b>
(Release of loss allowance) / Loss allowance on loan losses	(15,989)	3,214	(28)	3,242
Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit of loss	(2,851)	18	18	-
Further items of risk cost	(659)	281	-	281
<b>Risk cost total</b>	<b><u>(19,499)</u></b>	<b><u>3,513</u></b>	<b><u>(10)</u></b>	<b><u>3,523</u></b>
<b>NET INTEREST INCOME AFTER RISK COST</b>	<b><u>15,539</u></b>	<b><u>31,689</u></b>	<b><u>(1,035)</u></b>	<b><u>32,724</u></b>
(Losses) / Gains on financial instruments at fair value through profit or loss	(921)	1,035	1,035	-
<b>NET OPERATING (LOSS) / INCOME</b>	<b><u>(1,405)</u></b>	<b><u>2,287</u></b>	<b><u>1,035</u></b>	<b><u>1,252</u></b>

**OTP MORTGAGE BANK LTD.**  
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**NOTE 3:        **SIGNIFICANT ACCOUNTING ESTIMATES AND DECISIONS IN THE APPLICATION OF ACCOUNTING POLICIES****

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

**3.1.        Impairment on loans and placements**

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

**3.2.        Valuation of instruments without direct quotations**

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

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

**3.3.        Provisions**

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

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

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

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

**OTP MORTGAGE BANK LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 4:**      **COVID-19**

Covid-19 has had substantial implications for the operations of the Bank during 2020. Below are some of the more important Covid-19 related events that occurred in Hungary:

- 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 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 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).
- The new special tax amounts to HUF 1.926 billion in the case of the OTP Mortgage Bank Ltd. 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.



**OTP MORTGAGE BANK LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 4: COVID-19**

- 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.
- 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 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 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 forborne 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.

	<b>Current volume in moratorium (in HUF million)</b>	<b>Current participation ratio</b>
OTP Mortgage Bank	677,341	50.4%

**Financial assets modified during the period related to moratorium**

	<b>2020</b>	<b>2019</b>
Gross carrying amount before modification	431,039	408,430
Loss allowance before modification	<u>(13,387)</u>	<u>(2,809)</u>
<b>Net amortised cost before modification</b>	<b><u>417,652</u></b>	<b><u>405,621</u></b>
Modification loss due to covid moratoria	<u>(9,584)</u>	-
<b>Net amortised cost after modification</b>	<b><u>408,068</u></b>	<b><u>405,621</u></b>

**OTP MORTGAGE BANK LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 5:**      **CASH, AMOUNTS DUE FROM BANKS AND BALANCES WITH THE NATIONAL BANK OF HUNGARY (in HUF million)**

Amounts due from banks and balances with the NBH:

	<b>2020</b>	<b>2019</b>
Within one year		
in HUF	6,250	2,535
in foreign currency	<u>63</u>	<u>49</u>
<b>Total</b>	<b><u>6,313</u></b>	<b><u>2,584</u></b>
From this: amounts due from OTP Bank	4,303	481
Compulsory reserve	11	11
Rate of the compulsory reserve	1%	1%

The main amount of cash due from banks shows the balance of the nostro accounts placed at OTP Bank of HUF 4,303 million and HUF 481 million as at 31 December 2020 and 2019, respectively. The remaining amounts represent the balances of the Group's clearing account placed at the NBH.

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

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

**NOTE 6:**      **PLACEMENTS WITH OTHER BANKS (in HUF million)**

	<b>2020</b>	<b>2019</b>
Within one year		
in HUF	9,735	39,018
Over one year		
in HUF	116,446	97,084
<b>Subtotal</b>	<b><u>126,181</u></b>	<b><u>136,102</u></b>
Impairment	<u>(400)</u>	<u>(139)</u>
<b>Total</b>	<b><u>125,781</u></b>	<b><u>135,963</u></b>
From this: amounts due from OTP Bank	1,306	31,781
Interest conditions on placements with other banks	<b>2020</b>	<b>2019</b>
Within one year		
in HUF	0.36%-0.75%	0.1%-0.12%
Over one year		
in foreign currency	1.45%-1.71%	1.08-1.12%
Average interest of placements with other banks	<b>2020</b>	<b>2019</b>
in HUF	1.41%	0.13%

**OTP MORTGAGE BANK LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 7: SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**  
**(in HUF million)**

	<b>2020</b>	<b>2019</b>
Hungarian government bonds	<u>18,273</u>	<u>18,922</u>
<b>Total</b>	<b><u>18,273</u></b>	<b><u>18,922</u></b>

The whole portfolio was denominated in HUF as at 31 December 2020.

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

	<b>2020</b>	<b>2019</b>
Over one year, fixed interest	17,832	18,487
Interest conditions of securities at fair value through other comprehensive income	5.5%	5.5%

The valuation of the securities at fair value through other comprehensive income was as follows as at 31 December 2020:

	<b>2020</b>	
	<b>Amortized cost</b>	<b>Net fair value</b>
Hungarian government bonds	<u>16,905</u>	<u>17,832</u>
<b>Total</b>	<b><u>16,905</u></b>	<b><u>17,832</u></b>

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

	<b>2019</b>	
	<b>Amortized cost</b>	<b>Net fair value</b>
Hungarian government bonds	<u>17,309</u>	<u>18,487</u>
<b>Total</b>	<b><u>17,309</u></b>	<b><u>18,487</u></b>

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

**NOTE 8: LOANS (in HUF million)**

**Loans measured at fair value through profit or loss**

	<b>2020</b>	<b>2019</b>
Within one year	23,039	17,742
Over one year	<u>294,996</u>	<u>239,201</u>
<b>Loans measured at fair value through profit or loss total</b>	<b><u>318,035</u></b>	<b><u>256,943</u></b>

Loans measured at fair value through profit or loss are mandatorily measured at fair value through profit or loss.

**Loans measured at amortised cost, net of allowance for loan losses**

	<b>2020</b>	<b>2019</b>	<b>2019 as previously presented</b>
Within one year	91,291	73,451	91,248
Over one year	<u>929,803</u>	<u>853,285</u>	<u>1,093,578</u>
<b>Loans gross total</b>	<b><u>1,021,094</u></b>	<b><u>926,736</u></b>	<b><u>1,184,826</u></b>
Provision for impairment on loan losses	<u>(20,262)</u>	<u>(4,504)</u>	<u>(5,651)</u>
<b>Total</b>	<b><u>1,000,832</u></b>	<b><u>922,232</u></b>	<b><u>1,179,175</u></b>

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

	<b>2020</b>	<b>2019</b>
In HUF	99.98%	99.97%
In foreign currency	<u>0.02%</u>	<u>0.03%</u>
<b>Total</b>	<b><u>100.00%</u></b>	<b><u>100.00%</u></b>

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

	<b>2020</b>	<b>2019</b>
Loans denominated in HUF	0.77% - 12.83%	0.63%-8.6%
Average interest on loans denominated in HUF	4.70%	4.80%

Interest rates of the loan portfolio measured at amortised cost are as follows (%):

	<b>2020</b>	<b>2019</b>
Loans denominated in HUF, with a maturity within one year	0.79%- 21.47%	0.21%-16.84%
Loans denominated in HUF, with a maturity over one year	0.79%- 21.47%	0.21%-16.84%
Loans denominated in foreign currency	3.82%-8.65%	4.45%-7.9%
Average interest on loans denominated in HUF	5.17%	5.58%
Average interest on loans denominated in foreign currency	4.93%	5.11%

**OTP MORTGAGE BANK LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 8: LOANS (in HUF million) [continued]**

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

	<b>2020</b>		<b>2019</b>	
Mortgage loans	1,018,134	75.80%	922,625	77.87%
Retail and corporate loans	2,960	0.22%	4,111	0.35%
<b>Loans at amortised cost total</b>	<b>1,021,094</b>	<b>76.02%</b>	<b>926,736</b>	<b>78.22%</b>
<b>Loans at fair value total</b>	<b>322,053</b>	<b>23.98%</b>	<b>258,110</b>	<b>21.78%</b>
<b>Gross loans total</b>	<b>1,343,147</b>	<b>100.00%</b>	<b>1,184,846</b>	<b>100.00%</b>

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

	<b>2020</b>	<b>2019</b>	<b>2019 as previously presented</b>
<b>Balance as at 1 January</b>	<b>4,504</b>	<b>8,300</b>	<b>9,477</b>
Provision for the period	23,159	9,397	12,288
Release of provision	(7,252)	(13,050)	(15,940)
Other movement	(45)	-	-
Partial write-off	(104)	(143)	(174)
<b>)Closing balance</b>	<b><u>20,262</u></b>	<b><u>4,504</u></b>	<b><u>5,651</u></b>

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

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

Loss allowance on loans at amortised cost and placements with other banks is summarized as below:

	<b>2020</b>	<b>2019</b>
Loss allowance on placements with other banks	261	24
Loss allowance on loans at amortised cost	15,989	(3,214)
<b>Total</b>	<b><u>16,250</u></b>	<b><u>(3,190)</u></b>

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

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**NOTE 9:**        **SECURITIES AT AMORTISED COST (in HUF million)**

	<b>2020</b>	<b>2019</b>
Government bonds	108,628	-
<b>Subtotal</b>	<b><u>108,628</u></b>	<b>=</b>
Provision for impairment	<u>(173)</u>	=
<b>Total</b>	<b><u>108,455</u></b>	<b>=</b>

An analysis of change in the loss allowance on securities at amortised cost:

	<b>2020</b>	<b>2019</b>
<b>Balance as at 1 January</b>	<b>-</b>	<b>-</b>
Loss allowance	366	-
Release of loss allowance	(193)	-
<b>Closing balance</b>	<b><u>173</u></b>	<b>=</b>

The distribution of the securities at amortised cost by currency (%):

	<b>2020</b>	<b>2019</b>
Interest rates on securities at amortised cost	1% - 3%	-
Average interest on securities at amortised cost denominated in HUF	2.13%	-

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

	<b>2020</b>	<b>2019</b>
Over one year:		
fixed interest	<u>107,982</u>	=
<b>Total</b>	<b><u>107,982</u></b>	<b>=</b>

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**NOTE 10: PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS**  
(in HUF million)

For the year ended 31 December 2020

<u>Cost</u>	<u>Intangible assets</u>	<u>Property</u>	<u>Office equipment and vehicles</u>	<u>Construction in progress</u>	<u>Right of use assets</u>	<u>Total</u>
Balance as at 1 January 2020	1,832	16	269	2	505	2,624
Additions	273	1	21	19	190	504
Disposals	(145)	(3)	(10)	(21)	-	(179)
Balance as at 31 December 2020	<u>1,960</u>	<u>14</u>	<u>280</u>	<u>-</u>	<u>695</u>	<u>2,949</u>

**Accumulated Depreciation and Amortization**

Balance as at 1 January 2020	1,648	2	195	-	100	1,945
Charge for the year	120	8	30	-	133	291
Disposals	-	-	(7)	-	-	(7)
Balance as at 31 December 2020	<u>1,768</u>	<u>10</u>	<u>218</u>	<u>-</u>	<u>233</u>	<u>2,229</u>

**Net book value**

Balance as at 1 January 2020	184	14	74	2	405	679
Balance as at 31 December 2020	<u>192</u>	<u>4</u>	<u>62</u>	<u>-</u>	<u>462</u>	<u>720</u>

For the year ended 31 December 2019

<u>Cost</u>	<u>Intangible assets</u>	<u>Property</u>	<u>Office equipment and vehicles</u>	<u>Construction in progress</u>	<u>Right of use assets</u>	<u>Total</u>
Balance as at 1 January 2019	1,748	15	255	2	477	2,497
Increase due to acquisition	-	-	33	-	-	33
Additions	103	2	12	13	28	158
Disposals	(19)	(1)	(31)	(13)	-	(64)
Balance as at 31 December 2019	<u>1,832</u>	<u>16</u>	<u>269</u>	<u>2</u>	<u>505</u>	<u>2,624</u>

**Accumulated Depreciation and Amortization**

Balance as at 1 January 2019	1,574	2	184	-	-	1,760
Charge for the year	93	1	35	-	100	229
Disposals	(19)	(1)	(24)	-	-	(44)
Balance as at 31 December 2019	<u>1,648</u>	<u>2</u>	<u>195</u>	<u>-</u>	<u>100</u>	<u>1,945</u>

**Net book value**

Balance as at 1 January 2019	174	13	71	2	477	737
Balance as at 31 December 2019	<u>184</u>	<u>14</u>	<u>74</u>	<u>2</u>	<u>405</u>	<u>679</u>

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**NOTE 11:**      **FAIR VALUE OF DERIVATIVE FINANCIAL ASSETS DESIGNATED AS HEDGING ACCOUNTING (in HUF million)**

	<b>2020</b>	<b>2019</b>
Interest rate swaps designated as fair value hedge	309	-
Interest rate swaps designated as cash flow hedge	<u>133</u>	<u>229</u>
<b>Total</b>	<b><u>442</u></b>	<b><u>229</u></b>

**NOTE 12:**      **OTHER ASSETS (in HUF million)**

	<b>2020</b>	<b>2019</b>
<b>Other financial assets</b>		
Receivables from OTP Employee Stock Ownership Program (OTP ESOP)	667	484
Prepayments and accrued income	70	68
Trade receivables	559	847
Receivables from suppliers	69	45
Other	324	111
Loss allowance	(203)	<u>(151)</u>
<b>Other financial assets total</b>	<b><u>1,486</u></b>	<b><u>1,404</u></b>
<b>Other non-financial assets</b>		
Prepayments and accrued income	16	22
Receivable related to Hungarian Government subsidies	1,000	1,084
Current income tax receivable	3,056	157
Inventories	3	4
Technical accounts	512	-
Provision for impairment on other assets	(5)	(1)
<b>Other non-financial assets total</b>	<b><u>4,582</u></b>	<b><u>1,266</u></b>
<b>Total</b>	<b><u>6,068</u></b>	<b><u>2,670</u></b>

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

	<b>2020</b>	<b>2019</b>
<b>Balance as at 1 January</b>	<b>151</b>	<b>120</b>
Charge for the period	112	96
Release of loss allowance	<u>(60)</u>	<u>(65)</u>
<b>Balance as at 31 December</b>	<b><u>203</u></b>	<b><u>151</u></b>

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

	<b>2020</b>	<b>2019</b>
<b>Balance as at 1 January</b>	<b>1</b>	<b>-</b>
Charge for the period	7	1
Release of provision	<u>(3)</u>	<u>-</u>
<b>Balance as at 31 December</b>	<b><u>5</u></b>	<b><u>1</u></b>



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**NOTE 13:**      **AMOUNTS DUE TO BANKS AND HUNGARIAN GOVERNMENT, DEPOSITS FROM THE NATIONAL BANK OF HUNGARY AND OTHER BANKS (in HUF million)**

	<b>2020</b>	<b>2019</b>
Within one year		
In HUF	545,506	636,396
In EUR	11	10
In JPY	289	326
In CHF	10	9
Total in foreign currency	<u>310</u>	<u>345</u>
	<b><u>545,816</u></b>	<b><u>636,741</u></b>
Over one year		
in HUF	<u>147,090</u>	<u>40,221</u>
	<b><u>692,906</u></b>	<b><u>676,962</u></b>
<b>Total</b>	<b><u>692,906</u></b>	<b><u>676,962</u></b>
From this: amounts due to OTP Bank	585,732	676,761
Interest conditions on amounts due to OTP Bank and other banks		
	<b>2020</b>	<b>2019</b>
Within one year		
In HUF	0%-0.75%	0.16%-0.21%
In foreign currency	(0.5)% -0.05%	(0.7)%-0.05%
Over one year		
In HUF	0.6%-1.01%	0.46%-0.5%

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**NOTE 14: LIABILITIES FROM ISSUED SECURITIES (in HUF million)**

	<b>2020</b>	<b>2019</b>
Within one year:		
In HUF	130,430	18,070
Over one year		
In HUF	677,083	551,274
<b>Total</b>	<b><u>807,513</u></b>	<b><u>569,344</u></b>
Issued mortgage bonds during the period (nominal value)	310,100	-
Mortgage bonds became due or repurchased during the period (nominal value)	70,000	39,250
Interest conditions on issued securities		
	<b>2020</b>	<b>2019</b>
In HUF	1.05%-11.00%	0.72%-11.00%
A reconciliation of the face value and the amortized cost is as follows:		
	<b>2020</b>	<b>2019</b>
Nominal value of the issued securities	798,200	558,100
Unamortized premiums	246	3,227
Fair value hedge adjustment	<u>384</u>	<u>-</u>
<b>Amortized cost</b>	<b><u>798,830</u></b>	<b><u>561,327</u></b>

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

There was a maturing mortgage bond in amount of HUF 10 billion. It has been revoked in amount of HUF 60 billion. Mortgage bonds were issued in amount of HUF 310.1 billion in 2020.

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**NOTE 14: LIABILITIES FROM ISSUED SECURITIES (in HUF million) [continued]**

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

Name	Date of issue	Maturity	Nominal value in HUF million	Amortised cost in HUF million	Interest condition in % p.a.	Hedged
OJB2021/I	2017/02/15	2021/10/27	122,100	122,215	2.00% fix	not hedged
OJB2023/I	2018/04/05	2023/11/24	45,000	45,652	1.75% fix	not hedged
OJB2024/A	2018/09/17	2024/05/20	70,000	70,023	1.35% variable	not hedged
OJB2024/C	2020/02/24	2024/10/24	100,000	99,999	1.05% variable	not hedged
OJB2024/II	2018/10/10	2024/10/24	101,000	100,095	2.50% fix	not hedged
OJB2025/I	2009/07/31	2025/07/31	150,000	161,595	11.00% fix	not hedged
OJB2025/II	2020/02/03	2025/11/26	90,000	89,489	1.50% fix	hedged
OJB2027/I	2020/07/23	2027/10/27	120,100	118,445	1.25% fix	not hedged
<b>Total issued securities</b>			<b>798,200</b>	<b>807,513</b>		

**NOTE 15: FAIR VALUE OF DERIVATIVE FINANCIAL LIABILITIES DESIGNATED AS HEDGE ACCOUNTING (in HUF million)**

	2020	2019
IRS designated as cash flow hedge	780	822
	<b><u>780</u></b>	<b><u>822</u></b>

**NOTE 16: OTHER LIABILITIES (in HUF million)**

	2020	2019
<b>Other financial liabilities</b>		
Accounts payable	1,931	6,107
Provision on off-balance sheet commitments, contingent liabilities	732	518
Accrued expenses	1,055	1,407
Other	2,685	1,301
<b>Other financial liabilities total</b>	<b><u>6,403</u></b>	<b><u>9,333</u></b>
<b>Other non-financial liabilities</b>		
Current income tax payable	550	450
Social contribution	72	49
Accrued expenses	157	70
Provision on off-balance sheet commitments, contingent liabilities	112	282
Provision and settlement accounts	7	56
Other	45	9
<b>Other non-financial liabilities total</b>	<b><u>943</u></b>	<b><u>916</u></b>
<b>Other liabilities total</b>	<b><u>7,346</u></b>	<b><u>10,249</u></b>

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**NOTE 17: SHARE CAPITAL (in HUF million)**

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

	2020	2019
Share capital (in HUF million)	<u>37,000</u>	<u>37,000</u>

The nominal value of the shares is HUF 100.000 per share. All of the shares are ordinary shares representing the same rights to the shareholders. Furthermore, there are no restrictions on the distribution of dividends and the repayment of capital.

**NOTE 18: RETAINED EARNINGS AND RESERVES (in HUF million)**

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

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

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

**Share capital**

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

**Retained earnings**

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

Balance as at 1 January, 2020	Share capital	Capital reserve	Retained earnings and reserves	Evaluation reserve	Net income after income taxes	Share capital total
<b>Capital items according to IFRS</b>	<b>37,000</b>	-	<b>45,354</b>	-	-	<b>82,354</b>
Other comprehensive income	-	-	(1,090)	1,090	-	-
Net profit for the year	-	-	(26,360)	-	26,360	-
General reserve	-	<u>18,109</u>	<u>(18,109)</u>	-	-	-
<b>Capital items according to 114/B.§ of Accounting Act</b>	<b><u>37,000</u></b>	<b><u>18,109</u></b>	<b><u>(205)</u></b>	<b><u>1,090</u></b>	<b><u>26,360</u></b>	<b><u>82,354</u></b>

**OTP MORTGAGE BANK LTD.**  
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**NOTE 18: RETAINED EARNINGS AND RESERVES (in HUF million) [continued]**

Balance as at 31 December, 2020	Share capital	Capital reserve	Retained earnings and reserves	Evaluation reserve	Net income after income taxes	Share capital total
<b>Capital items according to IFRS</b>	<b>37,000</b>	-	<b>38,878</b>	-	-	<b>75,878</b>
Other comprehensive income	-	-	(75)	75	-	-
Net loss for the year	-	-	6,585	-	(6,585)	-
General reserve	-	<u>18,109</u>	<u>(18,109)</u>	-	-	-
<b>Capital items according to 114/B.§ of Accounting Act</b>	<b><u>37,000</u></b>	<b><u>18,109</u></b>	<b><u>27,279</u></b>	<b><u>75</u></b>	<b><u>(6,585)</u></b>	<b><u>75,878</u></b>

	<b>2020</b>	<b>2019</b>
Retained earnings and reserves	38,402	44,878
Net (loss) / profit for the year	<u>(6,585)</u>	<u>26,360</u>
<b>Untied retained earnings</b>	<b><u>31,817</u></b>	<b><u>71,238</u></b>

	<b>2020</b>	<b>2019</b>
Retained earnings	27,771	1,411
Capital reserve	476	476
Other reserves	19,069	19,069
Fair value of financial instruments measured at fair value through other comprehensive income	874	1,091
Share-based payment reserve	72	38
Fair value of derivative financial instruments designated as cash-flow hedge	(2,799)	(3,091)
Net (loss) / profit for the year	<u>(6,585)</u>	<u>26,360</u>
<b>Retained earnings and other reserves</b>	<b><u>38,878</u></b>	<b><u>45,354</u></b>

**Fair value adjustment of securities at fair value through other comprehensive income:**

	<b>2020</b>	<b>2019</b>
<b>Balance as at 1 January</b>	1,072	82
Change of fair value correction	(251)	1,088
Deferred tax related to change of fair value correction	23	(98)
<b>Closing balance</b>	<b><u>844</u></b>	<b><u>1,072</u></b>

**Expected credit loss on securities at fair value through other comprehensive income:**

	<b>2020</b>	<b>2019</b>
<b>Balance as at 1 January</b>	18	12
Increase of loss allowance	<u>11</u>	<u>6</u>
<b>Closing balance</b>	<b><u>29</u></b>	<b><u>18</u></b>

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**NOTE 19: INTEREST SUBSIDIES RELATED TO HOUSING LOANS**

During 2020 5 types of interest-subsidised loans were among OTP Mortgage Bank's portfolio:

- (i) loans granted before 16 June 2003
- (ii) loans granted between 16 June 2003 and 21 December 2003
- (iii) loans granted between 22 December 2003 and 30 June 2009
- (iv) loans granted after 1 October 2009
- (v) Family Housing loans granted after 2012 including interest subsidy of families with three or more children, and including interest subsidy of housing loans at preferred townships.

Interest subsidised loans fulfil the following conditions

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

Relevant elements of the currently available interest subsidised loans:

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

The interest subsidy of housing loans at preferred townships is granted by the State for the first 25 years of the term. By the end of 2020, OTP Mortgage Bank had disbursed HUF 366,773 million of Family Housing Loans, its closing balance at the year was HUF 282,163 million.

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**NOTE 20:**      **INTEREST INCOME AND EXPENSES (in HUF million)**

	<b>2020</b>	<b>2019</b>
<b>Interest income accounted for using the effective interest rate method from / on</b>		
Loans at amortised cost	59,954	49,406
FVOCI securities	426	507
Placements with other banks	1,881	1,138
Amounts due from banks and balances with National Bank of Hungary	61	17
Securities at amortised cost	763	-
Interest subsidy on housing loans financed by mortgage bonds	<u>7,114</u>	<u>10,965</u>
<b>Subtotal</b>	<b><u>70,199</u></b>	<b><u>62,033</u></b>
 <b>Income similar to interest income</b>		
Swap and forward deals related to Placements with other banks	(421)	(232)
<b>Subtotal</b>	<b><u>(421)</u></b>	<b><u>(232)</u></b>
 <b>Interest income total</b>	<b><u>69,778</u></b>	<b><u>61,801</u></b>
 <b>Interest expense due to / from / on</b>		
Amounts due to banks and deposits from the National Bank of Hungary and other banks	7,674	8,968
Leasing liabilities	9	9
Liabilities from issued securities	27,057	24,648
<b>Subtotal</b>	<b><u>34,740</u></b>	<b><u>33,625</u></b>

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**NOTE 21:      RISK COST (in HUF million)**

	<b>2020</b>	<b>2019</b>
<b>Loss allowance of loans at amortised cost</b>		
Loss allowance	(23,056)	(9,252)
Release of loss allowance	7,245	13,050
Loan losses	<u>(178)</u>	<u>(584)</u>
<b>Total</b>	<b><u>(15,989)</u></b>	<b><u>3,214</u></b>
<b>Loss allowance of placements with other banks</b>		
Loss allowance	(354)	(51)
Release of loss allowance	<u>93</u>	<u>27</u>
<b>Total</b>	<b><u>(261)</u></b>	<b><u>(24)</u></b>
<b>Loss allowance of FVOCI securities</b>		
Loss allowance	(25)	(53)
Release of loss allowance	<u>14</u>	<u>47</u>
<b>Total</b>	<b><u>(11)</u></b>	<b><u>(6)</u></b>
<b>Loss allowance of securities at amortised cost</b>		
Loss allowance	<u>(366)</u>	-
Release of loss allowance	<u>193</u>	-
<b>Total</b>	<b><u>(173)</u></b>	<b><u>-</u></b>
<b>Provision on loan commitments and financial guarantees</b>		
Provision for the period	(2,563)	(3,092)
Release of provision	<u>2,349</u>	<u>3,403</u>
<b>Total</b>	<b><u>(214)</u></b>	<b><u>311</u></b>
<b>Change in the fair value attributable to changes in the credit risk of loans mandatorily measured at fair value through profit of loss</b>		
Loss allowance	(2,851)	(10)
Release of loss allowance	<u>-</u>	<u>28</u>
<b>Total</b>	<b><u>(2,851)</u></b>	<b><u>18</u></b>
<b>Net (release of loss allowance) / loss allowance total</b>	<b><u>(19,499)</u></b>	<b><u>3,513</u></b>



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**NOTE 22: NET PROFIT FROM FEES AND COMMISSIONS (in HUF million)**

**Income from fees and commissions**

	<b>2020</b>	<b>2019</b>
Fees and commissions relating to lending	1,506	1,139
Other	<u>2,435</u>	<u>210</u>
<b>Total</b>	<b><u>3,941</u></b>	<b><u>1,349</u></b>

Receivables recognized under other assets	70	68
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**Expense from fees and commissions**

	<b>2020</b>	<b>2019</b>
Fees and commissions relating to issued securities	293	244
Fees and commissions relating to lending	5,365	2,522
Others	<u>2,740</u>	<u>433</u>
<b>Total</b>	<b><u>8,398</u></b>	<b><u>3,199</u></b>

<b>Net loss from fees and commissions</b>	<b><u>(4,457)</u></b>	<b><u>(1,850)</u></b>
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The other fees mainly consist of the cost of services in connection with lending activity and mortgage bond issues, which are not directly attributable to separate issuance.

**Performance obligations and revenue recognition policies:**

Fee type	Nature and timing of satisfaction of performance obligations, and the significant payment terms	Revenue recognition under IFRS 15
Net insurance fee income	Due to the fact that the Bank does not provide insurance services to its clients, only acts as an agent, the fee income charged to the customers and fees payable to the insurance company are presented net in the fee income.	
Other	<p>Fees that are not significant in the Banks total income are included in Other fees category. Such fees are, special procedure fee, account rent fee, fee of a copy of document, etc.</p> <p>Other fees may include charges for continuous services or for ad hoc administration services. Continuous fees are charged monthly at the beginning of the period, typically at a fixed rate. Fees for ad hoc services are charged immediately after the service obligation had been met, typically also in a fixed amount.</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 places.</p>

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**NOTE 23: NET OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF million)**

	<b>2020</b>	<b>2019</b>
<b>Net other operating income</b>		
Gains on transactions related to property activities	-	748
Other direct costs of mortgage bond raising	(774)	-
Other	235	178
<b>Total</b>	<b><u>(539)</u></b>	<b><u>926</u></b>
<b>Other operating expense</b>		
Provisions for future liabilities	(93)	(1,364)
Non- repayable assets contributed	2	991
Other	27	41
<b>Total</b>	<b><u>(64)</u></b>	<b><u>(332)</u></b>
<b>Personnel expenses</b>		
Wages	(994)	(933)
Taxes related to personnel expenses	(191)	(198)
Other personnel expenses	(141)	(139)
<b>Total</b>	<b><u>(1,326)</u></b>	<b><u>(1,270)</u></b>
<b>Depreciation and amortization</b>	<b><u>(293)</u></b>	<b><u>(199)</u></b>
Taxes, other than income tax:		
<i>Bank tax</i>	(2,161)	(991)
<i>Other taxes</i>	<u>(1,101)</u>	<u>(941)</u>
<b>Total taxes, other than income tax</b>	<b><u>(3,262)</u></b>	<b><u>(1,932)</u></b>
Services	(832)	(1,002)
Professional, supervisory fees	(715)	(467)
Rental fees	(162)	(183)
Material type expenses	(25)	(24)
Administration expenses	(27)	(27)
Advertising	(87)	(269)
<b>Total</b>	<b><u>(5,110)</u></b>	<b><u>(3,904)</u></b>

Taxes, other than income taxes are Credit institution's contribution that is payable by the Group on HUF denominated loans having interest subsidy from the Hungarian government, bank tax and other local taxes in 2020.

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**NOTE 23:      OTHER OPERATING INCOME AND EXPENSES AND OTHER ADMINISTRATIVE EXPENSES (in HUF million) [continue]**

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

	<b>2020</b>	<b>2019</b>
Annual audit	61	59
<b>Total</b>	<b><u>61</u></b>	<b><u>59</u></b>

**NOTE 24:      COMPENSATION OF KEY MANAGEMENT PERSONNEL (in HUF million)**

	<b>2020</b>	<b>2019</b>
Key executives (Managing Director and Deputies)	68	54
<b>Total</b>	<b><u>68</u></b>	<b><u>54</u></b>

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**NOTE 25: INCOME TAX (in HUF million)**

The Group is presently liable for income tax at a rate of 9% of taxable income.

A reconciliation of the total income tax charge for the years ended 31 December 2020 and 2019 is as follows:

	<b>2020</b>	<b>2019</b>
Current tax expense	-	688
Deferred tax (benefit)/expense	<u>(51)</u>	<u>(295)</u>
<b>Total income tax expense/(benefit)</b>	<b><u>(51)</u></b>	<b><u>393</u></b>

A reconciliation of the deferred tax liability as at 31 December 2020 and 2019 is as follows:

	<b>2020</b>	<b>2019</b>
<b>Balance as at 1 January</b>	<b>(77)</b>	<b>(274)</b>
Recognized in other comprehensive income as tax benefit/(expense)	22	(98)
Deferred tax benefit/(expense)	<u>51</u>	<u>295</u>
<b>Balance as at 31 December</b>	<b><u>(4)</u></b>	<b><u>(77)</u></b>

A reconciliation of deferred tax assets and liabilities as at 31 December 2020 and 2019 is as follows:

	<b>2020</b>	<b>2019</b>
Fair value adjustment for at fair value through other comprehensive income financial assets	(83)	(106)
Effect of using effective interest rate method	82	31
One-off effect arising on transition to IFRS	<u>(3)</u>	<u>(2)</u>
Difference in depreciation and amortization	<u>(4)</u>	<u>(77)</u>
<b>Deferred tax liabilities</b>		
<b>Net deferred tax liabilities</b>	<b><u>(4)</u></b>	<b><u>(77)</u></b>

A reconciliation of the effective tax rate as at 31 December 2020 and 2019 is as follows:

	<b>2020</b>	<b>2019</b>
Profit before income tax	(6,636)	26,753
Income tax at statutory tax rate	-	2,408
<i><u>Income tax adjustments due to permanent differences are as follows:</u></i>		
Permanent differences due to local tax	-	-
Tax allowance for the year	-	-
Tax allowance (group membership)	-	(2,081)
OTP Ingatlanpont Ltd. negative profit before income tax	-	25
OT Financial Point Llc. negative profit before income tax	-	20
Other	<u>-</u>	<u>21</u>
<b>Income tax</b>	<b><u>-</u></b>	<b><u>393</u></b>
<i>Effective tax-rate</i>	<i>0 %</i>	<i>1.47%</i>

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**NOTE 26:**      **LEASE (in HUF million)**

**The Bank as a lessee:**

<b>Amounts recognised at initial application</b>	<b>1 January 2019</b>
Lease liability	425
Prepaid or accrued lease payments as at 31 December 2018	<u>-</u>
Right-of-use asset	425
Cumulative impact recognized as an adjustment to the equity at the date of initial application	-

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

<b>Amounts recognised in profit and loss</b>	<b>2020</b>	<b>2019</b>
Interest expense on lease liabilities	8	9
Expense relating to short-term leases	115	169
Rental fees for software	47	36

Leasing liabilities by maturities:

	<b>2020</b>	<b>2019</b>
Within one year	148	108
Over one year	<u>344</u>	<u>306</u>
<b>Total</b>	<b>492</b>	<b>414</b>

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

<b>Gross carrying amount</b>	<b>Right of uses of real estate</b>	
	<b>2020</b>	<b>2019</b>
<b>Balance as at 1 January</b>	504	424
Additions due to new contracts	188	28
Change due to revaluation and modification	4	52
<b>Closing balance</b>	<b><u>696</u></b>	<b><u>504</u></b>
<b>Depreciation</b>		
<b>Balance as at 1 January</b>	99	-
Depreciation charge	135	99
<b>Closing balance</b>	<b><u>234</u></b>	<b><u>99</u></b>
<b>Net carrying amount</b>	<b><u>462</u></b>	<b><u>405</u></b>

**OTP MORTGAGE BANK LTD.**  
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**NOTE 27: EARNINGS PER SHARE**

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

	<b>2020</b>	<b>2019</b>
Net profit for the year (in HUF million)	(6,585)	26,360
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	370,000	370,000
<b>EPS (in HUF) basic and diluted</b>	<b><u>(17,797)</u></b>	<b><u>71,243</u></b>

**NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF million)**

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

Financial instruments may result in certain risks to the Group. The most significant risks the Group faces include<sup>1</sup>:

**28.1. Credit risk**

The Group takes on exposure to credit risk, which is the risk that the counter-party will be unable to pay amounts in full when due. The risk of the mortgage lending activity is controlled and the safety is enhanced by the legal environment, which provides that loans can only be extended against a specific collateral of real property and with certain legal assurances.

In the treasury activity the Group structures the levels of credit risk it undertakes by placing limits to each counter-party. Actual exposures against limits are monitored daily.

**28.1.1. Analysis by loan types**

**Defining the expected credit loss on individual and collective basis**

**On individual basis:**

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

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

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

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

At least two scenarios must be used for the estimation of the expected cash flow. At least one scenarios should anticipate the possible difference between the realised cash flows and the contractual cash flows. Probability weights must be allocated to the individual scenarios. The estimation must reflect the probability of the occurrence and non-occurrence of the credit loss, even if the most probable result is the non-occurrence of the loss.

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<sup>1</sup> The management of liquidity risk related to financial instruments are shown in Note 28.

**OTP MORTGAGE BANK LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 27: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]**

**28.1. Credit risk [continued]**

**28.1.1. Analysis by loan types [continued]**

**On a collective valuation basis:**

The following exposures are subject to collective assessment:

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

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

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

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

The impairment parameters should be backtested at least annually.

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

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**NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]**

**28.1. Credit risk [continued]**

**28.1.1. Analysis by loan types [continued]**

Gross carrying amount and accumulated impairment of financial assets at amortized cost by IFRS 9 stages as at 31 December 2020:

	Carrying amount	Stage 1	Stage 2	Stage 3	Gross carrying amount Purchased or originated credit impaired financial assets	Total	Stage1	Stage 2	Stage 3	Loss allowance Purchased or originated credit impaired financial assets	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	6,313	6,313	-	-	-	6,313	-	-	-	-	-
Placements with other banks, net of allowance for placement losses	125,781	126,181	-	-	-	126,181	400	-	-	-	400
<i>Mortgage loans</i>	997,451	781,191	218,231	17,744	476	1,017,642	2,289	14,075	3,761	66	20,191
<i>Corporate loans</i>	3,381	3,133	277	42	-	3,452	15	45	11	-	71
Loans at amortized cost	1,000,832	784,324	218,508	17,786	476	1,021,094	2,304	14,120	3,772	66	20,262
FVOCI securities <sup>1</sup>	18,273	18,273	-	-	-	18,273	29	-	-	-	29
Securities at amortised cost	108,455	108,628	-	-	-	108,628	173	-	-	-	173
<i>Other financial assets</i>	1,486	1,655	30	4	-	1,689	-	202	1	-	203
<i>Other non-financial assets</i>	4,582	4,587	-	-	-	4,587	5	-	-	-	5
Other assets	6,068	6,242	30	4	-	6,276	5	202	1	-	208
<b>Financial assets total</b>	<b><u>1,265,722</u></b>	<b><u>1,049,961</u></b>	<b><u>218,538</u></b>	<b><u>17,790</u></b>	<b><u>476</u></b>	<b><u>1,286,765</u></b>	<b><u>2,911</u></b>	<b><u>14,322</u></b>	<b><u>3,773</u></b>	<b><u>66</u></b>	<b><u>21,072</u></b>
Off balance sheet items	40,052	35,108	5,405	271	-	40,784	162	523	47	-	732

<sup>1</sup> FVOCI securities are recognised and measured at fair value in the Consolidated Statement of Financial Position (see in the Note 7.). Loss allowance on FVOCI securities is recognised in the Consolidated Statement of Comprehensive Income, which is included in this table as a part of the loss allowance.



**OTP MORTGAGE BANK LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED**  
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**NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]**

**28.1. Credit risk [continued]**

**28.1.1. Analysis by loan types [continued]**

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

	Carrying amount	Stage 1	Stage 2	Stage 3	Gross carrying amount Purchased or originated credit impaired financial assets	Total	Stage1	Stage 2	Stage 3	Purchased or originated credit impaired financial assets	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	2,584	2,584	-	-	-	2,584	-	-	-	-	-
Placements with other banks, net of allowance for placement losses	135,963	136,102	-	-	-	136,102	139	-	-	-	139
<i>Mortgage loans</i>	918,215	881,620	26,124	14,557	323	922,624	2,104	834	1,453	18	4,409
<i>Corporate loans</i>	4,017	3,939	128	44	-	4,111	41	28	25	-	94
Loans at amortized cost	922,232	885,559	26,252	14,601	323	926,735	2,145	862	1,478	18	4,503
FVOCI securities <sup>1</sup>	18,922	18,922	-	-	-	18,922	18	-	-	-	18
<i>Other financial assets</i>	1,404	477	1,073	5	-	1,555	-	150	1	-	151
<i>Other non-financial assets</i>	1,266	1,085	182	-	-	1,267	1	-	-	-	1
Other assets	2,670	1,562	1,255	5	-	2,822	1	150	1	-	152
<b>Financial assets total</b>	<b><u>1,082,371</u></b>	<b><u>1,044,729</u></b>	<b><u>27,507</u></b>	<b><u>14,606</u></b>	<b><u>323</u></b>	<b><u>1,087,165</u></b>	<b><u>2,303</u></b>	<b><u>1,012</u></b>	<b><u>1,479</u></b>	<b><u>18</u></b>	<b><u>4,812</u></b>
Off balance sheet items	48,008	44,569	3,579	378	-	48,526	248	210	60	-	518

<sup>1</sup> FVOCI securities are recognised and measured at fair value in the Consolidated Statement of Financial Position (see in the Note 7). Loss allowance on FVOCI securities is recognised in the Consolidated Statement of Comprehensive Income, which is included in this table as a part of the loss allowance.

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**NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]**

**28.1. Credit risk [continued]**

**28.1.1. Analysis by loan types [continued]**

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

**Loans at amortised cost**

<b>2020.12.31</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI</b>	<b>Total</b>
<b>Loss allowance as at 1 January 2020 IFRS 9</b>	<b>2,145</b>	<b>862</b>	<b>1,478</b>	<b>18</b>	<b>4,503</b>
Transfer to Stage 1	8	(68)	(18)	-	(78)
Transfer to Stage 2	(529)	11,783	(74)	-	11,180
Transfer to Stage 3	(8)	(102)	965	-	855
Net remeasurement of loss allowance	269	1,274	1,495	50	3,088
New financial assets originated or purchased	671	440	110	-	1,221
Financial assets derecognised (other than write-offs)	(244)	(68)	(184)	(2)	(498)
Unwind of discount	(9)	-	103	1	95
Write-offs	-	-	(103)	(1)	(104)
<b>Loss allowance as at 31 December 2020</b>	<b><u>2,303</u></b>	<b><u>14,121</u></b>	<b><u>3,772</u></b>	<b><u>66</u></b>	<b><u>20,262</u></b>

**Loans at amortised cost**

<b>2019.12.31</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>POCI</b>	<b>Total</b>
<b>Loss allowance as at 1 January 2019 IFRS 9</b>	<b>2,771</b>	<b>2,813</b>	<b>2,696</b>	<b>20</b>	<b>8,300</b>
Transfer to Stage 1	74	(1,498)	(128)	-	(1,552)
Transfer to Stage 2	(116)	541	(532)	-	(107)
Transfer to Stage 3	(73)	(427)	1,207	-	707
Net remeasurement of loss allowance	(1,089)	(829)	(1,428)	(1)	(3,347)
New financial assets originated or purchased	866	374	121	-	1,361
Financial assets derecognised (other than write-offs)	(288)	(112)	(458)	(1)	(859)
Unwind of discount	-	-	142	1	143
Write-offs	-	-	(142)	(1)	(143)
<b>Loss allowance as at 31 December 2019</b>	<b><u>2,145</u></b>	<b><u>862</u></b>	<b><u>1,478</u></b>	<b><u>18</u></b>	<b><u>4,503</u></b>

**OTP MORTGAGE BANK LTD.**  
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**NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]**

**28.1. Credit risk [continued]**

**28.1.1. Analysis by loan types [continued]**

**Placements with other banks, net of allowance for placement losses**

<b>2020.12.31</b>	<b>Stage 1</b>	<b>Total</b>
<b>Loss allowance as at 1 January 2020</b>	<b>139</b>	<b>139</b>
Financial assets derecognised (other than write-offs)	400	400
Net remeasurement of loss allowance	<u>(139)</u>	<u>(139)</u>
<b>Loss allowance as at 31 December 2020</b>	<b><u>400</u></b>	<b><u>400</u></b>

**Placements with other banks, net of allowance for placement losses**

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

**Securities at amortised cost**

<b>2020.12.31</b>	<b>Stage 1</b>	<b>Total</b>
<b>Loss allowance as at 1 January 2020</b>	<b>18</b>	<b>18</b>
New financial assets originated or purchased	29	29
Financial assets derecognised (other than write-offs)	<u>(18)</u>	<u>(18)</u>
<b>Loss allowance as at 31 December 2020</b>	<b><u>29</u></b>	<b><u>29</u></b>

**Securities at amortised cost**

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

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**NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]**

**28.1. Credit risk [continued]**

**28.1.1. Analysis by loan types [continued]**

**Securities at amortised cost**

<b>2020.12.31</b>	<b>Stage 1</b>	<b>Total</b>
<b>Loss allowance as at 1 January 2020</b>	-	-
New financial assets originated or purchased	173	173
<b>Loss allowance as at 31 December 2020</b>	<b><u>173</u></b>	<b><u>173</u></b>

**Off Balance sheet items**

<b>2020.12.31</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Loss allowance as at 1 January 2020</b>	<b>248</b>	<b>210</b>	<b>60</b>	<b>518</b>
Transfer to Stage 1	1	(55)	(7)	(61)
Transfer to Stage 2	(20)	67	(16)	31
Transfer to Stage 3	(3)	(2)	19	14
Net remeasurement of loss allowance	(191)	(89)	(24)	(304)
New financial assets originated or purchased	141	395	24	560
Financial assets derecognised (other than write-offs)	(14)	(3)	(9)	(26)
<b>Loss allowance as at 31 December 2020</b>	<b><u>162</u></b>	<b><u>523</u></b>	<b><u>47</u></b>	<b><u>732</u></b>

**Off Balance sheet items**

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

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**NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]**

**Collateral**

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

<b>Types of collateral</b>	<b>2020</b>	<b>2019</b>
Government guarantees	32,062	38,565
Deposit, securities	21,111	-
Mortgage	<u>3,658,702</u>	<u>3,434,086</u>
<b>Total</b>	<b><u>3,711,875</u></b>	<b><u>3,472,651</u></b>

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

<b>Types of collateral</b>	<b>2020</b>	<b>2019</b>
Government guarantees	20,728	38,371
Deposit, securities	13,640	-
Mortgage	<u>1,231,471</u>	<u>1,174,789</u>
<b>Total</b>	<b><u>1,265,839</u></b>	<b><u>1,213,160</u></b>

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

**The collateral value of non-performing loans at amortized cost**

<b>2020</b>	<b>Gross carrying amount</b>	<b>Loss allowance</b>	<b>Carrying amount</b>	<b>Collateral value</b>
Mortgage loans	18,003	(3,805)	14,198	54,641
Corporate loans	42	(11)	31	375
<b>Total</b>	<b><u>18,045</u></b>	<b><u>(3,816)</u></b>	<b><u>14,229</u></b>	<b><u>55,016</u></b>

**The collateral value of loans measured at fair value through profit or loss**

<b>2020</b>	<b>Gross carrying amount</b>	<b>Loss allowance</b>	<b>Carrying amount</b>	<b>Collateral value</b>
Mortgage loans	2,780	(465)	2,315	7,968
Corporate loans	-	-	-	-
<b>Total</b>	<b><u>2,780</u></b>	<b><u>(465)</u></b>	<b><u>2,315</u></b>	<b><u>7,968</u></b>

**The collateral value of non-performing loans at amortized cost**

<b>2019</b>	<b>Gross carrying amount</b>	<b>Loss allowance</b>	<b>Carrying amount</b>	<b>Collateral value</b>
Mortgage loans	14,613	(1,463)	13,150	41,337
Corporate loans	44	(25)	19	252
<b>Total</b>	<b><u>14,657</u></b>	<b><u>(1,488)</u></b>	<b><u>13,169</u></b>	<b><u>41,589</u></b>

**The collateral value of loans measured at fair value through profit or loss**

<b>2019</b>	<b>Gross carrying amount</b>	<b>Loss allowance</b>	<b>Carrying amount</b>	<b>Collateral value</b>
Mortgage loans	2,215	(319)	1,896	6,217
Corporate loans	-	-	-	-
<b>Total</b>	<b><u>2,215</u></b>	<b><u>(319)</u></b>	<b><u>1,896</u></b>	<b><u>6,217</u></b>

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**NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]**

**Restructured loans**

	<b>2020</b>		<b>2019</b>	
	Gross portfolio	Allowance	Gross portfolio	Allowance
Retail loans	<u>3,845</u>	<u>(459)</u>	<u>5,216</u>	<u>(169)</u>
<b>Total</b>	<b><u>3,845</u></b>	<b><u>(459)</u></b>	<b><u>5,216</u></b>	<b><u>(169)</u></b>

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

**At fair value through other comprehensive income securities as at 31 December 2020**

	<b>Baa3</b>		<b>Not rated</b>		<b>Total</b>
Hungarian government bonds	18,273	100.00%	-	0.00%	18,273
<b>Total</b>	<b><u>18,273</u></b>	<b><u>100.00%</u></b>	<b>-</b>	<b><u>0.00%</u></b>	<b><u>18,273</u></b>

**Securities at amortised cost as at 31 December 2020**

	<b>Baa3</b>		<b>Not rated</b>		<b>Total</b>
Hungarian government bonds	108,455	100.00%	-	0.00%	108,455
<b>Total</b>	<b><u>108,455</u></b>	<b><u>100.00%</u></b>	<b>-</b>	<b><u>0.00%</u></b>	<b><u>108,455</u></b>

**28.2. Market risk**

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

**28.2.1. Interest rate sensitivity analysis<sup>1</sup>**

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

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

The simulation were prepared by assuming two scenarios:

1. HUF base rate stays unchanged and BUBOR decreases gradually by 15 bps over the next year (scenario 1)
2. HUF base rate stays unchanged and BUBOR decreases gradually by 30 bps over the next year (scenario 2)

The net interest income in a one year period beginning with January 1, 2021 would be increased by HUF 246 million (scenario 1) and increased by HUF 984 million (scenario 2) as a result of these simulation.

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

<b>Description</b>		<b>Effects to the net interest income in one year period</b>	
		<b>2020</b>	<b>2019</b>
HUF	(0.1%) parallel shift	272	178
HUF	0.1% parallel shift	(275)	(178)
<b>Total</b>		<b>(275)</b>	<b>(178)</b>

<sup>1</sup> Quantitative data on interest rate risk are shown in Note 26

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**NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]**

**28.2. Market risk [continued]**

**28.2.2. Foreign exchange rate sensitivity analysis**

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

The total net open position of OTP Mortgage Bank was 1 million HUF short on 31st December 2020 (compared to 23 million HUF as of 31/12/2019), which consisted of EUR, CHF and JPY exposure. Since OTP Mortgage Bank has completed the conversion of foreign currency consumer mortgage loans into HUF, from its operation does not arise material FX exposures. The potential loss on current open foreign exchange exposure is marginal compared to the regulatory capital of the Bank.

**28.3. Capital management**

The primary objective of the capital management of the Group is to ensure the prudent operation, the entire compliance with the prescriptions of the regulator for a persistent business operation and maximising the shareholder value, accompanied by an optimal financing structure.

The capital management of the Group includes the management and evaluation of the shareholder's equity available for hedging risks, other types of funds to be recorded in the equity and all material risks to be covered by the capital.

The basis of the capital management of the Group in the short turn is the continuous monitoring of its capital position, in the long turn the strategic and the business planning, which includes the monitoring and forecast of the capital position of the Group.

The Group maintains the capital adequacy required by the regulatory bodies and the planned risk taking mainly by means of ensuring and developing its profitability. In case the planned risk level of the Group exceeded its Core and Supplementary capital, the Group ensures the prudent operation by occasional measures including the owner of the Group.

**Capital adequacy**

The capital adequacy of the Bank is supervised based on the financial statements data prepared in accordance with the International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB) and accepted by the European Union, rulings and indicators defined by the Basel Committee.

The Bank has entirely complied with the regulatory capital requirements for the year similar to prior years.

The capital adequacy calculations of the Bank for the year 2019 are prepared based on the data of the audited financial statements prepared in accordance with IFRS. The Bank uses the standard method for determining the regulatory capital requirements of the credit risk and market risk, and the alternative standard method in case of the operational risk. In 2020 the Mortgage Bank's solvency ratio is 15.8%. Regulatory capital is 96,710 million HUF; the total required regulatory capital is 49,047 million HUF.

<b>In HUF million</b>	<b>2020 IFRS</b>	<b>2019 IFRS</b>
Core capital	96,710	76,897
Supplementary capital	-	-
<b>Regulatory capital</b>	<b>96,710</b>	<b>76,897</b>
Credit risk capital requirement	47,560	42,028
Market risk capital requirement	-	-
Operational risk capital requirement	1,487	1,867
<b>Total required regulatory capital</b>	<b>49,047</b>	<b>43,895</b>
<b>Surplus capital</b>	<b>47,663</b>	<b>33,002</b>
<b>Solvency ratio</b>	<b>15.8%</b>	<b>14,0%</b>

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**NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF million) [continued]**

**28.3. Capital management [continued]**

**Capital adequacy [continued]**

The positive components of the Core capital are the following:

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

The negative components of the Core capital are the following:

Prudential filter, Intangible assets

**NOTE 29: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS**  
**(in HUF million)**

In the normal course of business, the Bank becomes a party to various financial transactions that are not reflected on the statement of financial position and are referred to as off-balance sheet financial instruments. The following represents notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

**Off balance sheet items**

	<b>2020</b>	<b>2019</b>
Current litigations	1,144	1,465
Loan facilities	40,783	48,527
Other	<u>-</u>	<u>180</u>
<b><i>Contingent and future liabilities total</i></b>	<b><u>41,927</u></b>	<b><u>50,172</u></b>

**Legal disputes**

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

The Bank believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation.

Provision due to legal disputes was HUF 42 million and HUF 99 million as at 31 December 2020 and 2019, respectively.

**Commitments to extend credit**

The primary purpose of these instruments is to ensure that funds are available to a customer as required.

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

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



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**NOTE 30: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF million)**

Key management personnel affected by the Bank Group Policy receive compensation based on performance assessment generally in the form of cash bonus and equity shares in a ratio of 50-50%. Assignment is based on OTP shares, furthermore performance based payments are deferred in accordance with the rules of Credit Institutions Act.

OTP Bank ensures the share-based payment part for the management personnel of OTP Group members.

The quantity of usable shares for individuals calculated for settlement of share-based payment shall be determined as the ratio of the amount of share-based payment and share price determined by Supervisory Board<sup>1</sup>.

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

In 2020, the following values were used as a personal expense for locally identified executives in share-based remuneration:

The year 2016	The year 2017	The year 2018	The year 2019	Total
1.29	3.45	6.87	23.33	34.94

**NOTE 31: NET FOREIGN CURRENCY POSITION AND FOREIGN CURRENCY RISK**  
**(in HUF million)**

**As at 31 December 2020**

	CHF	EUR	JPY	Total
Assets	9	13	280	302
Liabilities	(10)	(44)	(289)	(343)
<b>Net position</b>	<b><u>(1)</u></b>	<b><u>(31)</u></b>	<b><u>(9)</u></b>	<b><u>(41)</u></b>

**As at 31 December 2019**

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

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

<sup>1</sup> Until the end of 2014 Board of Directors

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**NOTE 32: RELATED PARTY TRANSACTIONS (in HUF million)**

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

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

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

<b>Assets</b>	<b>2020</b>	<b>2019</b>
Cash, amounts due from OTP Bank	4,305	481
Placements with OTP Bank	1,306	31,781
Accrued receivables	25	35
<b>Liabilities</b>	<b>2020</b>	<b>2019</b>
Amounts due to OTP Bank and other banks	(585,732)	(676,761)
Face value of issued mortgage bonds held by OTP Bank	(221,333)	(99,465)
Accrued interest expense due to OTP Bank	(3,345)	(3,053)
Other liabilities due to OTP Bank	(1,617)	(5,899)

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

	<b>2020</b>	<b>2019</b>
Interest income	1,223	1,498
Interest expense	(3,763)	(21,774)
Account handling fees paid to OTP Bank	2,933	7,101
Other fees and commissions relating to lending received from OTP Bank	807	(570)
Other fees and commissions relating to lending paid to OTP Bank	(4,457)	(2,743)
Revenue from the value appraisal activity from OTP Bank	798	561

**32.2. Outstanding balances related to key management personnel**

The management, the members of the Board of Directors and the Supervisory Board and their close relatives have loans of HUF 2,095 million as at 31 December 2020. These loans were covered by HUF 4,299 million mortgages, which can be categorized into 3 different interest periods:

5 years:	1.15% - 9.6%
10 years:	2.74% - 4.74%
20 years:	2.49% - 4.24%

The APR<sup>1</sup> rate at the time the loan is disbursed is based on current market rates.

<b>Compensations</b>	<b>2020</b>	<b>2019</b>
Share-based payment	32	37
Long-term employee benefits (on the basis of IAS 19)	<u>10</u>	<u>10</u>
<b>Total</b>	<b><u>42</u></b>	<b><u>47</u></b>

**32.3. Outstanding balances/Transactions related to other related party<sup>2</sup>**

**32.3.1. Transactions related to OTP Building Society Ltd.**

	<b>2020</b>	<b>2019</b>
Face value of issued mortgage bonds held by OTP Building Society Ltd.	77,646	52,742
Accrued interest expense	(1,972)	(1,889)

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

	<b>2020</b>	<b>2019</b>
Book value of non-performing loans sold to OTP Faktoring Ltd.	350	1,049
Selling price of the non-performing loans related to OTP Faktoring Ltd.	278	930

<sup>1</sup> Annual Percentage Rate

<sup>2</sup>The Group has significant transactions with OTP Building Society Ltd., OTP Faktoring Ltd. and Merkantil Bank Ltd. in OTP Group, these transactions are highlighted.

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**NOTE 32:**      **RELATED PARTY TRANSACTIONS (in HUF million) [continued]**

**32.3.3. Transactions related to Merkantil Bank Ltd.**

	<b>2020</b>	<b>2019</b>
Face value of issued mortgage bonds held by Merkantil Bank Ltd.	49,700	45,000
Accrued interest expense	(2,150)	(2,069)

**32.3.4. Further Outstanding balances/Transactions related to other related party**

	<b>2020</b>	<b>2019</b>
Other liabilities due to other related party	(1,803)	80
Other operating income from other related party	118	75
Revenue from the value appraisal activity from OTP Faktoring Ltd. and from other related party	531	504

Compensation of key management personnel is shown in Note 24.

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

**NOTE 33:**      **INTEREST RATE RISK MANAGEMENT**

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

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

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

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

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**NOTE 33: INTEREST RATE RISK MANAGEMENT [continued]**

31 December 2020	Within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest - bearing		Total		Total
ASSETS	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	
Cash, amounts due from banks and balances with the National Bank of Hungary	4,242	63	-	-	2,008	-	-	-	-	-	-	-	6,250	63	6,313
<i>fixed interest</i>	3,381	5	-	-	2,008	-	-	-	-	-	-	-	5,389	5	5,394
<i>variable interest</i>	861	58	-	-	-	-	-	-	-	-	-	-	861	58	919
Placements with other banks	-	-	-	-	1,303	-	-	-	124,478	-	-	-	125,781	-	125,781
<i>fixed interest</i>	-	-	-	-	1,303	-	-	-	124,478	-	-	-	125,781	-	125,781
Securities at fair value through other comprehensive income	-	-	-	-	18,273	-	-	-	-	-	-	-	18,273	-	18,273
<i>fixed interest</i>	-	-	-	-	18,273	-	-	-	-	-	-	-	18,273	-	18,273
Loans measured at amortised cost	19	-	216	-	1,220	4	6,441	1	992,640	291	-	-	1,000,536	296	1,000,832
<i>fixed interest</i>	-	-	-	-	-	-	-	-	44,329	-	-	-	44,329	-	44,329
<i>variable interest</i>	19	-	216	-	1,220	4	6,441	1	948,311	291	,	,	956,207	296	956,503
Loans mandatorily measured at fair value through profit or loss	1	-	9	-	164	-	342	-	317,528	-	-	-	318,044	-	318,044
<i>variable interest</i>	1	-	9	-	164	-	342	-	317,528	-	-	-	318,044	-	318,044
Securities at amortised cost	-	-	-	-	108,455	-	-	-	-	-	-	-	108,455	-	108,455
<i>fixed interest</i>	-	-	-	-	108,455	-	-	-	-	-	-	-	108,455	-	108,455
Derivative financial assets designated as hedge accounting relationships	-	-	-	-	442	-	-	-	-	-	-	-	442	-	442
<i>variable interest</i>	-	-	-	-	442	-	-	-	-	-	-	-	442	-	442
Other financial assets	-	-	-	-	-	-	-	-	-	-	1,467	19	1,467	19	1,486
<i>non-interest bearing</i>	-	-	-	-	-	-	-	-	-	-	1,467	19	1,467	19	1,486

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**NOTE 33: INTEREST RATE RISK MANAGEMENT [continued]**

31 December 2020	Within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest -bearing		Total		Total
LIABILITIES	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	
<b>Amounts due to OTP Bank and other banks</b>	-	-	-	310	545,318	-	-	-	147,278	-	-	-	692,596	310	692,906
<i>fixed interest</i>	-	-	-	310	-	-	-	-	106,999	-	-	-	106,999	310	107,309
<i>variable interest</i>	-	-	-	-	545,318	-	-	-	40,279	-	-	-	585,597	-	585,597
<b>Liabilities from issued securities</b>	-	-	-	-	292,238	-	-	-	515,275	-	-	-	807,513	-	807,513
<i>fixed interest</i>	-	-	-	-	122,215	-	-	-	515,275	-	-	-	637,490	-	637,490
<i>variable interest</i>	-	-	-	-	170,023	-	-	-	-	-	-	-	170,023	-	170,023
<b>Derivative financial liabilities designated as hedge accounting relationships</b>	-	-	-	-	780	-	-	-	-	-	-	-	780	-	780
<i>variable interest</i>	-	-	-	-	780	-	-	-	-	-	-	-	780	-	780
<b>Leasing liabilities</b>	6	7	11	13	51	60	68	70	122	84	-	-	258	234	492
<i>fixed interest</i>	6	7	11	13	51	60	68	70	122	84	-	-	258	234	492
<b>Other financial liabilities</b>	-	-	-	-	-	-	-	-	-	-	6,402	1	6,402	1	6,403
<i>non-interest bearing</i>	-	-	-	-	-	-	-	-	-	-	6,402	1	6,402	1	6,403
<b>NET POSITION</b>	4,256	56	214	(323)	(706,522)	(56)	6,715	(69)	771,971	207	(4,935)	18	71,699	(167)	71,532

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**NOTE 33: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]**

31 December 2019	Within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest - bearing		Total		Total
ASSETS	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	
Cash, amounts due from banks and balances with the National Bank of Hungary	473	-	2,106	5	-	-	-	-	-	-	-	-	2,579	5	2,584
<i>fixed interest</i>	405	-	2,106	5	-	-	-	-	-	-	-	-	2,511	5	2,516
<i>variable interest</i>	68	-	-	-	-	-	-	-	-	-	-	-	68	-	68
Placements with other banks	-	-	38,966	-	-	-	96,997	-	-	-	-	-	135,963	-	135,963
<i>fixed interest</i>	-	-	38,966	-	-	-	96,997	-	-	-	-	-	135,963	-	135,963
Securities at fair value through other comprehensive income	-	-	-	-	-	-	-	-	18,922	-	-	-	18,922	-	18,922
<i>fixed interest</i>	-	-	-	-	-	-	-	-	18,922	-	-	-	18,922	-	18,922
Loans measured at amortised cost	126,769	170	264,137	171	98,272	2	57,710	-	375,001	-	-	-	921,889	343	922,232
<i>fixed interest</i>	-	-	-	-	-	-	-	-	375,001	-	-	-	375,001	-	375,001
<i>variable interest</i>	126,769	170	264,137	171	98,272	2	57,710	-	-	-	-	-	546,888	343	547,231
Loans mandatorily measured at fair value through profit or loss	194	-	100	-	1,129	-	461	-	255,059	-	-	-	256,943	-	256,943
<i>variable interest</i>	194	-	100	-	1,129	-	461	-	255,059	-	-	-	256,943	-	256,943
Derivative financial assets designated as hedge accounting relationships	-	-	-	-	-	-	-	-	229	-	-	-	229	-	229
<i>variable interest</i>	-	-	-	-	-	-	-	-	229	-	-	-	229	-	229
Other financial assets	-	-	-	-	484	-	-	-	-	-	920	-	1,404	-	1,404
<i>fixed interest</i>	-	-	-	-	484	-	-	-	-	-	-	-	484	-	484
<i>non-interest bearing</i>	-	-	-	-	-	-	-	-	-	-	920	-	920	-	920

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**NOTE 33: INTEREST RATE RISK MANAGEMENT (in HUF million) [continued]**

31 December 2019	Within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest -bearing		Total		Total
LIABILITIES	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	HUF	Foreign currency	
<b>Amounts due to OTP Bank and other banks</b>	-	-	-	-	636,373	345	-	-	40,244	-	-	-	676,617	345	676,962
<i>fixed interest</i>	-	-	-	-	636,373	345	-	-	40,244	-	-	-	676,617	345	676,962
<b>Liabilities from issued securities</b>	-	-	131,816	-	437,528	-	-	-	-	-	-	-	569,344	-	569,344
<i>fixed interest</i>	-	-	-	-	437,528	-	-	-	-	-	-	-	437,528	-	437,528
<i>variable interest</i>	-	-	131,816	-	-	-	-	-	-	-	-	-	131,816	-	131,816
<b>Derivative financial liabilities designated as hedge accounting relationships</b>	-	-	-	-	-	-	-	-	822	-	-	-	822	-	822
<i>variable interest</i>	-	-	-	-	-	-	-	-	822	-	-	-	822	-	822
<b>Leasing liabilities</b>	5	4	11	7	49	33	49	35	182	39	-	-	296	118	414
<i>fixed interest</i>	5	4	11	7	49	33	49	35	182	39	-	-	296	118	414
<b>Other financial liabilities</b>	-	-	-	-	-	-	-	-	-	-	9,522	-	9,522	-	9,522
<i>non-interest bearing</i>	-	-	-	-	-	-	-	-	-	-	9,522	-	9,522	-	9,522
<b>NET POSITION</b>	127,431	166	173,482	169	(974,065)	(376)	155,119	(35)	607,963	(39)	(8,602)	-	81,328	(115)	81,213

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**NOTE 34: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF million)**

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

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

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

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

As at 31 December 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, due from banks and balances with the National Bank of Hungary	6,313	-	-	-	-	6,313
Placements with other banks, net of allowance for placement losses	2,622	7,113	116,446	-	-	126,181
Securities at fair value through other comprehensive income	441	-	15,000	-	-	15,441
Loans measured at amortised cost	40,143	50,939	269,435	656,103	-	1,016,620
Loans mandatorily measured at fair value through profit or loss	9,502	13,519	71,424	223,384	-	317,829
Securities at amortised cost	646	-	96,590	9,600	-	106,836
Intangible assets	-	-	-	-	66	66
Derivative financial assets designated as hedge accounting relationships	-	-	341	101	-	442
Property and equipment	-	-	-	-	192	192
Other financial assets	<u>1,688</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,688</u>
<b>TOTAL ASSETS</b>	<b><u>61,355</u></b>	<b><u>71,571</u></b>	<b><u>569,236</u></b>	<b><u>889,188</u></b>	<b><u>258</u></b>	<b><u>1,591,608</u></b>
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	635	365,006	119,063	28,027	-	512,731
Liabilities from issued securities	8,705	122,100	556,000	120,100	-	806,905
Derivative financial liabilities designated as hedge accounting relationships	-	-	103	677	-	<u>780</u>
Leasing liabilities	37	110	345	-	-	<u>492</u>
Other financial liabilities	<u>5,992</u>	<u>411</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,403</u>
<b>TOTAL LIABILITIES</b>	<b><u>15,369</u></b>	<b><u>487,627</u></b>	<b><u>675,511</u></b>	<b><u>148,804</u></b>	<b><u>-</u></b>	<b><u>1,327,311</u></b>
Receivables from derivative financial instruments designated as fair value hedge	-	-	341	101	-	442
Liabilities from derivative financial instruments designated as fair value hedge	-	-	103	677	-	780
Net position of financial instruments designated as fair value hedge	<u>-</u>	<u>-</u>	<u>238</u>	<u>(576)</u>	<u>-</u>	<u>(338)</u>
<b>Net position of derivative financial instruments total</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>238</u></b>	<b><u>(576)</u></b>	<b><u>-</u></b>	<b><u>(338)</u></b>
Commitments to extend credit	40,783	-	-	-	-	40,783
<b>Off-balance sheet commitments</b>	<b>40,783</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>40,783</b>



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**NOTE 34: MATURITY ANALYSIS OF ASSETS AND LIABILITIES AND LIQUIDITY RISK (in HUF million) [continued]**

As at 31 December 2019	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, due from banks and balances with the National Bank of Hungary	2,583	-	-	-	-	2,583
Placements with other banks, net of allowance for placement losses	33,474	5,527	97,100	-	-	136,101
Securities at fair value through other comprehensive income	435	-	-	15,000	-	15,435
Loans measured at amortised cost	17,976	52,127	270,821	591,985	-	932,909
Loans mandatorily measured at fair value through profit or loss	3,694	12,298	61,609	174,657	-	252,258
Intangible assets	-	-	-	-	184	184
Derivative financial assets designated as hedge accounting relationships	-	-	32	197	-	229
Property and equipment	-	-	-	-	90	90
Other financial assets	1,111	444	-	-	-	1,555
<b>TOTAL ASSETS</b>	<b><u>59,273</u></b>	<b><u>70,396</u></b>	<b><u>429,562</u></b>	<b><u>781,839</u></b>	<b><u>274</u></b>	<b><u>1,341,344</u></b>
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	201	636,508	12,204	28,049	-	676,962
Liabilities from issued securities	8,017	10,001	398,100	150,000	-	566,118
Derivative financial liabilities designated as hedge accounting relationships	-	-	264	558	-	822
Leasing liabilities	27	81	281	25	-	414
Other financial liabilities	8,324	491	-	-	-	8,815
<b>TOTAL LIABILITIES</b>	<b><u>16,569</u></b>	<b><u>647,081</u></b>	<b><u>410,849</u></b>	<b><u>178,632</u></b>	<b><u>-</u></b>	<b><u>1,253,131</u></b>
Receivables from derivative financial instruments designated as fair value hedge	-	-	32	197	-	229
Liabilities from derivative financial instruments designated as fair value hedge	-	-	264	558	-	822
Net position of financial instruments designated as fair value hedge	-	-	(232)	(361)	-	(593)
<b>Net position of derivative financial instruments total</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>(232)</u></b>	<b><u>(361)</u></b>	<b><u>-</u></b>	<b><u>(593)</u></b>
Commitments to extend credit	4,207	801	43,518	-	-	48,526
<b>Off-balance sheet commitments</b>	<b><u>4,207</u></b>	<b><u>801</u></b>	<b><u>43,518</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>48,526</u></b>

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**NOTE 35: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million)**

In determining the fair value of a financial asset or liability the Group in the case of instruments that are quoted on an active market uses the market price. In most cases market price is not publicly available so the Group has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 32. e) for more information about fair value classes applied for financial assets and liabilities measured at fair value in these financial statements.

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

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

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

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

**Fair value of financial assets and liabilities**

	2020		2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash, due from banks and balances with the National Bank of Hungary	6,313	6,313	2,584	2,584
Placements with other banks	125,781	125,781	135,963	135,963
Securities at fair value through other comprehensive income	18,273	18,273	18,922	18,922
Loans at amortised cost	1,001,739	1,302,678	922,572	1,223,200
Loans mandatorily measured at fair value through profit or loss	318,044	318,044	256,943	256,943
Securities at amortized cost	108,455	128,197	-	-
Derivative financial assets designated as hedge accounting relationships	442	442	229	229
Other financial assets	<u>1,486</u>	<u>1,486</u>	<u>1,404</u>	<u>1,404</u>
<b>FINANCIAL ASSETS TOTAL</b>	<b><u>1,580,533</u></b>	<b><u>1,901,214</u></b>	<b><u>1,338,277</u></b>	<b><u>1,639,245</u></b>
Amounts due to OTP Bank and other banks	692,906	693,429	676,962	677,903
Liabilities from issued securities	807,513	869,870	569,344	664,775
Derivative financial instruments designated as hedging instruments	780	780	822	822
Leasing liabilities	492	492	414	414
Other financial liabilities	<u>6,403</u>	<u>6,403</u>	<u>9,333</u>	<u>9,333</u>
<b>FINANCIAL LIABILITIES TOTAL</b>	<b><u>1,508,094</u></b>	<b><u>1,570,974</u></b>	<b><u>1,256,875</u></b>	<b><u>1,353,247</u></b>

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**NOTE 35: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million)**

**Fair value hierarchy**

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

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

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

**As at 31 December 2020**

	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Loans mandatorily measured at fair value through profit or loss	318,044	-	-	318,044
FVOCI securities	18,273	18,273	-	-
Positive fair value of derivative financial instruments designated as fair value hedge	442	-	442	-
Negative fair value of derivative financial instruments designated as fair value hedge	(780)	-	(780)	-
<b>Total</b>	<b><u>335,979</u></b>	<b><u>18,273</u></b>	<b><u>(338)</u></b>	<b><u>318,044</u></b>

**As at 31 December 2019**

	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Loans mandatorily measured at fair value through profit or loss	256,943	-	-	256,943
FVOCI securities	18,922	18,922	-	-
Positive fair value of derivative financial instruments designated as fair value hedge	229	-	229	-
Negative fair value of derivative financial instruments designated as fair value hedge	(822)	-	(822)	-
<b>Total</b>	<b><u>275,272</u></b>	<b><u>18,922</u></b>	<b><u>(593)</u></b>	<b><u>256,943</u></b>

**Valuation techniques and sensitivity analysis on Level 3 instruments**

Sensitivity analysis is performed on products with significant unobservable inputs (Level 3) to generate a range of reasonably possible alternative valuations. The sensitivity methodologies applied take account of the nature of the valuation techniques used, as well as the availability and reliability of observable proxy and historical data and the impact of using alternative models.

The calculation is based on range or spread data of reliable reference source or a scenario based on relevant market analysis alongside the impact of using alternative models. Sensitivities are calculated without reflecting the impact of any diversification in the portfolio.

**Unobservable inputs used in measuring fair value**

<b>Type of financial instrument</b>	<b>Valuation technique</b>	<b>Significant unobservable input</b>	<b>Range of estimates for unobservable input</b>
Loans mandatory measured at fair value through profit and loss	Discounted cash flow model	Probability of default	+/- 20%

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**NOTE 35: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]**

**Reconciliation of the opening and closing balances of Level 3 instruments for the year ended 31 December 2020**

	Opening balance	Issuance/ Disbursement	FVA	Settlement	Closing balance
Loans at fair value through other comprehensive income	256,943	74,579	(4,182)	(9,296)	318,044
<b>Total</b>	<b>256,943</b>	<b>74,579</b>	<b>(4,182)</b>	<b>(9,296)</b>	<b>318,044</b>

**Reconciliation of the opening and closing balances of Level 3 instruments for the year ended 31 December 2019**

	Opening balance	Issuance/ Disbursement	FVA	Settlement	Closing balance
Loans at fair value through other comprehensive income	222,629	58,281	293	(24,260)	256,943
<b>Total</b>	<b>222,629</b>	<b>58,281</b>	<b>293</b>	<b>(24,260)</b>	<b>256,943</b>

**Amount, timing and uncertainty of future cash flows - hedging instruments**

2020			Maturity		Total
Interest rate swap (HUF)	One year to five years	More than five years			
Interest rate swap (HUF)	One year to five years	More than five years			
<b>Fair value hedge</b>					
Notional	15,000	-		<b>15,000</b>	
Average FX Rate	1.5%	-		-	
<b>Cash flow hedge</b>					
Notional	12,194	28,027		<b>40,221</b>	
Average FX Rate	1.01%	1.58%			

**Amount, timing and uncertainty of future cash flows - hedging instruments [continued]**

2019			Maturity		Total
Interest rate swap (HUF)	One year to five years	More than five years			
Cash flow hedge					
Notional	12,194	28,027	40,221		
Average FX Rate	1.77%	2.46%	-		

**Derivatives held for hedging – as at 31 December 2020**

	Assets	Liabilities
<b>Derivatives designated in cash fair value hedges</b>		
Interest rate swaps	309	-
<b>Derivatives designated in cash flow hedges</b>		
Interest rate swaps	133	780
<b>Total derivatives designated in cash flow hedges</b>	<b>442</b>	<b>780</b>

**Derivatives held for hedging – as at 31 December 2019**

	Assets	Liabilities
<b>Derivatives designated in cash flow hedges</b>		
Interest rate swaps	229	822
<b>Total derivatives designated in cash flow hedges</b>	<b>229</b>	<b>822</b>

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**NOTE 35: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF million) [continued]**

**Hedge accounting – hedge instruments– as at 31 December 2020**

Interest rate risk	Nominal amount	Carrying amount		Line item in the statement of financial position	Ineffectiveness for 2020
		Assets	Liabilities		
Interest rate swaps					
<b>Fair value hedge</b>	15,000	309	-	Derivative assets (liabilities) held for risk management	(75)
<b>Cash flow hedge</b>	40,221	133	780	Derivative assets (liabilities) held for risk management	2,151

Interest rate risk	Cash flow hedge reserve	Hedge effectiveness recognised in profit or loss		Line item in profit or loss that includes hedge ineffectiveness
Interest rate swap	292		2,151	Interest Income/Placements with other banks, net of allowance for placement losses

**Hedge accounting – hedge instruments– as at 31 December 2019**

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

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

**Hedge accounting – hedge items– as at 31 December 2020**

Type of risk	Carrying amount of the hedging instrument for the year ended 31 December 2020		Changes in fair value used for calculating hedge ineffectiveness for the year ended 31 December 2020		Changes in fair value used for calculating hedge ineffectiveness for the year ended 31 December 2020
	Assets	Liabilities	Assets	Liabilities	
<b>Fair value hedge</b>					
<i>Interest rate risk</i>					
- Other securities	-	(14,921)	-	-	Liabilities from (25) issued securities
<b>Cash flow hedge</b>					
<i>Interest rate risk</i>					
- Loans	-	(40,221)	-	-	Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other (201) banks

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**NOTE 36:        SIGNIFICANT EVENTS DURING THE YEAR ENDED 31 DECEMBER 2019**

The pandemic impact of COVID 19 was a significant event in 2020. See Note 4 for details.

**NOTE 37:        POST BALANCE SHEET EVENTS**

27 July 2020 NBH set minimum requirements for calculating impairments for potential loan losses, simultaneously formulated more flexible prudential criteria through modifying its circular on applying IFRS9 standards regarding macroeconomic information and credit risk standards. Credit institutions can use the modified criteria aimed at moderating the consequences of COVID-19 pandemic from 27 July 2020 until the end of 2021 the latest. One particular modification is that in case of restructuring beyond the payment moratorium deadline banks may dispense with classifying the restructuring as a significant credit risk factor provided such restructuring decision was made on an assumption that both the financial difficulties of the client and the restructuring aimed curing that are having a temporary nature.