OTP BANK PLC.

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

FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2018

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OTP BANK PLC.
SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018
(in HUF mn)

	Note	30 June 2018	31 December 2017	30 June 2017
Cash, amounts due from banks and balances with the National Bank of Hungary	*4.*	298,870	399,124	385,920
Placements with other banks, net of allowance for placement losses	*5.*	1,278,831	978,098	943,260
Financial assets at fair value through profit or loss	*6.*	316,268	303,927	198,058
Securities at fair value through other comprehensive income	*7.*	1,440,613	1,735,902	1,617,096
Loans	*8.*	2,405,165	2,145,046	2,085,921
Investments in subsidiaries, associates and other investments	*9.*	970,710	967,414	822,846
Securities at amortised cost	*10.*	1,359,752	1,043,779	979,436
Property and equipment	*11.*	65,548	65,286	61,870
Intangible assets	*11.*	34,693	32,877	25,022
Investment properties	*12.*	2,355	2,374	2,288
Deferred tax assets	*13.*	6,556	7,991	18,092
Derivative financial assets designated as fair value hedge	*13.*	10,035	10,148	7,925
Other assets	*13.*	93,771	79,916	89,796
TOTAL ASSETS		**8,283,167**	**7,771,882**	**7,237,530**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	*14.*	805,859	694,533	693,983
Deposits from customers	*15.*	5,459,156	5,192,869	4,725,148
Liabilities from issued securities	*16.*	53,861	60,304	70,823
Financial liabilities at fair value through profit or loss	*17..*	33,166	-	-
Derivative financial liabilities designated as held for trading	*18.*	144,558	79,545	80,361
Derivative financial liabilities designated as hedge accounting relationship	*19.*	8,889	17,179	19,732
Other liabilities	*19.*	220,807	193,360	235,581
Subordinated bonds and loans	*20.*	113,367	108,835	109,134
TOTAL LIABILITIES		**6,839,663**	**6,346,625**	**5,934,762**
Share capital	*21.*	28,000	28,000	28,000
Retained earnings and reserves	*22.*	1,421,731	1,406,797	1,281,585
Treasury shares	*23.*	(6,227)	(9,540)	(6,817)
TOTAL SHAREHOLDERS' EQUITY		**1,443,504**	**1,425,257**	**1,302,768**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**8,283,167**	**7,771,882**	**7,237,530**

OTP BANK PLC.
SEPARATE STATEMENT OF PROFIT OR LOSS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2018 (in HUF mn)

	Note	Six month period ended 30 June 2018	Six month period ended 30 June 2017	Year ended 31 December 2017
Interest Income:				
Loans		71,017	60,154	120,960
Placements with other banks, net of allowance for placement losses		27,872	25,857	47,776
Securities at fair value through other comprehensive income		15,116	15,247	30,100
Securities at amortised cost		22,920	22,247	44,737
Amounts due from banks and balances with National Bank of Hungary		104	731	1,403
Total Interest Income		**137,029**	**124,236**	**244,976**
Interest Expense:				
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks		(27,482)	(28,694)	(56,893)
Deposits from customers		(17,155)	(5,898)	(9,244)
Liabilities from issued securities		(6)	(156)	(151)
Subordinated bonds and loans		(1,469)	(1,555)	(3,033)
Total Interest Expense		**(46,112)**	**(36,303)**	**(69,321)**
NET INTEREST INCOME		**90,917**	**87,933**	**175,655**
Provision for impairment on loan and placement losses	*5.,8.,24.*	(1,996)	(3,647)	(7,775)
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES		**88,921**	**84,286**	**167,880**
Income from fees and commissions	*25.*	101,792	101,193	206,759
Expenses from fees and commissions	*25.*	(13,881)	(13,905)	(30,355)
Net profit from fees and commissions		**87,911**	**87,288**	**176,404**
Foreign exchange gains		2,640	2,881	4,555
Gains on securities, net		1,711	3,431	7,946
Losses on loans at fair value through profit or loss		(196)	-	-
Gains on derivative instruments, net		2,283	744	2,030
Dividend income	*9.*	68,459	80,624	82,638
Other operating income	*26.*	1,895	7,067	9,990
Net other operating expenses	*26.*	(3,052)	4,147	71,359
Net operating expense		**73,740**	**98,894**	**178,518**
Personnel expenses	*26.*	(47,747)	(44,589)	(90,444)
Depreciation and amortization	*26.*	(10,307)	(9,355)	(20,486)
Other administrative expenses	*26.*	(73,915)	(76,052)	(141,455)
Other administrative expenses		**(131,969)**	**(129,996)**	**(252,385)**
PROFIT BEFORE INCOME TAX		**118,603**	**140,472**	**270,417**
Income tax expense / (benefit)	*27.*	(5,689)	(9,022)	(18,867)
NET PROFIT FOR THE PERIOD		**112,914**	**131,450**	**251,550**
Earnings per share (in HUF)				
Basic	*34.*	405	472	902
Diluted	*34.*	405	471	902

OTP BANK PLC.
SEPARATE STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2018 (in HUF mn)

	Note	Six month period ended 30 June 2018	Six month period ended 30 June 2017	Year ended 31 December 2017
NET PROFIT FOR THE PERIOD		**112,914**	**131,450**	**251,550**
Items that may be reclassified subsequently to profit or loss:				
Fair value adjustment of securities at fair value through other comprehensive income		(32,521)	10,826	18,174
Deferred tax related to fair value adjustment of securities at fair value though other comprehensive income	*27.*	2,679	(963)	(1,636)
Fair value adjustment of Cash-flow hedge		(1,122)	-	-
Total		**(30,964)**	**9,863**	**16,538**
NET COMPREHENSIVE INCOME		**81,950**	**141,313**	**268,088**

OTP BANK PLC.
SEPARATE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2018 (in HUF mn)

	Share Capital	Capital reserve	Share-based payment reserve	Retained earnings	Other comprehensive income	Other reserves	Put option reserve	Treasury Shares	Total
Balance as at 1 January 2017	**28,000**	**52**	**28,237**	**1,123,208**	**53,662**	**43,441**	**(55,468)**	**(8,709)**	**1,212,423**
Net profit for the year	-	-	-	131,450	-	-	-	-	131,450
Other comprehensive income	-	-	-	-	9,863	-	-	-	9,863
Share-based payment	-	-	1,685	-	-	-	-	-	1,685
Payments to ICES holders	-	-	-	651	-	-	-	-	651
Sale of treasury shares	-	-	-	-	-	-	-	7,832	7,832
Loss on sale of treasury shares	-	-	-	(1,996)	-	-	-	-	(1,996)
Acquisition of treasury shares	-	-	-	-	-	-	-	(5,940)	(5,940)
Transfer to general reserve	-	-	-	(13,145)	-	13,145	-	-	-
Dividend for the year 2016	-	-	-	(53,200)	-	-	-	-	(53,200)
Balance as at 30 June 2017	**28,000**	**52**	**29,922**	**1,186,968**	**63,525**	**56,586**	**(55,468)**	**(6,817)**	**1,302,768**
Balance as at 1 January 2018	**28,000**	**52**	**31,835**	**1,291,245**	**70,200**	**68,933**	**(55,468)**	**(9,540)**	**1,425,257**
Effect of transition to application of IFRS 9	-	-	-	(7,507)	2,754	-	-	-	(4,753)
Balance as at 1 January 2018 in accordance with IFRS 9	**28,000**	**52**	**31,835**	**1,283,738**	**72,954**	**68,933**	**(55,468)**	**(9,540)**	**1,420,504**
Net profit for the year	-	-	-	112,914	-	-	-	-	112,914
Other comprehensive income	-	-	-	-	(30,964)	-	-	-	(30,964)
Share-based payment	-	-	1,737	-	-	-	-	-	1,737
Payments to ICES holders	-	-	-	1,024	-	-	-	-	1,024
Sale of treasury shares	-	-	-	(3,704)	-	-	-	10,128	6,424
Loss on sale of treasury shares	-	-	-	-	-	-	-	(6,815)	(6,815)
Transfer to general reserve	-	-	-	(11,291)	-	11,291	-	-	-
Dividend for the year 2017	-	-	-	(61,320)	-	-	-	-	(61,320)
Balance as at 30 June 2018	**28,000**	**52**	**33,572**	**1,321,361**	**41,990**	**80,224**	**(55,468)**	**(6,227)**	**1,443,504**

OTP BANK PLC.
SEPARATE STATEMENT OF CASH-FLOWS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2018 (in HUF mn)

	Note	Six month period ended 30 June 2018	Six month period ended 30 June 2017	Year ended 31 December 2017
OPERATING ACTIVITIES				
Profit before income tax		**118,603**	**140,472**	**270,417**
Depreciation and amortization		10,307	9,373	20,529
Provision for impairment on loan and placement losses	*5.,8.,24*	1,996	3,647	7,775
(Release of provision) for impairment on securities at fair value through other comprehensive income		(398)	-	-
Release of provision for impairment on investments in subsidiaries	*9.*	(1,001)	(4,644)	(65,200)
Provision for impairment on securities at amortised cost		488	-	-
(Release of provision) / Provision for impairment on other assets	*13.*	(390)	349	(25,664)
(Provision) / Release of provision on off-balance sheet commitments and contingent liabilities	*18.*	(3,445)	(1,958)	4,462
Share-based payment	*30.*	1,737	1,685	3,598
Unrealised (losses) / gains on fair value adjustment of securities available-for-sale and held for trading		(13,601)	1,860	(18,335)
Unrealised gains on fair value adjustment of derivative financial instruments		-	6,183	12,458
Net changes in assets and liabilities in operating activities				
Changes in financial assets at fair value through profit or loss		39,253	(37,019)	(125,889)
Changes in financial liabilities at fair value through profit or loss		12,753	-	-
Change in derivative financial instruments designated as held for trading and other financial instruments		3,627	(16,307)	(17,123)
Net increase in loans, net of allowance for loan losses		(269,269)	(186,979)	(252,959)
(Decrease) / increase in other assets, excluding advances for investments and before provisions for losses		(1,512)	10,521	44,179
Net (decrease) / increase in deposits from customers		266,287	(19,903)	447,818
(Decrease) / increase in other liabilities		25,198	18,511	(33,068)
Net (increase) / decrease in the compulsory reserve established by the National Bank of Hungary		(4,677)	552	(2,690)
Dividend income		(63,197)	(80,624)	(82,638)
Net cash provided by / (used in) operating activities		**122,759**	**(154,281)**	**187,670**
Interest received		138,864	120,449	237,247
Interest paid		(39,557)	(34,595)	(69,309)
INVESTING ACTIVITIES				
Net increase in placements with other banks before allowance for placement losses		(300,943)	(27,603)	(62,412)
Purchase securities at fair value through other comprehensive income		(286,255)	(333,996)	(560,772)
Proceeds from sale of securities at fair value through other comprehensive income		550,942	212,248	327,553
Change in derivative financial instruments designated as hedge accounting relationship		5,327	-	-
Increase in investments in subsidiaries		(2,295)	(149,333)	(233,345)
Dividend income		65,569	78,005	80,017
Increase in securities at amortised cost		(351,756)	(148,439)	(273,845)
Redemption of securities at amortised cost		35,295	27,153	88,216
Additions to property, equipment and intangible assets		(12,722)	(6,664)	(36,316)
Disposal of property, equipment and intangible assets		337	545	7,795
Net decrease / (increase) in investment properties		19	(39)	(150)
Net decrease / (increase) in advances for investments included in other assets		48	(4)	10
Net cash used in investing activities		**(296,434)**	**(348,127)**	**(663,249)**

SEPARATE STATEMENT OF CASH-FLOWS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2018 (in HUF mn) [continued]

	Note	Six month period ended 30 June 2018	Six month period ended 30 June 2017	Year ended 31 December 2017
FINANCING ACTIVITIES				
Net increase in amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks		131,337	47,712	48,262
Cash received from issuance of securities		4,301	36,225	36,225
Cash used for redemption of issued securities		(10,744)	(70,054)	(80,954)
Increase / (decrease) in subordinated bonds and loans		4,532	(1,224)	(1,523)
Payments to ICES holders	*22.*	1,024	651	(1,519)
(Decrease) / Increase in Treasury shares		(6,815)	(5,940)	(13,510)
(Increase) / Decrease in Treasury shares		6,424	5,836	9,377
Dividend paid		(61,315)	(53,172)	(53,191)
Net cash provided by / (used in) financing activities		**68,744**	**(39,966)**	**(56,833)**
Net decrease in cash and cash equivalents		**(104,931)**	**(542,374)**	**(532,412)**
Cash and cash equivalents at the beginning of the period		347,854	880,266	880,266
Cash and cash equivalents at the end of the period[1]		**242,923**	**337,892**	**347,854**

[1] See Note 4

NOTE 1: ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

1.1. General information

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

The Bank's registered office address is 16, Nádor Street, Budapest 1051. Internet homepage: http://www.otpbank.hu/

Signatory of the separate financial statements is the Chief Executive Officer, dr. Sándor Csányi (Budapest).

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 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: Attila dr. Hruby, registration number: 007118.

Audit service fee agreed by the Annual General Meeting of the Bank for the year ended 2018 is an amount of HUF 65.3 million + VAT.

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

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

	30 June 2018	**31 December 2017**
Domestic and foreign private and institutional investors	98%	98%
Employees	1%	1%
Treasury shares	1%	1%
Total	**100%**	**100%**

The Bank provides a full range of commercial banking services through a nationwide network of 362 branches in Hungary.

Number of the employees of the Bank:

	30 June 2018	**31 December 2017**
Number of employees	8,449	8,374
Average number of employees	8,367	7,940

1.2. Basis of accounting

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

The presentation and functional currency of the Bank 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").

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

1.2.1. The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2018

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

- **IFRS 9 "Financial Instruments"** - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 2 "Share-based Payment"** - Classification and Measurement of Share-based Payment Transactions – adopted by the EU on 26 February 2018 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 4 "Insurance Contracts" -** Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),
- **Amendments to IFRS 15 "Revenue from Contracts with Customers" -** Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IAS 40 "Investment Property"** - Transfers of Investment Property – adopted by the EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014-2016)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** – adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

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

At the date of authorisation of these financial statements the following standards, amendments to the existing standards and interpretations issued by IASB and adopted by the EU were in issue but not yet effective:

- **IFRS 16 "Leases"** – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 9 "Financial Instruments"** - Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019).

The adoption of the above presented Amendments and new Standards and Interpretations would have no significant impact on the separate financial statements in the period of initial application except for IFRS 16.

Implementation of IFRS 16

The scoping and the assessment of IFRS 16 standard's financial effect has been continuously updated. The overwhelming majority of the expected financial effect can be related to the office building and branch office rentals. Based on the preliminary estimations of the financial effect, we expect significant material change in the separate financial position, while the effect in the Separate Statement of Profit or Loss is expected to be insignificant. The analysis and estimating quantitative effects are still in progress during the preparation of these Separate Financial Statements.

Under IFRS 16 a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate.

As with IFRS 16's predecessor, IAS 17, lessors classify leases as operating or finance in nature. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise a lease is classified as an operating lease. For finance leases a lessor recognises finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the net investment.

A lessor recognises operating lease payments as income on a straight-line basis or, if more representative of the pattern in which benefit from use of the underlying asset is diminished, another systematic basis.

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

- **IFRS 14 “Regulatory Deferral Accounts”** (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 17 “Insurance Contracts”** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 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),
- **Amendments to IAS 19 “Employee Benefits”** - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 28 “Investments in Associates and Joint Ventures”** - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to various standards due to “Improvements to IFRSs (cycle 2015-2017)”** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019,
- **IFRIC 23 “Uncertainty over Income Tax Treatments”** (effective for annual periods beginning on or after 1 January 2019)
- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginnings on or after 1 January 2020).

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

The adoption of the above presented Amendments and new Standards and Interpretations would have no significant impact on the separate financial statements in the period of initial application.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of presentation

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

The presentation of separate financial statements in conformity with IFRS requires the 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 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 separate financial statements.

2.2. Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into HUF that is the presentation currency, at exchange rates quoted by the National Bank of Hungary ("NBH") as at the date of the separate financial statements. Income and expenses arising in foreign currencies are converted at the rate of exchange 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 currently being prepared by the Bank and consolidated net profit for the year and shareholders' equity differs 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 will be published on the same date. As the ultimate parent, OTP Bank is preparing consolidated financial statement of OTP Group.

2.4. Investments in subsidiaries, associated companies and other investments

Investments in subsidiaries comprise those investments where OTP 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, in the case of foreign currency denominated investments for the measurement the Bank uses the exchange rate at the date of transaction.

Associated companies where the Bank has the ability to exercise significant influence are accounted for using the equity method.

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

OTP Bank calculates the fair value based on discounted cash-flow model. The 5 year period explicit cash-flow model serves as a basis for the impairment test by which the Bank defines the impairment need on investment in subsidiaries based on the strategic factors and financial data of its cash-generating units.

OTP Bank in its strategic plan has taken into consideration the cautious recovery of global economic situation and outlook, the associated risks and their possible effect on the financial sector as well as the current and expected availability of wholesale funding.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.5. Securities at amortised cost

Investments in securities, traded in active market (with fixed or determinable cash-flows) are accounted for on a settlement date basis and are initially measured at fair value. The Bank measures at amortised cost those securities, which are held for 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 annual amortisation of any discount or premium on the acquisition of a security at amortised cost is aggregated with other investment income receivables over the term of the investment so that the revenue recognized in each period represents a constant yield on the investment.

Such securities comprise mainly securities issued by the Hungarian Government, mortgage bonds and Hungarian Government discounted Treasury Bills.

2.6. Financial assets at fair value through profit or loss

2.6.1. Securities held for trading

Investments in securities are accounted for on a settlement date basis and are initially measured at fair value. Securities held for trading are measured at subsequent reporting dates at fair value. Unrealised gains and losses on held for trading securities are recognized in profit or loss and are included in the separate statement of profit or loss for the period. The Bank mainly holds these securities to obtain short-term gains consequently realised and unrealised gains and losses are recognized in the net operating income. The Bank applies FIFO[1] inventory valuation method for securities held for trading. Such securities consist of discounted and interest bearing Treasury bills, Hungarian Government bonds, mortgage bonds, shares in non-financial commercial companies, shares in investment funds, shares in venture capital funds and shares in financial institutions.

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 both for trading purposes and to hedge interest rate risk and currency exposures associated with its transactions in the financial markets.

Derivative financial instruments are accounted for on a trade date basis and are initially measured at fair value and at subsequent reporting dates also at fair value. Fair values are obtained from quoted market prices, discounted cash-flow models and option pricing models as appropriate. OTP 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 its entire open derivative transactions collateralised. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss and are included in the 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.

Certain derivative transactions, while providing effective economic hedges under risk management positions of the Bank, do not qualify for hedge accounting under the specific rules of IFRS 9 and are therefore treated as derivatives held for trading with fair value gains and losses charged directly to the separate 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 spot contracts does not represent the actual market or credit risk associated with these contracts. Foreign currency contracts are used by the Bank for risk management and trading purposes. The Bank's risk management foreign currency contracts were used to hedge the exchange rate fluctuations of loans and deposits denominated in foreign currency.

[1] First In First Out

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.6.2. Derivative financial instruments [continued]

Foreign exchange swaps and interest rate swaps

The Bank enters into foreign-exchange swap and interest rate swap (IRS) transactions. The swap transaction is a complex agreement concerning the swap of certain financial instruments, which usually consists of a prompt and one or more forward contracts.

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 swap contracts can be hedging or held for trading contracts.

Cross-currency interest rate swaps

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

Equity and commodity swaps

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

Forward rate agreements (FRA)

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

The Bank limits its exposure to market risk by entering into generally matching or offsetting positions and by establishing and monitoring limits on unmatched positions. Credit risk is managed through approval procedures that establish specific limits for individual counter-parties. The Bank's forward rate agreements were transacted for management of interest rate exposures.

Foreign exchange options

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

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.

2.8. 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.

2.9. 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) affecting cash-flows or otherwise modifying the characteristics of the host instrument. An embedded derivative must be separated from the host instrument and accounted for as a separate derivative if, and only if:

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

2.10. 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[1] 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.

[1] First In First Out

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

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

Loans and placements with other banks 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 and placements with other banks are derecognised when the contractual rights to the cash-flows expire or they are transferred. Interest and amortised cost are accounted using effective interest rate method. When a borrower is unable to meet payments as they fall due or, in the opinion of the Management, there is an indication that a borrower may be unable to meet payments as they fall due, all unpaid interest becomes impaired.

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

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

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

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

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

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

If the reason for provisioning is no longer deemed appropriate, the redundant provisioning charge is released into income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss shall be reversed by adjusting an 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 provision for impairment had been made previously.

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 "Provisions for impairment on loan and placement 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. A loan will be written off if it has overdued or was terminated by the Bank.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

The gross amount and impairment loss of the loans shall be written off in the same amount to the estimated maximum recovery amount while the net carrying value remains unchanged. In these cases there is no reasonable expectation from the clients to complete contractual cash-flows therefore OTP Bank does not accrue interest income in case of partial of full write-off.

Loan receivables legally demanded from clients are equal to the former gross amount of the loan before the partial write-off.

2.12. Sale and repurchase agreements, security lending

Where debt or equity securities are sold under a commitment to repurchase them at a pre-determined price, they remain on the statement of financial position and the consideration received is recorded in Other liabilities or Amounts due to banks and the Hungarian Government, deposits from the National Bank of Hungary and other banks, or Deposits from customers. Conversely, debt or equity securities purchased under a commitment to resell are not recognized in the statement of financial position and the consideration paid is recorded either in Placements with other banks or Deposits from customers. Interest is accrued evenly over the life of the repurchase agreement.

In the case of security lending transactions the Bank does not recognize or derecognize the securities because it is believed that the transferor retains substantially all the risks and rewards of the ownership of the securities. Only a financial liability or financial receivable is recognized for the consideration amount.

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

Intangible assets	
Software	15-33.3%
Property rights	16.7%
Property	1-2%
Office equipment and vehicles	9-33.3%

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 impaired immediately to the estimated recoverable amount.

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

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

In the case of effective hedge the realised profit or loss of hedging instrument is stated as the part of the cost of the hedged asset as it has arisen until recognising the asset and it is tightly connecting to the purchasing.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.14. Investment properties [continued]

Investment properties of the Bank are land, buildings, part of buildings which are held (as the owner or as the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use in the production or supply of services or for administrative purposes or sale in the ordinary course of business. The Bank measures the investment properties at cost less accumulated depreciation and impairment, if any. The depreciable amount (book value less residual value) of the investment properties must be allocated over their useful lives. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets based on the 1-2% annual percentages.

2.15. Financial liabilities

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

2.16. Leases

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised at their fair value and depreciated over the useful lives of assets. The capital element of each future lease obligation is recorded as a liability, while the interest elements are charged to the separate statement of Profit or loss over the period of the leases to produce a constant rate of charge on the balance of capital payments outstanding.

Payments made under operating leases are charged to the separate statement of profit or loss on a straight-line basis over the life of the lease terms. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

2.17. Treasury shares

Treasury shares are shares which are purchased on the stock exchange and the over-the-counter market by the Bank and are presented in the separate statement of financial position at acquisition cost as a deduction from shareholders' equity. Gains and losses on the sale of treasury shares are credited or charged directly to shareholder's equity in the treasury shares. Derecognition of treasury shares is based on the FIFO method.

2.18. 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 considers 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 held for trading, FVOCI securities, securities at amortised cost and amounts due to banks, deposits from customers, liabilities from issued securities, subordinated bond and loans are presented under these lines of financial statement.

2.19. 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 recognised income on an accrual basis based on IFRS 15.

2.20. Dividend income

The Bank recognizes dividend income in the separate financial statements when its right to receive the payment is established.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

2.22. Off-balance sheet commitments and contingent liabilities

In the ordinary course of its business, the Bank has entered into off-balance sheet commitments such as guarantees, 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. 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 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.

2.23. 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.

2.24. Separate statement of cash-flows

For the purposes of reporting cash-flows, cash and cash equivalents include cash, due from banks and balances with the NBH. Cash-flows from hedging activities are classified in the same category as the item being hedged. The unrealised gains and losses from the translation of monetary items to the closing foreign exchange rates and the unrealised gains and losses from derivative financial instruments are presented net in the statement of cash-flows for the monetary items which were being revaluated.

2.25. Segment reporting

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

At separate level, the Management does not separate and makes decisions based on different segments; the segments are identified by the Bank only at consolidated level in line with IFRS 8 paragraph 4. At Group level the segments identified by the Bank are the business and geographical segments.

The Group’s operating segments under IFRS 8 are therefore as follows: OTP Core Hungary, Russia, Ukraine, Bulgaria, Romania, Serbia, Croatia, Slovakia, Montenegro, Leasing subsidiaries, Asset Management subsidiaries, other subsidiaries, Corporate Centre.

2.26. Comparative figures

These separate financial statements are prepared in accordance with the same accounting policies in all respects as the authorised Separate Financial Statements prepared in accordance with IFRS as adopted by the EU for the year ended 31 December 2017, which were approved on 13 March 2018, excluding initial application of IFRS 9 standard. The Management has decided to present comparative figures in accordance with IAS 39 standard.

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

The presentation of separate financial statements in conformity with IFRS 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 expected loss 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 financial instruments

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

3.2. Valuation of instruments without direct quotations

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

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

3.3. Provisions

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

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

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

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

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

	30 June 2018	31 December 2017
Cash on hand:		
In HUF	105,892	93,496
In foreign currency	9,951	9,610
	115,843	**103,106**
Amounts due from banks and balances with National Bank of Hungary:		
Within one year:		
In HUF	138,573	204,522
In foreign currency	44,290	91,346
	182,863	**295,868**
Accrued interest	164	150
Subtotal	**298,870**	**399,124**
Average amount of compulsory reserve	55,947	51,270
Total	**242,923**	**347,854**
Rate of the compulsory reserve	1%	1%

The Bank shall deposit compulsory reserve in a determined percent of its liabilities at NBH. Liabilities considered in compulsory reserve calculation are as follows:

a) deposits and loans,
b) debt instruments,
c) repo transactions.

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 shall complete compulsory reserve requirements in average in the second month after the reserve calculation period, requirements shall be completed once a month on the last calendar day. The Bank complies with the compulsory reserve requirements by the deposit of the adequate amount of cash as the calculated compulsory reserve on the bank account at NBH in monthly average.

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

	30 June 2018	31 December 2017
Within one year:		
In HUF	661,518	662,357
In foreign currency	217,748	108,875
	879,266	**771,232**
Over one year		
In HUF	362,756	196,079
In foreign currency	35,243	9,304
	397,999	**205,383**
Total placements	**1,277,265**	**976,615**
Accrued interest	2,923	1,483
Provision for impairment on placement losses	(1,357)	-
Total	**1,278,831**	**978,098**

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

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

	30 June 2018	31 December 2017
Balance as at 1 January	**-**	**32**
Effect of transition to application of IFRS 9	1,257	-
Reclassification	(79)	-
Provision for the period	1,172	(32)
Release of provision	(993)	-
Closing balance	**1,357**	**-**

Interest conditions of placements with other banks (%):

	30 June 2018	31 December 2017
Placements with other banks in HUF	(1%)-3.84%	(0.5%)-3.84%
Placements with other banks in foreign currency	(0.75%)-3.7%	(0.73%)-1.75%
Average interest of placements with other banks	0.49%	0.74%

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

	30 June 2018	31 December 2017
Securities held for trading:		
Government bonds	105,642	64,570
Hungarian government interest bearing Treasury Bills	22,599	93,806
Corporate shares and investments	10,368	9,506
Securities issued by credit institutions	7,882	16,793
Hungarian government discounted Treasury Bills	1,615	1,169
Other securities	5,874	17,790
Subtotal	**153,980**	**203,634**
Accrued interest	2,518	3,081
Total	**156,498**	**206,715**
Derivative financial instruments:		
Interest rate swaps	49,301	34,911
Foreign currency swaps	61,180	24,436
CCIRS and mark-to-market CCIRS[1]	17,466	21,314
Other derivative transactions[2]	31,823	16,551
Subtotal	**159,770**	**97,212**
Total	**316,268**	**303,927**

[1] CCIRS: Cross Currency Interest Rate Swap (See Note 2.6.2)
[2] incl.: FX, equity, commodity and index futures; FX forward; commodity and equity swap; FRA; FX option (See Note 2.6.2)

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

Interest conditions and the remaining maturities of securities held for trading are as follows:

	30 June 2018	31 December 2017
Within one year:		
variable interest	5,387	2,943
fixed interest	86,064	116,480
	91,451	**119,423**
Over one year:		
variable interest	19,789	14,214
fixed interest	32,372	60,490
	52,161	**74,704**
Non-interest bearing securities	10,368	9,507
Total	**153,980**	**203,634**
Securities held for trading denominated in HUF	83.03%	81.86%
Securities held for trading denominated in foreign currency	16.97%	18.14%
Securities held for trading total	**100.00%**	**100.00%**
Government bonds denominated in HUF	88.46%	96.69%
Government bonds denominated in foreign currency	11.54%	3.31%
Government securities total	**100.00%**	**100.00%**
Interest rates on securities held for trading	0.01%-11%	0.01%-9.25%
Average interest on securities held for trading	2.64%	2.32%

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

	30 June 2018	31 December 2017
Government bonds	952,600	1,190,235
Mortgage bonds	123,128	149,987
Interest bearing treasury bills	144,843	142,988
Other securities	201,664	234,150
- *listed securities*	99,601	116,541
in HUF	65,623	78,762
in foreign currency	33,978	37,779
- *non-listed securities*	102,063	117,609
in HUF	40,423	48,410
in foreign currency	61,640	69,199
Subtotal	**1,422,235**	**1,717,360**
Accrued interest	18,378	18,628
Impairment	-	(86)
FVOCI Securities total	**1,440,613**	**1,735,902**

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

	30 June 2018	31 December 2017
FVOCI securities denominated in HUF	78%	82%
FVOCI securities denominated in foreign currency	22%	18%
FVOCI securities total	**100%**	**100%**
Interest rates on FVOCI securities denominated in HUF	0.5%-11%	0.63%-11%
Interest rates on FVOCI securities denominated in foreign currency	(0.15%)-7.25%	(0.15%)-7.25%
Average interest on FVOCI securities	1.98%	1.92%

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

	30 June 2018	31 December 2017
Balance as at 1 January	**86**	**-**
Effect of transition to application of IFRS 9	(86)	-
Reclassification	-	96
Release of provision for the period	-	(10)
Closing balance	**-**	**86**

Interest conditions and the remaining maturities of available-for-sale securities can be analysed as follows:

	30 June 2018	31 December 2017
Within one year:		
variable interest	27,276	32,794
fixed interest	305,541	481,944
	332,817	**514,738**
Over one year:		
variable interest	88,401	86,473
fixed interest	965,776	1,084,450
	1,054,177	**1,170,923**
Non-interest bearing securities	35,241	31,699
Total	**1,422,235**	**1,717,360**

Certain fixed-rate mortgage bonds and other securities are hedged against interest rate risk. (See Note 28.4.)

	30 June 2018	31 December 2017
Net gain reclassified from equity to statement of profit or loss	2,875	17,911
Fair value of the hedged securities:		
Government bonds	673,679	985,402
Other bonds	35,124	34,059
	708,803	**1,019,461**

NOTE 8: LOANS (in HUF mn)

Loans measured at fair value through profit or loss

	30 June 2018	31 December 2017
Gross loans	35,357	-
Fair value adjustment	(2,540)	-
Total	**32,817**	**-**
Accrued interest	113	-
Loans measured at fair value through profit or loss total	**32,930**	**-**

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

	30 June 2018	31 December 2017
Short-term loans and promissory notes (within one year)	1,173,312	1,081,438
Long-term loans and promissory notes (over one year)	1,264,454	1,127,978
Loans gross total	**2,437,766**	**2,209,416**
Accrued interest	4,436	5,138
Provision for impairment on loan losses	(69,967)	(69,508)
Loans measured at amortised cost, net of allowance for loan losses total	**2,372,235**	**2,145,046**
Loans total	**2,405,165**	**2,145,046**

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

	30 June 2018	31 December 2017
In HUF	58%	58%
In foreign currency	42%	42%
Total	**100%**	**100%**

Interest rates of the loan portfolio are as follows (%):

	30 June 2018	31 December 2017
Loans denominated in HUF, with a maturity within one year	0.18%-37.45%	0%-37.45%
Loans denominated in HUF, with a maturity over one year	0.01%-37.5%	0%-37.5%
Loans denominated in foreign currency	(0.64%)-15%	(0.67%)-22.2%
Average interest on loans denominated in HUF	7.00%	7.46%
Average interest on loans denominated in foreign currency	2.12%	2.31%

NOTE 8: LOANS (in HUF mn) [continued]

An analysis of the gross loan portfolio by type, before provision for impairment on loan losses, is as follows:

	30 June 2018		31 December 2017	
Retail loans	**528,128**	**22%**	**512,529**	**23%**
Retail consumer loans	363,965	15%	334,301	15%
Retail mortgage backed loans[1]	164,163	7%	178,228	8%
Corporate loans	**1,909,638**	**77%**	**1,696,887**	**77%**
Loans to corporates	1,840,823	74%	1,651,908	75%
Municipality loans	68,815	3%	44,979	2%
Loans at amortised cost total	**2,437,766**	**99%**	**2,209,416**	**100%**
Loans at fair value total	**32,817**	**1%**	**-**	**-**
Gross loans total	**2,470,583**	**100%**	**2,209,416**	**100%**

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

	30 June 2018	31 December 2017
Balance as at 1 January	**69,508**	**91,335**
Change as a result of applying IFRS 9	8,931	-
Reclassification	-	(1,397)
Provision for the period	46,324	76,050
Release of provision	(50,155)	(85,280)
Partial write-off[2]	(4,641)	(11,200)
Closing balance	**69,967**	**69,508**

Provision for impairment on loan and placement losses is summarized as below:

	30 June 2018	31 December 2017
Provision for impairment / (Release of provision) on placement losses	210	(32)
Provision for impairment on loan losses	1,786	7,807
Total	**1,996**	**7,775**

The Bank sells non-performing loans without recourse at estimated fair value to a wholly owned subsidiary, OTP Factoring Ltd. (See Note 31.)

NOTE 9: INVESTMENTS IN SUBSIDIARIES, ASSOCIATES, JOINT VENTURES AND OTHER INVESTMENTS (in HUF mn)

	30 June 2018	31 December 2017
Investments in subsidiaries:		
Controlling interest	1,505,294	1,502,999
Other investments	3,261	3,261
Subtotal	**1,508,555**	**1,506,260**
Provision for impairment	(537,845)	(538,846)
Total	**970,710**	**967,414**

Other investments contain certain securities accounted at cost. These instruments do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

[1] incl. housing loans
[2] See Note 2.11.

NOTE 9: INVESTMENTS IN SUBSIDIARIES, ASSOCIATES, JOINT VENTURES AND OTHER INVESTMENTS (in HUF mn) [continued]

Significant subsidiaries

Investments in companies in which the Bank has a controlling interest (direct) are detailed below. All companies are incorporated in Hungary unless indicated otherwise:

	30 June 2018		31 December 2017	
	% Held (direct/indirect)	Gross book value	% Held (direct/indirect)	Gross book value
OTP Bank JSC (Ukraine)	100%	311,390	100%	311,390
OTP banka Hrvatska d.d. (Croatia)	100%	205,349	100%	205,349
OTP Mortgage Bank Ltd.	100%	144,294	100%	144,294
OTP banka Srbija a.d. (Serbia)	98.90%	130,403	98.90%	130,403
OTP Bank Romania S.A. (Romania)	100%	102,514	100%	102,514
DSK Bank EAD (Bulgary)	100%	86,832	100%	86,832
JSC “OTP Bank” (Russia)	97.90%	74,331	97.90%	74,330
OTP Factoring Ukraine LLC (Ukraine)	100%	70,589	100%	70,589
Crnogorska komercijalna banka a.d. (Montenegro)	100%	58,484	100%	58,484
LLC Alliance Reserve (Russia)	100%	50,074	100%	50,074
OTP Holding Malta Ltd. (Malta)	100%	32,359	100%	32,359
Balansz Real Estate Institute Fund	100%	29,151	100%	29,151
Bank Center No. 1. Ltd.	100%	26,063	100%	26,063
OTP Factoring Ltd.	100%	25,411	100%	25,411
OTP Banka Slovensko a.s. (Slovakia)	99.38%	24,280	99.38%	24,280
Air-Invest Ltd.	100%	21,748	100%	21,748
Merkantil Bank Ltd.	100%	21,415	100%	21,415
Inga Kettő Ltd.	100%	17,892	100%	17,892
OTP Life Annuity Ltd.	100%	15,300	100%	15,300
OTP Real Estate Ltd.	100%	10,023	100%	10,023
Monicomp Ltd.	100%	9,234	100%	9,234
OTP Real Estate Leasing Ltd.	100%	7,206	100%	7,206
Fordulat Venture Capital Fund	50%	5,000	50%	2,739
OTP Buildings s.r.o (Romania)	100%	4,594	100%	4,594
R.E. Four d.o.o. (Serbia)	100%	4,357	100%	4,357
OTP Venture Capital Fund	100%	3,000	100%	3,000
OTP Funds Servicing and Consulting Ltd.	100%	2,469	100%	2,469
OTP Holding Ltd. (Cyprus)	100%	2,000	100%	2,000
OTP Building Society Ltd.	100%	1,950	100%	1,950
OTP Fund Management Ltd.	100%	1,653	100%	1,653
OTP Hungaro-Projekt Ltd.	100%	1,644	100%	1,644
OTP Real Estate Investment Fund Management Ltd.	100%	1,352	100%	1,352
CIL Babér Ltd.	100%	1,025	100%	1,025
Other		1,908		1,875
Total		**1,505,294**		**1,502,999**

NOTE 9: INVESTMENTS IN SUBSIDIARIES, ASSOCIATES, JOINT VENTURES AND OTHER INVESTMENTS (in HUF mn) [continued]

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

	30 June 2018	31 December 2017
Balance as at 1 January	**538,846**	**639,917**
Reclassification	-	(35,871)
Provision for the period	-	44,770
Release of provision	(1,001)	(109,970)
Closing balance	**537,845**	**538,846**

The Bank decided that the recoverable amount is determined based on fair value less cost of disposal. The Bank prepared impairment tests of the subsidiaries based on two different net present value calculation methods that show the same result; however they represent different economical logics. On one hand is the discount cash-flow method (DCF) that calculates the value of the subsidiaries by discounting their expected cash-flow; on the other hand the economic value added (EVA) method estimates the value of the subsidiaries from the initial invested capital and the present value of the economic profit that the companies are expected to generate in the future. Applying the EVA method was more practically than DCF method because it gives a more realistic picture about how the explicit period and the residual value can contribute to the value of the company.

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

An analysis of the provision for impairment by significant subsidiaries is as follows:

	30 June 2018	31 December 2017
OTP Bank JSC (Ukraine)	272,824	272,824
OTP Factoring Ukraine LLC (Ukraine)	70,451	70,451
OTP Mortgage Bank Ltd.	65,096	65,096
OTP banka Srbija a.d. (Serbia)	63,233	63,233
Crnogorska komercijalna banka a.d. (Montenegro)	23,324	23,324
Air-Invest Ltd.	10,491	10,491
OTP Life Annuity Ltd.	10,102	10,102
OTP Real Estate Leasing Ltd.	7,206	7,206
R.E. Four d.o.o. (Serbia)	3,763	3,763
Merkantil Bank Ltd.	2,585	2,585
OTP Real Estate Ltd.	2,200	2,200
Total	**531,275**	**531,275**

Dividend income from significant subsidiaries and shares held-for-trading is as follows:

	30 June 2018	31 December 2017
DSK Bank EAD (Bulgaria)	44,825	44,825
OTP Mortgage Bank Ltd.	20,623	20,623
OTP Fund Management Ltd.	5,159	5,159
OTP Holding Ltd. (Cyprus)	4,509	4,509
OTP Building Society Ltd.	1,200	1,200
Other	3,057	3,057
Subtotal	**79,373**	**79,373**
Dividend from shares held-for-trading	3,141	3,141
Dividend from FVOCI shares	124	124
Total	**82,638**	**82,638**

NOTE 9: INVESTMENTS IN SUBSIDIARIES, ASSOCIATES, JOINT VENTURES AND OTHER INVESTMENTS (in HUF mn) [continued]

Significant associates and joint ventures

The main figures of the Bank's indirectly owned associates and joint ventures at cost[1]:

As at 30 June 2018

	D-ÉG Thermoset Ltd.[2]	Szallas.hu Ltd.	Company for Cash Services Llc.	Total
Assets	3,883	1,605	2,400	**7,888**
Liabilities	4,629	795	212	**5,636**
Shareholders' equity	(746)	810	2,188	**2,252**
Total income	**2,386**	**1,054**	**542**	**3,982**
% Held	*0.1%*	*30%*	*20%*	

As at 31 December 2017

	D-ÉG Thermoset Ltd.[2]	Szallas.hu Ltd.	Company for Cash Services Llc.	Total
Assets	3,883	1,667	2,289	**7,839**
Liabilities	4,629	722	-	**5,351**
Shareholders' equity	(746)	945	2,289	**2,488**
Total income	**2,386**	**3,459**	**127**	**5,972**
% Held	*0.1%*	*30%*	*20%*	

The registered capital of the Serbian subsidiary (OTP banka Srbija a.d. Novi Sad) of OTP Bank was increased to RSD 31,607,808,040 from RSD 16,701,370,660 and the ownership ratio of OTP Bank Plc. represents 99.04% currently.

The registered capital of the Slovakian subsidiary (OTP Banka Slovensko a.s.) of OTP Bank was increased to EUR 111,580,508.84 from EUR 88,539,106.84 and the ownership ratio of OTP Bank Plc. represents 99.58% currently.

The registered capital of the Romanian subsidiary (OTP Bank Romania SA) of OTP Bank was increased to RON 1,379,252,880 from RON 1,254,252,720.

The registered capital of Bank Center No. 1 Ltd. has increased to HUF 11,500,000,000. Accordingly, the ownership ratios have been modified as follows: OTP Bank Plc. 72.43%, INGA Kettő Ltd. 27.57%.

OTP Bank signed an acquisition agreement on purchasing 88.89% shareholding of Banka Societe Generale Albania SH. A. (**„SGAL**"), the Albanian subsidiary of Société Générale Group. With a market share of nearly 6%, SGAL is the 5th largest bank on the Albanian banking market and as a universal bank it has been active in the retail and corporate segment as well. The financial closing of the transaction is expected in Q4 2018 subject to obtaining all the necessary regulatory approvals.

DSK Bank EAD, the Bulgarian subsidiary of OTP Bank signed an acquisition agreement on purchasing 99.74% shareholding of Societe Generale Expressbank AD (**„SGEB"**), the Bulgarian subsidiary of Société Générale Group, and other local subsidiaries held by SGEB. With a market share of approximately 6.7% Societe Generale Expressbank is the 7th largest bank on the Bulgarian banking market and as a universal bank it has been active in the retail and corporate segment as well. As a result of the acquisition OTP Group will further strengthen its market position in Bulgaria. The financial closing of the transaction is expected in Q4 2018 subject to obtaining all the necessary regulatory approvals.

[1] Based on unaudited financial statements.
[2] Main figures of D-ÉG Thermoset Ltd. based on the latest unaudited financial statements as at 31 October 2017.

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

	30 June 2018	31 December 2017
Government bonds	1,337,584	1,021,441
Mortgage bonds	4,727	4,746
Subtotal	**1,342,311**	**1,026,187**
Accrued interest	19,406	17,592
Provision for impairment	(1,965)	-
Total	**1,359,752**	**1,043,779**

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

	30 June 2018	31 December 2017
Within one year:		
fixed interest	144,166	59,004
	144,166	**59,004**
Over one year:		
fixed interest	1,198,145	967,183
	1,198,145	**967,183**
Total	**1,342,311**	**1,026,187**

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

	30 June 2018	31 December 2017
Securities at amortised cost denominated in HUF	100%	100%
Securities at amortised cost total	**100%**	**100%**
Interest rates on securities at amortised cost	0.5%-9.48%	1.75%-9.48%
Average interest on securities at amortised cost denominated in HUF	3.90 %	4.79%

An analysis of change in the provision for impairment on securities at amortised cost:

	30 June 2018	31 December 2017
Balance as at 1 January	**-**	**-**
Change as a result of applying IFRS 9	1,477	-
Provision for the period	674	-
Release of provision	(186)	-
Closing balance	**1,965**	**-**

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

As at 30 June 2018

Cost	Intangible assets	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January	**96,253**	**67,368**	**72,591**	**6,283**	**242,495**
Additions	7,495	1,500	7,680	5,230	21,905
Disposals	(186)	(278)	(2,702)	(9,183)	(12,349)
Balance as at 30 June	**103,562**	**68,590**	**77,569**	**2,330**	**252,051**
Depreciation and Amortization					
Balance as at 1 January	**63,376**	**20,634**	**60,322**	**-**	**144,332**
Charge for the year	5,635	933	3,739	-	10,307
Disposals	(142)	(75)	(2,612)	-	(2,829)
Balance as at 30 June	**68,869**	**21,492**	**61,449**	**-**	**151,810**
Net book value					
Balance as at 1 January	**32,877**	**46,734**	**12,269**	**6,283**	**98,163**
Balance as at 30 June	**34,693**	**47,098**	**16,120**	**2,330**	**100,241**

For the year ended 31 December 2017

Cost	Intangible assets	Property	Office equipment and vehicles	Construction in progress	Total
Balance as at 1 January	**112,896**	**69,652**	**70,445**	**2,738**	**255,731**
Additions	22,340	2,514	7,917	14,114	46,885
Disposals	(38,983)	(4,798)	(5,771)	(10,569)	(60,121)
Balance as at 31 December	**96,253**	**67,368**	**72,591**	**6,283**	**242,495**
Depreciation and Amortization					
Balance as at 1 January	**85,129**	**20,949**	**59,525**	**-**	**165,603**
Charge for the year	12,653	1,837	5,996	-	20,486
Disposals	(34,406)	(2,152)	(5,199)	-	(41,757)
Balance as at 31 December	**63,376**	**20,634**	**60,322**	**-**	**144,332**
Net book value					
Balance as at 1 January	**27,767**	**48,703**	**10,920**	**2,738**	**90,128**
Balance as at 31 December	**32,877**	**46,734**	**12,269**	**6,283**	**98,163**

NOTE 12: INVESTMENT PROPERTIES (in HUF mn)

For the six month period ended 30 June 2018 and for the year ended 31 December 2017

Cost	30 June 2018	31 December 2017
Balance as at 1 January	**2,961**	**2,811**
Additions	3	150
Disposals	-	-
Closing balance	**2,964**	**2,961**
Depreciation and Amortization		
Balance as at 1 January	**587**	**544**
Charge for the year	22	43
Disposals	-	-
Closing balance	**609**	**587**
Net book value		
Balance as at 1 January	**2,374**	**2,267**
Closing balance	**2,355**	**2,374**

According to the opinion of the Management there is no significant difference between the fair value and the carrying value of these properties.

Incomes and expenses	30 June 2018	31 December 2017
Rental income	1	1
Depreciation	43	43

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

	30 June 2018	31 December 2017
Prepayments and accrued income	30,683	24,172
Receivables from card operations	25,336	22,509
Receivables from supplementary payments	10,260	-
Receivables from investment services	9,542	3,272
Trade receivables	3,529	13,961
Other advances	2,569	2,127
Compulsion loans	1,741	1,678
Inventories	1,670	1,032
Due from Hungarian Government from interest subsidies	1,357	4,170
Advances for securities and investments	674	636
Receivables from OTP Mortgage Bank Ltd.	614	4,098
Current income tax receivable	36	135
Other	22,869	19,721
Subtotal	**110,880**	**97,511**
Provision for impairment on other assets[2]	(17,109)	(17,595)
Other assets total	**93,771**	**79,916**
Fair value of derivative financial instruments designated as fair value hedge	10,035	10,148
Deferred tax assets[3]	6,556	7,991
Other highlighted line items	**16,591**	**18,139**
Total	**110,362**	**98,055**

Positive fair value of derivative financial instruments designated as fair value hedge:

	30 June 2018	31 December 2017
Interest rate swaps designated as fair value hedge	7,061	6,639
CCIRS designated as fair value hedge	2,974	3,509
Total	**10,035**	**10,148**

An analysis of the movement in the provision for impairment on other assets is as follows:

	30 June 2018	31 December 2017
Balance as at 1 January	**17,595**	**5,804**
Effect of transition to application of IFRS 9	(96)	-
Reclassification	-	37,452
Charge for the period	2,789	6,573
Release of provision	(3,179)	(32,234)
Closing balance	**17,109**	**17,595**

[1] Other assets – except income tax receivable and fair value of derivative financial instruments designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Unrealised gains/losses on derivative financial instruments are recovering in accordance with their maturity.
[2] Provision for impairment on other assets mainly consists of provision for trade receivables and inventories.
[3] See details in Note 26.

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

	30 June 2018	31 December 2017
Within one year:		
In HUF	350,748	282,757
In foreign currency	144,597	100,396
	495,345	**383,153**
Over one year:		
In HUF	97,532	126,367
In foreign currency	212,093	177,829
	309,625	**304,196**
Subtotal	**804,970**	**687,349**
Accrued interest	889	7,184
Total[1]	**805,859**	**694,533**

Interest rates on amounts due to banks and Hungarian Government, deposits from the NBH and other banks are as follows (%):

	30 June 2018	31 December 2017
Within one year:		
In HUF	(1.9%)-0.9%	(18%)-0.9%
In foreign currency	(0.6%)-5%	(0.38%)-1.9%
Over one year:		
In HUF	0.1%-0.76%	0%-2.67%
In foreign currency	(0.27%)-7.43%	(0.27%)-0.5%
Average interest on amounts due to banks in HUF	(1.18%)	2.12%
Average interest on amounts due to banks in foreign currency	(2.07%)	2.90%

NOTE 15: DEPOSITS FROM CUSTOMERS (in HUF mn)

	30 June 2018	31 December 2017
Within one year:		
In HUF	4,418,094	4,266,829
In foreign currency	991,473	901,876
	5,409,567	**5,168,705**
Over one year:		
In HUF	48,419	22,633
	48,419	**22,633**
Subtotal	**5,457,986**	**5,191,338**
Accrued interest	1,170	1,531
Total	**5,459,156**	**5,192,869**

[1] It contains the loans lent among the frame of Funding for Growth Scheme, which are accounted as government grant regulated by IAS 20 Standard. See details in Note 39.

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

Interest rates on deposits from customers are as follows (%):

	30 June 2018	31 December 2017
Within one year in HUF	(4.84%) – 9.69%	(5%)-9.69%
Over one year in HUF	0% - 6.96%	0%-10.10%
In foreign currency	(0.4%) – 15.5%	(0.4%)-12.25%
Average interest on deposits from customers in HUF	(0.04%)	0.08%
Average interest on deposits from customers in foreign currency	(0.30%)	0.15%

An analysis of deposits from customers by type, not included accrued interest, is as follows:

	30 June 2018		31 December 2017	
Retail deposits	**2,773,177**	**51%**	**2,562,571**	**49%**
Household deposits	2,773,177	51%	2,562,571	49%
Corporate deposits	**2,684,809**	**49%**	**2,628,767**	**51%**
Deposits corporates	2,173,387	40%	2,095,613	41%
Municipality deposits	511,422	9%	533,154	10%
Total	**5,457,986**	**100%**	**5,191,338**	**100%**

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

	30 June 2018	31 December 2017
Within one year:		
In HUF	15,470	12,930
In foreign currency	6,828	6,818
	22,298	**19,748**
Over one year:		
In HUF	31,545	40,538
In foreign currency	1	1
	31,546	**40,539**
Subtotal	**53,844**	**60,287**
Accrued interest	17	17
Total	**53,861**	**60,304**

Interest rates on liabilities from issued securities are as follows (%):

	30 June 2018	31 December 2017
Issued securities denominated in HUF	0.2%-1.7%	0.2%-1.75%
Issued securities denominated in foreign currency	1-2.49%	1%-1.67%
Average interest on issued securities denominated in HUF	0.15%	0.09%
Average interest on issued securities denominated in foreign currency	(1.29%)	0.44%

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

Issued securities denominated in foreign currency as at **30 June 2018** (in HUF mn):

	Name	Date of issuance	Maturity	Currency	Nominal value in FX million	Nominal value in HUF million	Interest conditions (in % actual)		Hedged
1	OTPX2018F	19/12/2013	21/12/2018	EUR	0.62	203		indexed	hedged
2	OTP_VK1_18/6	04/08/2017	04/08/2018	USD	0.66	186	1.98	floating	
3	OTP_VK1_18/7	29/09/2017	29/09/2018	USD	4.38	1,235	2.45	floating	
4	OTP_VK1_18/8	17/11/2017	17/11/2018	USD	2.95	832	2.49	floating	
5	OTP_VK1_18/9	20/12/2017	20/12/2018	USD	1.44	405	2.50	floating	
6	OTP_VK1_19/2	29/03/2018	29/03/2019	USD	2.98	839	1.00	floating	
7	OTP_VK1_19/3	18/05/2018	18/05/2019	USD	2.99	842	1.00	floating	
8	OTP_VK1_19/4	28/06/2018	28/06/2019	USD	2.98	841	1.00	floating	
9	OTP_VK1_19/I	16/02/2018	16/02/2019	USD	3.05	860	1.00	floating	
10	OTP_VK1_18/5	14/07/2017	14/07/2018	USD	2.07	583	1.88	floating	
	Subtotal issued securities in FX					**6,826**			
	Unamortized premium					1			
	Fair value hedge adjustment					2			
	Total					**6,829**			

Term Note Program in the value of HUF 200 billion for the year of 2017/2018

On 13 July 2017 the Bank initiated term note program in the value of HUF 200 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 8 August 2017 the prospectus of Term Note Program and the disclosure as at 9 August 2017. The prospectus is valid for 12 months following the disclosure.

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

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

On 19 July 2018 the Bank initiated term note program in the value of HUF 200 billion with the intention of issuing registered dematerialized bonds in public. The NBH approved on 13 August 2018 the prospectus of Term Note Program and the disclosure as at 16 August 2018. The prospectus is valid for 12 months following the disclosure.

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

Hedge accounting

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

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

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

Issued securities denominated in HUF as at **30 June 2018** (in HUF mn)

	Name	Date of issuance	Maturity	Nominal value in HUF million	Interest conditions (in % actual)		Hedged
1	OTPX2019A	25/06/2009	01/07/2019	211	indexed		hedged
2	OTPX2019B	05/10/2009	14/10/2019	298	indexed		hedged
3	OTPX2019C	14/12/2009	20/12/2019	238	indexed		hedged
4	OTPX2020A	25/03/2010	30/03/2020	281	indexed		hedged
5	OTPX2020B	28/06/2010	09/07/2020	275	indexed		hedged
6	OTPRF2020A	12/07/2010	20/07/2020	2,010	indexed		hedged
7	OTPRF2020B	12/07/2010	20/07/2020	1,177	indexed		hedged
8	OTPRF2020C	11/11/2010	05/11/2020	2,415	indexed		hedged
9	OTPX2020C	11/11/2010	05/11/2020	176	indexed		hedged
10	OTPX2020D	16/12/2010	18/12/2020	177	indexed		hedged
11	OTPX2021A	01/04/2011	01/04/2021	235	indexed		hedged
12	OTPX2021B	17/06/2011	21/06/2021	274	indexed		hedged
13	OTPRF2021A	05/07/2011	13/07/2021	2,258	indexed		hedged
14	OTPX2021C	19/09/2011	24/09/2021	251	indexed		hedged
15	OTPRF2021B	20/10/2011	25/10/2021	2,394	indexed		hedged
16	OTPRF2021C	21/12/2011	30/12/2021	427	indexed		hedged
17	OTPRF2021D	21/12/2011	30/12/2021	298	indexed		hedged
18	OTPRF2021E	21/12/2011	30/12/2021	53	discount		hedged
19	OTPX2021D	21/12/2011	27/12/2021	310	indexed		hedged
20	OTPRF2022A	22/03/2012	23/03/2022	1,714	indexed	1.70	hedged
21	OTPRF2022B	22/03/2012	23/03/2022	574	indexed	1.70	hedged
22	OTPX2022A	22/03/2012	23/03/2022	242	indexed		hedged
23	OTPRF2022C	28/06/2012	28/06/2022	156	indexed	1.70	hedged
24	OTPRF2022D	28/06/2012	28/06/2022	208	indexed	1.70	hedged
25	OTPX2018C	18/07/2012	18/07/2018	2,935	indexed		hedged
26	OTPX2022B	18/07/2012	18/07/2022	208	indexed	1.70	hedged
27	OTPX2018D	29/10/2012	26/10/2018	2,477	indexed	1.70	hedged
28	OTPX2022C	29/10/2012	28/10/2022	227	indexed	1.70	hedged
29	OTPRF2022E	29/10/2012	31/10/2022	578	indexed	1.70	hedged
30	OTPX2018E	28/12/2012	28/12/2018	2,342	indexed	1.70	hedged
31	OTPX2022D	28/12/2012	27/12/2022	290	indexed	1.70	hedged
32	OTPRF2022F	28/12/2012	28/12/2022	424	indexed	1.70	hedged
33	OTPX2019D	22/03/2013	21/03/2019	3,515	indexed	1.70	hedged
34	OTPX2023A	22/03/2013	24/03/2023	353	indexed	1.70	hedged
35	OTPRF2023A	22/03/2013	24/03/2023	586	indexed	1.70	hedged
36	OTPX2023B	28/06/2013	26/06/2023	240	indexed	0.60	hedged
37	OTPX2019E	28/06/2013	24/06/2019	2,866	indexed	0.60	hedged
38	OTPX2020E	18/06/2014	22/06/2020	3,402	indexed	0.70	hedged
39	OTPX2024A	18/06/2014	21/06/2024	256	indexed	1.30	hedged
40	OTPX2020F	10/10/2014	16/10/2020	2,976	indexed	0.20	hedged
41	OTPX2024B	10/10/2014	16/10/2024	339	indexed	0.70	hedged
42	OTPX2020G	15/12/2014	21/12/2020	2,550	indexed	0.30	hedged
43	OTPX2024C	15/12/2014	20/12/2024	272	indexed	0.60	hedged
44	OTP_DK_19/I	31/05/2018	31/05/2019	1,113	discounted		
45	Other			226			
	Subtotal issued securities in HUF			**44,827**			
	Unamortized premium			(9)			
	Fair value hedge adjustment			2,197			
	Total issued securities in HUF			**47,015**			
	Accrued interest			**17**			
	Total issued securities			**53,861**			

NOTE 17: FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS (in HUF mn)

	30 June 2018	31 December 2017
Within one year:		
In HUF	3,093	-
	3,093	-
Over one year:		
In HUF	29,992	-
	29,992	-
Subtotal	**33,085**	**-**
Accrued interest	81	-
Total[1]	**33,166**	**-**

Interest rates on amounts due to banks and Hungarian Government, deposits from the NBH and other banks are as follows (%):

	30 June 2018	31 December 2017
Within one year:		
In HUF	0.01%-2.67%	-
Over one year:		
In HUF	0.01%-2.67%	-
Average interest on amounts due to banks in HUF	0.66%	-

NOTE 18: DERIVATIVE FINANCIAL LIABILITIES DESIGNATED AS HELD FOR TRADING (in HUF mn)

Negative fair value of derivative financial liabilities designated as held for trading by deal types:

	30 June 2018	31 December 2017
CCIRS and mark-to-market CCIRS	17,208	22,759
IRS	34,547	30,871
Foreign currency swaps	68,417	14,326
Other derivative contracts[2]	24,386	11,589
Total	**144,558**	**79,545**

[1] It contains the loans lent among the frame of Funding for Growth Scheme, which are accounted as government grant regulated by IAS 20 Standard. See details in Note 38.
[2] incl.: FX, equity, commodity and index futures; FX forward; commodity and equity swap; FRA; FX option

NOTE 19: OTHER LIABILITIES[1] (in HUF mn)

	30 June 2018	31 December 2017
Liabilities from investment services	79,297	52,565
Accrued expenses	31,564	21,710
Liabilities from customer's credit card payments	19,773	23,340
Liabilities due to short positions	15,401	5,221
Technical accounts	14,636	10,313
Salaries and social security payable	13,495	15,919
Provision on off-balance sheet commitments, contingent liabilities	12,284	19,759
Current income tax payable	10,948	8,337
Accounts payable	4,070	12,455
Liabilities related to housing loans	3,267	7,799
Refunded liabilities ordered by law related to customer loans	926	932
Liabilities connected to loans for collection	714	766
Giro clearing accounts	357	384
Dividends payable	48	43
Other clearing accounts	-	47
Other	14,027	13,770
Subtotal	**220,807**	**193,360**
Fair value of derivative financial instruments designated as fair value hedge	8,889	17,179
Total	**229,696**	**210,539**

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

	30 June 2018	31 December 2017
Provision for losses on other off-balance sheet commitments and contingent liabilities	7,002	10,007
Provision for litigation	770	1,207
Provision for retirement pension and severance pay	632	1,000
Provision for losses on commitments related to investment in Serbian Factoring Ltd.	-	5,214
Provision on other liabilities	3,880	2,331
Total	**12,284**	**19,759**

Fair value of derivative financial instruments designated as fair value hedge is detailed as follows:

	30 June 2018	31 December 2017
IRS	8,132	17,179
CCIRS	757	-
Total	**8,889**	**17,179**

Movements in the provision for losses on commitments and contingent liabilities can be summarized as follows:

	30 June 2018	31 December 2017
Opening balance	**19,759**	**15,297**
Effect of transition to application of IFRS 9	(4,030)	-
Provision for the period	9,393	32,980
Release of provision	(12,838)	(28,518)
Closing balance	**12,284**	**19,759**

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

NOTE 20: SUBORDINATED BONDS AND LOANS (in HUF mn)

	30 June 2018	31 December 2017
Over one year:		
In foreign currency	112,889	108,377
Subtotal	**112,889**	**108,377**
Accrued interest	478	458
Total	**113,367**	**108,835**

Interest rates on subordinated bonds and loans are as follows (%):

	30 June 2018	31 December 2017
Subordinated bonds and loans denominated in foreign currency	2.68%	2.67%
Average interest on subordinated bonds and loans denominated in foreign currency	(2.67%)	2.78%

Subordinated loans and bonds are detailed as follows as at 30 June 2018:

Type	Nominal value	Date of issuance	Date of maturity	Issue price	Interest conditions	Interest rate as of 30 June 2018
Subordinated bond	EUR 350.1 million	07/11/2006	Perpetual	99.375%	Three-month EURIBOR + 3%, variable after year 10 (payable quarterly)	2.671%

NOTE 21: SHARE CAPITAL (in HUF mn)

	30 June 2018	31 December 2017
Authorized, issued and fully paid:		
Ordinary shares	28,000	28,000

NOTE 22: RETAINED EARNINGS AND RESERVES (in HUF mn)

Based on the instructions of Act C of 2000 on accounting ("Act on Accounting") financial statements of the Bank are prepared in accordance with IFRS as issued by the IASB as adopted by the EU.

In 2018 the Bank paid dividend of HUF 61,320 million from the profit of the year 2016, which means HUF 190 dividend/share payment. In 2019 dividend of HUF 61,320 million are expected to be proposed by the Management from the profit of the year 2018, which means HUF 219 payable dividends by share to the shareholders.

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.

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

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

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

NOTE 22: RETAINED EARNINGS AND RESERVES (in HUF mn)

The equity correlation table of the Bank based on paragraph 114/B of Act on Accounting as at 30 June 2018:

30 June 2018 Closing	Share Capital	Capital reserve	Share-based payment reserve	Retained earnings and reserves	Option reserve	Treasury Shares	Revaluation reserve	Tied-up reserve	Net profit for the year	Total
Components of Shareholder's equity in accordance with IFRS	**28,000**	**52**	**33,572**	**1,443,575**	**(55,468)**	**(6,227)**	**-**	**-**	**-**	**1,443,504**
Unused portion of reserve for developments	-	-	-	(973)	-	-	-	973	-	-
Other comprehensive income	-	-	-	(42,531)	-	-	42,531	-	-	-
Portion of supplementary payment recognised as an asset	-	-	-	(310)	-	-	-	-	-	**(310)**
Option reserve	-	(55,468)	-	-	55,468	-	-	-	-	-
Treasury shares	-	(6,227)	-	-	-	6,227	-	-	-	-
Share based payments	-	33,572	(33,572)	-	-	-	-	-	-	-
Net profit for the year	-	-	-	(112,914)	-	-	-	-	112,914	-
General reserve	-	-	-	(70,735)	-	-	-	70,735	-	-
Components of Shareholder's equity in accordance with paragraph 114/B of Act on Accounting	**28,000**	**(28,071)**	**-**	**1,216,112**	**-**	**-**	**42,531**	**71,708**	**112,914**	**1,443,194**

NOTE 22: RETAINED EARNINGS AND RESERVES (in HUF mn)

The equity correlation table of the Bank based on paragraph 114/B of Act on Accounting as at 1 January 2018:

1 January 2018 Closing	Share Capital	Capital reserve	Share-based payment reserve	Retained earnings and reserves	Option reserve	Treasury Shares	Revaluation reserve	Tied-up reserve	Net profit for the year	Total
Components of Shareholder's equity in accordance with IFRS	**28,000**	**52**	**31,835**	**1,430,378**	**(55,468)**	**(9,540)**	**-**	**-**	**-**	**1,425,257**
Unused portion of reserve for developments	-	-	-	(973)	-	-	-	973	-	**-**
Other comprehensive income	-	-	-	(70,200)	-	-	70,200	-	-	**-**
Portion of supplementary payment recognised as an asset	-	-	-	(310)	-	-	-	-	-	**(310)**
Option reserve	-	(55,468)	-	-	55,468	-	-	-	-	**-**
Treasury shares	-	(9,540)	-	-	-	9,540	-	-	-	**-**
Share based payments	-	31,835	(31,835)	-	-	-	-	-	-	**-**
Net profit for the year	-	-	-	(251,550)	-	-	-	-	251,550	**-**
General reserve	-	-	-	(59,444)	-	-	-	59,444	-	-
Components of Shareholder's equity in accordance with paragraph 114/B of Act on Accounting	**28,000**	**(33,121)**	**-**	**1,047,901**	**-**	**-**	**70,200**	**60,417**	**251,550**	**1,424,947**

NOTE 22: RETAINED EARNINGS AND RESERVES (in HUF mn)

	30 June 2018	1 January 2018
Retained earnings	1,216,112	1,047,901
Net profit for the year	112,914	251,550
Untied retained earnings	**1,329,026**	**1,299,451**

NOTE 23: TREASURY SHARES (in HUF mn)

	30 June 2018	31 December 2017
Nominal value (ordinary shares)	65	100
Carrying value at acquisition cost	6,227	9,540

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

Change in number of shares:

	30 June 2018	31 December 2017
Number of shares as at 1 January	**1,002,456**	**1,263,462**
Additions	708,018	1,441,203
Disposals	(1,060,039)	(1,702,209)
Number of shares at the end of the period	**650,435**	**1,002,456**

Change in carrying value:

	30 June 2018	31 December 2017
Balance as at 1 January	**9,540**	**8,709**
Additions	6,815	13,510
Disposals	(10,128)	(12,679)
Closing balance	**6,227**	**9,540**

NOTE 24: PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES (in HUF mn)

	30 June 2018	31 December 2017
Provision for impairment on loan losses		
Provision for the period	49,314	76,050
Release of provision	(53,466)	(87,202)
Provision on loan losses	5,969	18,959
	1,817	**7,807**
Provision for impairment on placement losses		
Provision for the period	1,172	-
Release of provision	(993)	(32)
	179	**(32)**
Provision for impairment on loan and placement losses	**1,996**	**7,775**

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

Income from fees and commissions:	30 June 2018	30 June 2017
Deposit and account maintenance fees and commissions	44,728	40,340
Fees and commission related to the issued bank cards	19,139	17,049
Fees related to the cash withdrawal	11,904	10,943
Fees and commissions related to security trading	11,476	15,899
Fees and commissions received from OTP Mortgage Bank Ltd.	6,329	7,567
Net fee income related to card insurance services and loan agreements	3,879	3,308
Fees and commissions related to lending	2,158	4,164
Other	2,179	1,923
Total	**101,792**	**101,193**

Expenses from fees and commissions:	30 June 2018	30 June 2017
Other fees and commissions related to issued bank cards	5,830	4,581
Interchange fee	3,098	2,533
Insurance fees	1,695	1,458
Fees and commissions related to lending	836	2,772
Fees and commissions related to security trading	832	620
Cash withdrawal transaction fees	600	542
Fees and commissions relating to deposits	524	454
Postal fees	125	120
Money market transaction fees and commissions	79	171
Other	262	654
Total	**13,881**	**13,905**
Net profit from fees and commissions	**87,911**	**87,288**

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

Other operating income:	30 June 2018	30 June 2017
Gains on transactions related to property activities	108	113
Gains on sale of receivables	94	4,625
Income from non-financing services	3	3
Other	1,690	2,326
Total	**1,895**	**7,067**

Net other operating expenses:	30 June 2018	30 June 2017
Financial support for sport association and organization of public utility	5,011	573
Losses on other assets	1,076	-
Non-repayable assets contributed	951	465
Impairment on securities at amortised cost	488	-
Fine imposed by Competition Authority	4	15
Provision for impairment on securities at fair value through other comprehensive income	(398)	-
(Provision for impairment) / Release of provision on other assets	(390)	559
Provision for impairment on investments in subsidiaries	(1,001)	(4,644)
Release of provision for off-balance sheet commitments and contingent liabilities	(3,445)	(1,958)
Other	756	843
Total	**3,052**	**(4,147)**

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

Other administrative expenses:	**30 June 2018**	**30 June 2017**
Personnel expenses:		
Wages	34,517	31,629
Taxes related to personnel expenses	7,982	8,306
Other personnel expenses	5,248	4,654
Subtotal	**47,747**	**44,589**
Depreciation and amortization:	**10,307**	**9,355**
Other administrative expenses:		
Taxes, other than income tax	37,675	41,067
Administration expenses, including rental fees	13,486	12,639
Services	13,082	12,478
Advertising	2,842	3,013
Professional fees	6,830	6,855
Subtotal	**73,915**	**76,052**
Total	**131,969**	**129,996**

NOTE 27: INCOME TAX (in HUF mn)

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

A breakdown of the income tax expense is:

	30 June 2018	**31 December 2017**
Current tax expense	1,338	878
Deferred tax expense	4,351	17,989
Total	**5,689**	**18,867**

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

	30 June 2018	**31 December 2017**
Balance as at 1 January	**7,991**	**27,603**
Deferred tax expense in recognised income	(4,351)	(17,989)
Deferred tax income / (expense) in other comprehensive income	2,916	(1,623)
Closing balance	**6,556**	**7,991**

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

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

	30 June 2018	31 December 2017
Unused tax allowance	8,956	11,452
Refundable tax in accordance with Acts on Customer Loans	1,861	2,294
Goodwill	634	1,268
Amounts unenforceable by tax law	219	120
Tax accrual caused by unused negative taxable income	-	873
Fair value adjustment of derivative financial instruments	-	188
Deferred tax assets	**11,670**	**16,195**
Fair value adjustment of held for trading and available-for-sale securities	(3,889)	(6,817)
Difference in transition to IFRS	(896)	(896)
Difference in depreciation and amortization	(329)	(315)
Effect of using effective interest rate method	-	(176)
Deferred tax liabilities	**(5,114)**	**(8,204)**
Net deferred tax asset	**6,556**	**7,991**

A reconciliation of the income tax expense is as follows:

	30 June 2018	31 December 2017
Profit before income tax	118,603	270,417
Income tax at statutory tax rate (9%)	10,674	24,338
Income tax adjustments due to permanent differences are as follows:		
Deferred use of tax allowance	2,496	10,492
Share-based payment	156	324
Permanent differences from unused tax losses	118	-
Differences in transition to IFRS	-	(3,503)
Amounts unenforceable by tax law	(85)	(481)
Use of tax allowance in the current year	(1,033)	(6,964)
Dividend income	(6,161)	(7,437)
Other	(476)	2,098
Income tax	**5,689**	**18,867**
Effective tax rate	4.8%	7.0%

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn)

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

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

28.1. 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 Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or banks of borrowers, and to geographical areas and loan types. Such risks are monitored on a periodical basis and subject to an annual or more frequent review. The exposure to any borrower including banks and brokers is further restricted by sublimit covering on- and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

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

28.1.1. Analysis by loan types

Classification into risk classes

The Bank classifies financial assets at amortised cost and fair value through other comprehensive income into three categories in accordance with IFRS 9:

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

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 and no hedge position exists in respect thereof,
- the transaction/client rating exceeds a predefined value or falls into a determined range, or compared to the historic value it deteriorates to a predefined degree,
- in the case 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

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn)

28.1.1. Analysis by loan types [continued]

Classification into risk classes [continued]

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

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

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

Expected credit losses are measured in a way that reflects:

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

Individual and collective assessment of expected credit losses

The following exposures are subject to collective valuation methods:

- retail exposures,
- SME exposures,
- any other type of exposure of the above ones, which are not significant individually or not in workout progress

Exposures with an aggregated credit risk above HUF 100 million are assessed individually.

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [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 30 June 2018:

		Gross carrying amount						Loss allowance				
	Carrying amount	Stage 1	of which: assets with low credit risk	Stage 2	Stage 3	Purchased or originated credit impaired financial assets	Total	Stage1	Stage 2	Stage 3	Purchased or originated credit impaired financial assets	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	183,027	182,779	182,714	248	-	-	183,027	-	-	-	-	-
Placements with other banks, net of allowance for placement losses	1,278,831	1,278,218	1,278,281	1,970	-	-	1,280,188	1,357	-	-	-	1,357
Mortgage loans	*355,268*	*349,751*	-	*12,293*	*5,390*	*73*	367,507	*5,028*	*3,025*	*4,167*	*19*	12,239
Consumer loans	*156,291*	*114,366*	-	*31,250*	*11,978*	*6,529*	164,123	*213*	*2,612*	*4,218*	*789*	7,832
Municipal loans	*12,354*	*12,413*	-	-	-	-	12,413	*59*	-	-	-	59
Corporate loans	*1,862,922*	*1,787,462*	*14,669*	*41,857*	*54,535*	*28,905*	1,912,759	*11,096*	*3,738*	*26,928*	*8,075*	49,837
Loans at amortized cost	2,386,835	2,263,992	14,669	85,400	71,903	35,507	2,456,802	16,396	9,375	35,313	8,883	69,967
FVOCI securities[1]	1,405,372	1,405,372	1,121,101	-	-	-	1,405,372	2,020	-	-	-	2,020
Securities at amortized cost	1,359,752	1,361,717	1,361,717	-	-	-	1,361,717	1,965	-	-	-	1,965
Financial assets total	**6,613,817**	**6,492,078**	**3,958,482**	**87,618**	**71,903**	**35,507**	**6,687,106**	**21,738**	**9,375**	**35,313**	**8,883**	**75,309**

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

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

28.1.1. Analysis by loan types [continued]

Loan portfolio by countries

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

	30 June 2018		31 December 2017	
Country	**Gross loan and placement with other banks portfolio**	**Allowance**	**Gross loan and placement with other banks portfolio**	**Allowance**
Hungary	2,752,881	(52,897)	2,373,404	(37,685)
Malta	513,450	(1,536)	465,497	-
Bulgaria	65,940	(2,198)	56,846	(1,399)
Serbia	62,060	(3,579)	39,393	(3,255)
United Kingdom	52,951	(20)	43,782	-
Croatia	46,870	(21)	36,604	(14)
Romania	41,244	(801)	23,807	(2,988)
France	28,530	-	6,087	-
Cyprus	21,493	(578)	41,536	(14,113)
Belgium	19,721	(48)	18,571	-
Montenegro	19,375	(130)	4,069	(390)
Austria	18,729	(4,768)	13,209	(5,247)
Russia	15,614	(2,415)	17,835	(1,830)
Other	63,532	(2,333)	52,012	(2,587)
Loans and placements with other banks at amortised cost total	**3,722,390**	**(71,324)**	**3,192,652**	**(69,508)**
Hungary	32,930	-	-	-
Loans at fair value total	**32,930**	**-**	**-**	**-**
Loans and placements with other banks total	**3,755,320**	**(71,324)**	**3,192,652**	**(69,508)**

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

28.1.2. Collaterals

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

Types of collateral	30 June 2018	31 December 2017
Mortgages	1,115,825	1,073,509
Guarantees and warranties	303,481	273,462
Deposit	117,966	119,887
from this: Cash	41,533	47,354
Securities	74,283	69,742
Other	2,150	2,791
Assignment	141	160
Other	1,149	1,172
Total	**1,538,562**	**1,468,190**

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

Types of collateral	30 June 2018	31 December 2017
Mortgage	428,540	421,699
Guarantees and warranties	187,599	162,297
Deposit	59,771	57,938
from this: Cash	12,352	11,331
Securities	45,835	45,150
Other	1,584	1,457
Assignment	72	72
Other	889	912
Total	**676,871**	**642,918**

The coverage level of loan portfolio to the extent of the exposures decreased from 20.18% to 18.11% as at 30 June 2018, while the coverage to the total collateral value decreased from 46.08% to 41.17%.

28.1.3. Restructured loans

	30 June 2018		**31 December 2017**	
	Gross portfolio	Allowance	Gross portfolio	Allowance
Retail loans	32,950	(3,662)	4,752	(465)
Loans to medium and large corporates[1]	2,565	(614)	14,690	(3,032)
Micro and small enterprises loans	8,444	(1,277)	1,818	(16)
Total	**43,959**	**(5,553)**	**21,260**	**(3,513)**

Restructured portfolio definition

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

[1] incl.: project and syndicated loans

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

Financial instruments by rating categories[1]

Held-for-trading securities as at 30 June 2018

	A1	A2	A3	Aa3	Aaa	Ba1	Ba2	Baa1	Baa2	Baa3	Not rated	Total
Hungarian government discounted Treasury Bills	-	-	-	-	-	-	-	-	-	1,615	-	1,615
Hungarian government interest bearing Treasury Bills	-	-	-	-	-	-	-	-	-	22,599	-	22,599
Government bonds	-	-	-	-	276	9,182	-	-	-	96,184	-	105,642
Shares	56	23	-	-	-	-	12	36	20	9	184	340
Share in investment funds	-	-	-	-	-	-	-	-	-	-	10,028	10,028
Other securities	-	-	-	-	-	764	-	-	-	1,488	11,504	13,756
Total	**56**	**23**	**-**	**-**	**276**	**9,946**	**12**	**36**	**20**	**121,895**	**21,716**	**153,980**
Accrued interest												2,518
Total												**156,498**

FVOCI securities as at 30 June 2018

	A2	A3	Ba1	Ba2	Ba3	Baa1	Baa2	Baa3	Not rated	Total
Government bonds	22,804	6,170	32,692	5,823	6,503	22,057	12,899	843,652	-	952,600
Hungarian government interest bearing Treasury Bills	-	-	-	-	-	-	-	144,843	-	144,843
Other bonds	-	-	-	-	-	-	1,476	33,648	65,675	100,799
Mortgage bonds	-	-	-	-	-	-	-	123,128	65,624	188,752
Shares	-	-	-	-	-	-	-	-	14,951	14,951
Other non-interest bearing securities	-	-	-	-	-	-	-	-	20,290	20,290
Total	**22,804**	**6,170**	**32,692**	**5,823**	**6,503**	**22,057**	**14,375**	**1,145,271**	**166,540**	**1,422,235**
Accrued interest										18,378
Provision for impairment										-
Total										**1,440,613**

[1] Moody's ratings

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.1. Credit risk [continued]

Securities at amortised cost as at 30 June 2018

	Baa3	**Total**
Government bonds	1,337,584	1,337,584
Mortgage bonds	4,727	4,727
Subtotal	**1,342,311**	**1,342,311**
Accrued interest		19,406
Provision for impairment		(1,965)
Total		**1,359,752**

An analysis of securities (held for trading, FVOCI and amortised cost) in a country breakdown is as follows:

	30 June 2018		**31 December 2017**	
Country	**Gross carrying amount**	**Loss allowance**	**Gross carrying amount**	**Loss allowance**
Hungary	1,361,717	(1,965)	1,043,779	-
Securities at amortised cost total	**1,361,717**	**(1,965)**	**1,043,779**	**-**
Hungary	1,256,619	-	1,566,919	(86)
Slovakia	41,046	-	51,941	-
Russia	33,014	-	26,123	-
Poland	23,054	-	20,598	-
Bulgaria	13,057	-	10,432	-
Romania	11,881	-	3,752	-
Spain	11,799	-	11,388	-
Austria	11,335	-	-	-
Slovenia	10,591	-	10,297	-
Serbia	6,617	-	6,357	-
Lithuania	6,316	-	6,071	-
Croatia	6,027	-	-	-
Luxembourg	4,645	-	8,302	-
United States of America	3,050	-	2,410	-
Sweden	1,479	-	1,423	-
Portugal	83	-	12	-
Austria	-	-	9,963	-
FVOCI securities total	**1,440,613**	**-**	**1,735,988**	**(86)**
Hungary	133,913	-	171,136	-
Russia	16,239	-	16,895	-
Luxembourg	5,881	-	17,537	-
United States of America	276	-	843	-
Germany	189	-	281	-
Netherlands	-	-	19	-
France	-	-	1	-
Ireland	-	-	3	-
Held for trading securities total	**156,498**	**-**	**206,715**	**-**
Securities total	**2,958,828**	**(1,965)**	**2,986,482**	**(86)**

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.2. Maturity analysis of assets and liabilities and liquidity risk

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

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

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

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

Due to the balance sheet adjustment process (deleveraging) experienced in the last few years, the liquidity reserves of the Bank increased significantly while the liquidity risk exposure has decreased considerably. Currently the (over)coverage of risk liquidity risk exposure by high quality liquid assets is at all-time record highs. In 2017 there were no material changes in the liquidity risk management process.

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

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.

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.2. Maturity analysis of assets and liabilities and liquidity risk [continued]

As at 30 June 2018	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	298,826	44	-	-	-	298,870
Placements with other banks, net of allowance for placement losses	356,102	521,903	308,650	92,176	-	1,278,831
Financial assets at fair value through profit or loss	37,103	56,865	36,807	12,289	4,765	147,829
Securities at fair value through other comprehensive income	71,608	274,763	723,742	263,516	30,989	1,364,618
Loans	651,302	484,172	848,597	421,094	-	2,405,165
Investments in subsidiaries, associates and other investments	-	-	-	-	970,710	970,710
Securities at amortised cost	19,406	143,425	511,828	620,251	-	1,294,910
Property and equipment	-	-	-	-	65,548	65,548
Intangible assets	-	-	-	-	34,693	34,693
Investment properties	-	-	-	-	2,355	2,355
Deferred tax assets	-	-	6,556	-	-	6,556
Other assets[1]	91,074	1,843	544	-	310	93,771
TOTAL ASSETS	**1,525,421**	**1,483,015**	**2,436,724**	**1,409,326**	**1,109,370**	**7,963,856**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	466,032	29,297	271,661	38,869	-	805,859
Deposits from customers	5,307,730	102,791	32,878	15,757	-	5,459,156
Liabilities from issued securities	5,183	17,136	28,484	867	-	51,670
Subordinated bonds and loans	478	-	-	112,900	-	113,378
Financial liabilities at fair value through profit or loss	708	2,401	10,631	19,426	-	33,166
Other liabilities[1]	209,911	10,896	-	-	-	220,807
TOTAL LIABILITIES	**5,990,042**	**162,521**	**343,654**	**187,819**	**-**	**6,684,036**
NET POSITION	**(4,464,621)**	**1,320,494**	**2,093,070**	**1,221,507**	**1,109,370**	**1,279,820**
Receivables from derivative financial instruments classified as held for trading	493,552	725,748	400,788	318,128	-	1,938,216
Liabilities from derivative financial instruments classified as held for trading	(2,311,527)	(3,583,527)	(752,805)	(346,305)	-	(6,994,164)
Net position of financial instruments classified as held for trading	***(1,817,975)***	***(2,857,779)***	***(352,017)***	***(28,177)***	***-***	***(5,055,948)***
Receivables from derivative financial instruments designated as fair value hedge	1,635	33,200	356,737	32,511	-	424,083
Liabilities from derivative financial instruments designated as fair value hedge	-	(129,439)	(294,087)	(57,873)	-	(481,399)
Net position of financial instruments designated as fair value hedge	***1,635***	***(96,239)***	***62,650***	***(25,362)***	***-***	***(57,316)***
Net position of derivative financial instruments total	**(1,816,340)**	**(2,954,018)**	**(289,367)**	**(53,539)**	**-**	**(5,113,264)**
Commitments to extend credit	237,986	688,533	224,756	14,860	-	*1,166,135*
Bank guarantees	51,665	89,486	68,648	450,878	-	*660,677*
Off-balance sheet commitments	**289,651**	**778,019**	**293,404**	**465,738**	**-**	**1,826,812**

[1] Derivative financial instruments designated as fair value hedge are not included.

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.2. Maturity analysis of assets and liabilities and liquidity risk [continued]

As at 31 December 2017	Within 3 months	Within one year and over 3 months	Within 5 years and over one year	Over 5 years	Without maturity	Total
Cash, amounts due from banks and balances with the National Bank of Hungary	399,124	-	-	-	-	399,124
Placements with other banks, net of allowance for placement losses	138,742	632,540	133,921	72,895	-	978,098
Financial assets at fair value through profit or loss	54,086	68,088	71,472	1,960	4,458	200,064
Securities at fair value through other comprehensive income	149,840	378,622	797,039	258,019	28,287	1,611,807
Loans	588,355	447,458	733,058	376,178	-	2,145,049
Investment properties	-	-	-	-	2,374	2,374
Investments in subsidiaries, associates and other investments	-	-	-	-	967,414	967,414
Securities at amortised cost	17,592	59,000	400,460	520,304	-	997,356
Intangible assets	-	-	-	-	65,286	65,286
Property and equipment	-	-	-	-	32,877	32,877
Other assets[1]	77,985	1,620	8,578	-	310	88,493
TOTAL ASSETS	**1,425,724**	**1,587,328**	**2,144,528**	**1,229,356**	**1,101,006**	**7,487,942**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	342,518	46,614	228,411	76,990	-	694,533
Deposits from customers	5,007,487	162,666	7,739	14,977	-	5,192,869
Liabilities from issued securities	5,942	13,825	33,845	2,037	-	55,649
Subordinated bonds and loans	458	-	-	108,377	-	108,835
Other liabilities[1]	185,559	7,802	1	-	-	193,362
TOTAL LIABILITIES	**5,541,964**	**230,907**	**269,996**	**202,381**	**-**	**6,245,248**
NET POSITION	**(4,116,240)**	**1,356,421**	**1,874,532**	**1,026,975**	**1,101,006**	**1,242,694**
Receivables from derivative financial instruments classified as held for trading	1,576,859	980,684	602,924	177,124	-	3,337,591
Liabilities from derivative financial instruments classified as held for trading	(1,737,269)	(804,796)	(537,437)	(212,736)	-	(3,292,238)
Net position of financial instruments classified as held for trading	***(160,410)***	***175,888***	***65,487***	***(35,612)***	***-***	***45,353***
Receivables from derivative financial instruments designated as fair value hedge	3,879	60,909	154,571	65,355	-	284,714
Liabilities from derivative financial instruments designated as fair value hedge	-	(306,221)	(464,003)	(20,238)	-	(790,462)
Net position of financial instruments designated as fair value hedge	**3,879**	**(245,312)**	**(309,432)**	**45,117**	**-**	**(505,748)**
Net position of derivative financial instruments total	**(156,531)**	**(69,424)**	**(243,945)**	**9,505**	**-**	**(460,395)**
Commitments to extend credit	245,680	587,238	201,540	12,402	-	*1,046,860*
Bank guarantees	54,439	82,349	87,204	388,107	-	*612,099*
Off-balance sheet commitments	**300,119**	**669,587**	**288,744**	**400,509**	**-**	**1,658,959**

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.3. Net foreign currency position and foreign currency risk

As at 30 June 2018

	USD	**EUR**	**CHF**	**Others**	**Total**
Assets[1]	242,626	1,127,364	38,108	234,440	1,642,538
Liabilities	(324,177)	(990,364)	(32,675)	(143,824)	(1,491,040)
Off-balance sheet assets and liabilities, net[2]	92,783	(223,627)	(5,695)	(92,744)	(229,283)
Net position	**11,232**	**(86,627)**	**(262)**	**(2,128)**	**(77,785)**

As at 31 December 2017

	USD	**EUR**	**CHF**	**Others**	**Total**
Assets[1]	190,090	949,708	28,971	196,693	1,365,462
Liabilities	(260,309)	(897,048)	(23,962)	(130,525)	(1,311,844)
Off-balance sheet assets and liabilities, net[2]	73,078	(141,208)	(2,747)	(70,176)	(141,053)
Net position	**2,859**	**(88,548)**	**2,262**	**(4,008)**	**(87,435)**

The table above provides an analysis of the Bank's main foreign currency exposures. The remaining foreign currencies are shown within 'Others'. The Bank monitors its foreign exchange position for compliance with the regulatory requirements of the NBH and its own limit system established in respect of limits on open positions. The measurement of the Bank's open its currency position involves monitoring the VaR limit on the foreign exchange exposure of the Bank.

28.4. Interest rate risk management

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

The majority of the 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 enables the Bank 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 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.

[1] The assets category contains foreign currency investments in subsidiaries that are measured at cost, and are deducted from the net position calculation.
[2] Off-balance sheet assets and liabilities, net category contains derivative instruments.

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.4. Interest rate risk management [continued]

As at 30 June 2018	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest - bearing		Total		Total
ASSETS	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	
Cash, amounts due from banks and balances with the National Bank of Hungary	**138,737**	**44,290**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**105,892**	**9,951**	**244,629**	**54,241**	**298,870**
fixed interest	138,737	44,290	-	-	-	-	-	-	-	-	-	-	138,737	44,290	**183,027**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	105,892	9,951	105,892	9,951	**115,843**
Placements with other banks, net of allowance for placement losses	**452,697**	**174,234**	**427,255**	**27,754**	**39,622**	**47,307**	**3,483**	**-**	**102,783**	**3,696**	**-**	**-**	**1,025,840**	**252,991**	**1,278,831**
fixed interest	177,007	76,976	905	12,971	25,674	47,307	3,483	-	102,783	3,696	-	-	309,852	140,950	**450,802**
variable interest	275,690	97,258	426,350	14,783	13,948	-	-	-	-	-	-	-	715,988	112,041	**828,029**
Securities held for trading	**17,170**	**18,356**	**13,412**	**-**	**56,725**	**5,578**	**2,151**	**1,171**	**28,209**	**840**	**12,073**	**813**	**129,740**	**26,758**	**156,498**
fixed interest	10,273	12,680	10,109	-	47,424	5,578	2,151	1,171	28,209	840	-	-	98,166	20,269	**118,435**
variable interest	6,897	5,676	3,303	-	9,301	-	-	-	-	-	-	-	19,501	5,676	**25,177**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	12,073	813	12,073	813	**12,886**
Securities at fair value through other comprehensive income	**72,845**	**15,755**	**28,472**	**13,138**	**267,542**	**23,466**	**352,856**	**18,608**	**370,147**	**224,165**	**31,741**	**21,878**	**1,123,603**	**317,010**	**1,440,613**
fixed interest	9,400	2,612	27,735	-	242,328	23,466	352,856	18,608	370,147	224,165	-	-	1,002,466	268,851	**1,271,317**
variable interest	63,445	13,143	737	13,138	25,214	-	-	-	-	-	-	-	89,396	26,281	**115,677**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	31,741	21,878	31,741	21,878	**53,619**
Loans	**598,934**	**184,968**	**336,286**	**735,653**	**99,600**	**44,908**	**64,579**	**5,142**	**260,808**	**74,287**	**-**	**-**	**1,360,207**	**1,044,958**	**2,405,165**
fixed interest	42,557	3,461	31,597	6,293	61,165	16,295	62,104	5,142	218,681	74,287	-	-	416,104	105,478	**521,582**
variable interest	556,377	181,507	304,689	729,360	38,435	28,613	2,475	-	42,127	-	-	-	944,103	939,480	**1,883,583**
Securities at amortised cost	**-**	**-**	**-**	**-**	**144,166**	**-**	**37,410**	**-**	**1,158,770**	**-**	**19,406**	**-**	**1,359,752**	**-**	**1,359,752**
fixed interest	-	-	-	-	144,166	-	37,410	-	1,158,770	-	-	-	1,340,346	-	**1,340,346**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	19,406	-	19,406	-	**19,406**
Derivative financial instruments	**555,340**	**298,623**	**575,027**	**354,796**	**935,804**	**815,496**	**20,158**	**4,090**	**21,933**	**55,224**	**402,358**	**114,980**	**2,510,620**	**1,643,209**	**4,153,829**
fixed interest	527,810	292,983	417,002	334,527	931,183	769,270	20,114	4,001	21,933	55,224	-	-	1,918,042	1,456,005	**3,374,047**
variable interest	27,530	5,640	158,025	20,269	4,621	46,226	44	89	-	-	-	-	190,220	72,224	**262,444**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	402,358	114,980	402,358	114,980	**517,338**

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.4. Interest rate risk management [continued]

As at 30 June 2018	within 1 month		within 3 months over 1 month		within 1 year over 3 months		within 2 years over 1 year		over 2 years		Non-interest -bearing		Total		Total
LIABILITIES	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	**289,545**	**189,764**	**6,144**	**156,168**	**46,720**	**3,964**	**17,032**	**2,887**	**89,727**	**3,908**	**-**	**-**	**449,168**	**356,691**	**805,859**
fixed interest	274,874	72,252	5,455	9,899	14,422	2,876	16,958	2,887	89,662	3,908	-	-	401,371	91,822	**493,193**
variable interest	14,671	117,512	689	146,269	32,298	1,088	74	-	65	-	-	-	47,797	264,869	**312,666**
Deposits from customers	**1,230,435**	**380,307**	**155,743**	**43,927**	**60,520**	**18,167**	**908**	**-**	**3,020,077**	**549,072**	**-**	**-**	**4,467,683**	**991,473**	**5,459,156**
fixed interest	434,269	276,087	155,743	43,927	60,520	18,167	908	-	4,321	-	-	-	655,761	338,181	**993,942**
variable interest	796,166	104,220	-	-	-	-	-	-	3,015,756	549,072	-	-	3,811,922	653,292	**4,465,214**
Liabilities from issued securities	**3,096**	**583**	**(640)**	**3,121**	**11,064**	**3,125**	**2,107**	**-**	**31,405**	**-**	**-**	**-**	**47,032**	**6,829**	**53,861**
fixed interest	3,096	-	(640)	-	11,064	203	2,107	-	31,405	-	-	-	47,032	203	**47,235**
variable interest	-	583	-	3,121	-	2,922	-	-	-	-	-	-	-	6,626	**6,626**
Derivative financial instruments	**733,389**	**130,865**	**690,122**	**219,201**	**1,033,116**	**704,642**	**20,571**	**12,876**	**41,715**	**41,946**	**217,556**	**293,733**	**2,736,469**	**1,403,263**	**4,139,732**
fixed interest	706,114	120,983	556,509	201,345	1,029,874	669,736	20,527	12,876	41,715	41,946	-	-	2,354,739	1,046,886	**3,401,625**
variable interest	27,275	9,882	133,613	17,856	3,242	34,906	44	-	-	-	-	-	164,174	62,644	**226,818**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	217,556	293,733	217,556	293,733	**511,289**
Subordinated bonds and loans	**-**	**-**	**-**	**113,367**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**113,367**	**113,367**
fixed interest	-	-	-	113,367	-	-	-	-	-	-	-	-	-	113,367	**113,367**
Financial liabilities at fair value through profit or loss	**33,166**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**33,166**	**-**	**33,166**
fixed interest	141	-	-	-	-	-	-	-	-	-	-	-	141	-	**141**
variable interest	33,025	-	-	-	-	-	-	-	-	-	-	-	33,025	-	**33,025**
NET POSITION	**(453,908)**	**34,707**	**528,443**	**595,557**	**392,679**	**206,857**	**440,019**	**13,248**	**(1,240,274)**	**(236,714)**	**353,914**	**(146,111)**	**20,873**	**467,544**	**488,417**

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.4. Interest rate risk management [continued]

As at 31 December 2017	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		
ASSETS	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**Total**
Cash, amounts due from banks and balances with the National Bank of Hungary	**204,673**	**91,346**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**93,451**	**9,654**	**298,124**	**101,000**	**399,124**
fixed interest	204,673	91,346	-	-	-	-	-	-	-	-	-	-	204,673	91,346	**296,019**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	93,451	9,654	93,451	9,654	**103,105**
Placements with other banks, net of allowance for placement losses	**313,305**	**79,223**	**421,698**	**20,073**	**3,197**	**16,056**	**25,181**	**-**	**96,535**	**2,830**	**-**	**-**	**859,916**	**118,182**	**978,098**
fixed interest	40,097	58,735	1,063	3,318	3,197	3,679	25,181	-	96,535	2,830	-	-	166,073	68,562	**234,635**
variable interest	273,208	20,488	420,635	16,755	-	12,377	-	-	-	-	-	-	693,843	49,620	**743,463**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Securities held for trading	**11,657**	**194**	**33,664**	**6,342**	**66,722**	**15,058**	**43,938**	**9,201**	**1,480**	**5,871**	**11,694**	**894**	**169,155**	**37,560**	**206,715**
fixed interest	11,657	-	33,040	6,342	50,384	15,058	43,938	9,201	1,480	5,871	-	-	140,499	36,472	**176,971**
variable interest	-	194	624	-	16,338	-	-	-	-	-	-	-	16,962	194	**17,156**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	11,694	894	11,694	894	**12,588**
Securities at fair value through other comprehensive income	**96,610**	**17,230**	**70,013**	**25,444**	**378,449**	**13,466**	**229,078**	**20,026**	**620,104**	**215,242**	**31,821**	**18,419**	**1,426,075**	**309,827**	**1,735,902**
fixed interest	58,092	-	50,493	-	354,614	13,466	229,078	20,026	620,104	215,242	-	-	1,312,381	248,734	**1,561,115**
variable interest	38,518	17,230	19,520	25,444	23,835	-	-	-	-	-	-	-	81,873	42,674	**124,547**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	31,821	18,419	31,821	18,419	**50,240**
Loans	**546,758**	**293,065**	**316,668**	**544,879**	**110,470**	**30,330**	**48,042**	**11,053**	**201,600**	**42,181**	**-**	**-**	**1,223,538**	**921,508**	**2,145,046**
fixed interest	36,263	3,361	23,382	6,132	54,185	12,281	46,799	11,053	178,605	42,181	-	-	339,234	75,008	**414,242**
variable interest	510,495	289,704	293,286	538,747	56,285	18,049	1,243	-	22,995	-	-	-	884,304	846,500	**1,730,804**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Securities at amortised cost	**-**	**-**	**-**	**-**	**59,004**	**-**	**116,374**	**-**	**850,809**	**-**	**17,592**	**-**	**1,043,779**	**-**	**1,043,779**
fixed interest	-	-	-	-	59,004	-	116,374	-	850,809	-	-	-	1,026,187	-	**1,026,187**
variable interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	17,592	-	17,592	-	**17,592**
Derivative financial instruments	**738,965**	**345,105**	**669,088**	**411,851**	**417,975**	**303,805**	**27,319**	**22,221**	**20,581**	**27,869**	**620,839**	**226,643**	**2,494,767**	**1,337,494**	**3,832,261**
fixed interest	718,076	341,564	492,515	409,530	413,526	291,636	26,856	22,221	20,581	27,869	-	-	1,671,554	1,092,820	**2,764,374**
variable interest	20,889	3,541	176,573	2,321	4,449	12,169	463	-	-	-	-	-	202,374	18,031	**220,405**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	620,839	226,643	620,839	226,643	**847,482**

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.4. Interest rate risk management [continued]

As at 31 December 2017	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		
LIABILITIES	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**HUF**	**foreign currency**	**Total**
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	**100,458**	**152,435**	**145,258**	**112,014**	**46,795**	**5,174**	**17,854**	**4,711**	**104,844**	**4,990**	**-**	**-**	**415,209**	**279,324**	**694,533**
fixed interest	83,124	32,303	144,919	4,422	37,867	3,953	17,839	4,711	104,095	4,990	-	-	387,844	50,379	**438,223**
variable interest	17,334	120,132	339	107,592	8,928	1,221	15	-	749	-	-	-	27,365	228,945	**256,310**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Deposits from customers	**1,359,708**	**275,686**	**116,693**	**56,982**	**46,938**	**14,797**	**801**	**-**	**2,766,638**	**554,626**	**-**	**-**	**4,290,778**	**902,091**	**5,192,869**
fixed interest	476,072	191,735	116,693	56,982	46,938	14,797	801	-	4,310	-	-	-	644,814	263,514	**908,328**
variable interest	883,636	83,951	-	-	-	-	-	-	2,762,328	554,626	-	-	3,645,964	638,577	**4,284,541**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities from issued securities	**430**	**1,300**	**3,141**	**2,440**	**7,621**	**3,100**	**5,363**	**-**	**36,909**	**-**	**-**	**-**	**53,464**	**6,840**	**60,304**
fixed interest	430	-	3,141	-	7,621	192	5,363	-	36,909	-	-	-	53,464	192	**53,656**
variable interest	-	1,300	-	2,440	-	2,908	-	-	-	-	-	-	-	6,648	**6,648**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Derivative financial instruments	**875,512**	**207,857**	**909,079**	**147,644**	**397,702**	**319,233**	**43,494**	**9,167**	**35,935**	**38,342**	**372,879**	**464,774**	**2,634,601**	**1,187,017**	**3,821,618**
fixed interest	853,960	204,038	770,912	123,845	394,530	313,953	43,428	9,167	35,935	38,342	-	-	2,098,765	689,345	**2,788,110**
variable interest	21,552	3,819	138,167	23,799	3,172	5,280	66	-	-	-	-	-	162,957	32,898	**195,855**
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	372,879	464,774	372,879	464,774	**837,653**
Subordinated bonds and loans	**-**	**-**	**-**	**108,835**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**108,835**	**108,835**
variable interest	-	-	-	108,835	-	-	-	-	-	-	-	-	-	108,835	**108,835**
NET POSITION	**(424,140)**	**188,885**	**336,960**	**580,674**	**536,761**	**36,411**	**422,420**	**48,623**	**(1,153,217)**	**(303,965)**	**402,518**	**(209,164)**	**121,302**	**341,464**	**462,766**

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.5. Market risk

The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Bank applies a Value-at-Risk ("VaR") methodology to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Management Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis. (Analysis of liquidity risk, foreign currency risk and interest rate risk is detailed in Notes 28.2, 28.3 and 28.4 respectively.)

28.5.1. Market risk sensitivity analysis

The VaR risk measure estimates the potential loss in pre-taxation profit over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99% VaR number used by the Group reflects the 99% probability that the daily loss will not exceed the reported VaR.

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

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

Historical VaR (99%, one-day) by risk type	**Average**	
	30 June 2018	**30 June 2017**
Foreign exchange	374	13
Interest rate	127	177
Equity instruments	23	9
Diversification	-	-
Total VaR exposure	**524**	**199**

While VaR captures the OTP's daily exposure to currency and interest rate risk, sensitivity analysis evaluates the impact of a reasonably possible change in interest or foreign currency rates over a year. The longer time frame of sensitivity analysis complements VaR and helps the OTP to assess its market risk exposures. Details of sensitivity analysis for foreign currency risk are set out in Note 28.5.2., for interest rate risk in Note 28.5.3., and for equity price sensitivity analysis in Note 28.5.4.

28.5.2. Foreign currency sensitivity analysis

The following table details the OTP's sensitivity to an increase and decrease in the HUF exchange rate against the EUR and USD, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign activities. The strategic open position related to the foreign operations was EUR (310) million as of 30 June 2018. The strategic EUR open FX position kept to hedge the currency risk of the expected FX-denominated net earnings of the main foreign subsidiaries. High portion of strategic positions are considered as effective hedge of future profit inflows of foreign subsidiaries, and so FX risk alters the bank's capital and not its earnings. A positive number below indicates an increase in profit where the HUF strengthens against the EUR. For a weakening of the HUF against the EUR, there would be an equal and opposite impact on the profit, and the balances below would be negative.

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.5. Market risk [continued]

28.5.2. Foreign currency sensitivity analysis [continued]

Probability	Effects to the P&L in 3 months period 30 June 2018 In HUF billion	30 June 2018 In HUF billion
1%	(12.8)	(11.9)
5%	(8.8)	(8.3)
25%	(3.7)	(3.4)
50%	(0.4)	(0.3)
25%	2.7	2.6
5%	7.0	6.8
1%	10.0	9.6

Notes:
(1) The short term loss on the strategic open position is compensated by the long-term exchange rate gain on the foreign operations.
(2) Monte Carlo simulation is based on the empirical distribution of the historical exchange rate movements between 2002 and 2018.

28.5.3. Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. The analysis is prepared assuming the amount of assets and liabilities outstanding at the balance sheet date 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 modeled benchmark yields at the repricing dates assuming the unchanged margin compared to the last repricing.
- Fixed-rate assets and liabilities were repriced at the contractual maturity date.
- As for liabilities with discretionary repricing feature by the Bank were assumed to be repriced with two-weeks delay, assuming no change in the margin compared to the last repricing date.
- The assets and liabilities with interest rate lower than 0.3% assumed to be unchanged during the whole period.

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

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

The net interest income in a one year period after 1 January 2018 would be decreased by HUF 2.016 million (scenario 1) and HUF 4.363 million (scenario 2) as a result of these simulation. This effect is counterbalanced by capital gains (HUF 269 million for scenario 1, HUF 3.440 million for scenario 2) on the government bond portfolio held for hedging.

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

Description	30 June 2018		30 June 2017	
	Effects to the net interest income (one-year period)	Effects to OCI (Price change of AFS government bonds)	Effects to the net interest income (one-year period)	Effects to OCI (Price change of AFS government bonds)
HUF (0.1%) parallel shift	(1,658)	675	(1,554)	170
EUR (0.1%) parallel shift	79	-	(178)	-
EUR 0.1% parallel shift	16	-		
USD (0.1%) parallel shift	(46)	-	(70)	-
Total	**(1,687)**	**675**	**(1,802)**	**170**

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

28.5. Market risk [continued]

28.5.4. Equity price sensitivity analysis

The following table shows the effect of the equity price sensitivity. The Group uses VaR calculation with 1 day holding period and 99% confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. The daily loss will not exceed the reported VaR number with 99% of probability.

The stress test assumes the largest price movement of the last year and calculates with it as the adverse direction. These scenario shows the loss of the portfolio when all prices change with the maximum amount of the last year.

Description	30 June 2018	30 June 2017
VaR (99%, one day, million HUF)	23	9
Stress test (million HUF)	(29)	(143)

28.6. Capital management

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 shareholders` equity available for hedging risks, other types of funds to be recorded in the equity and all material risks to be covered by the capital.

The basis of the capital management of the Bank in the short run is the continuous monitoring of its capital position, in the long run the strategic and the business planning, 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. A further tool in the capital management of the Bank is the dividend policy, and the transactions performed with the treasury shares.

Capital adequacy

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

The Bank has entirely complied with the regulatory capital requirements in the first half of 2018 as well as in 2017.

NOTE 28: FINANCIAL RISK MANAGEMENT (in HUF mn) [continued]

28.6. Market risk [continued]

Capital adequacy [continued]

The Bank's capital adequacy calculation is in line with IFRS and based on Basel III as at 31 December 2017 and 30 June 2018. The Bank uses the standard method for determining the regulatory capital requirements of the credit risk and market risk while in case of the operational risk the Advanced Measurement Approach (AMA).

The calculation of the Capital Adequacy ratio as at 30 June 2018 and 31 December 2017 is as follows:

	30 June 2018 Basel III	31 December 2017 Basel III
Tier 1 capital	1,314,371	1,311,383
Common equity Tier 1 capital (CET1)	*1,314,371*	*1,311,383*
Additional Tier 1 capital (AT1)	-	-
Tier 2 capital	173,700	108,377
Regulatory capital	**1,488,071**	**1,419,760**
Credit risk capital requirement	603,962	327,802
Market risk capital requirement	31,046	11,262
Operational risk capital requirement	84,321	22,547
Total requirement regulatory capital	**719,329**	**361,611**
Surplus capital	**768,742**	**1,058,149**
CET 1 ratio	14.60%	29.01%
Capital adequacy ratio	**16.50%**	**31.41%**

Basel III: Common equity Tier 1 capital (CET1): Issued capital, Capital reserve, useable part of Tied-up reserve, General reserve, Profit reserve, Profit for the year, Treasury shares, Intangible assets, deductions due to investments, adjustments due to temporary disposals

Tier 2 capital: Subsidiary loan capital, Subordinated loan capital, deductions due to repurchased loan capital and Subordinated loan capital issued by the OTP Bank, adjustments due to temporary disposals.

NOTE 29: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn)

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.

Contingent liabilities and commitments

	30 June 2018	**31 December 2017**
Commitments to extend credit	1,166,135	1,046,860
Guarantees arising from banking activities	660,677	612,099
from this: Payment undertaking liabilities (related to issue of mortgage bonds) of OTP Mortgage Bank	*338,424*	*278,960*
Legal disputes (disputed value)	5,295	5,231
Confirmed letters of credit	127	90
Other	183,345	159,119
Total	**2,015,579**	**1,823,399**

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 770 million and HUF 1.207 million as at 30 June 2018 and 31 December 2017, respectively. (See Note 18.)

Commitments to extend credit, guarantees and letter of credit

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

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the 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.

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

NOTE 29: OFF-BALANCE SHEET ITEMS AND DERIVATIVE FINANCIAL INSTRUMENTS (in HUF mn) [continued]

Guarantees, payment undertakings arising from banking activities

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

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

Contingent liabilities related to OTP Mortgage Bank Ltd.

Under a syndication agreement with its wholly owned subsidiary, OTP Mortgage Bank Ltd., the Bank had guaranteed, in return for an annual fee, to purchase all mortgage loans held by OTP Mortgage Bank Ltd. that become non-performing. The repurchase guarantee contract of non-performing loans between OTP Mortgage Bank Ltd. and OTP Bank Plc. was modified in 2010. According to the new arrangement the repurchase guarantee was cancelled and OTP Bank Plc. gives bail to the loans originated or purchased by the Bank.

Derivatives

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

NOTE 30: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF mn)

Previously approved option program required a modification thanks to the introduction of the Bank Group Policy on Payments accepted in resolution of Annual General Meeting regarding to the amendment of CRD III. Directives and Act on Credit Institutions and Financial Enterprises.

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

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

During implementation of the Remuneration Policy of the Group it became apparent that in case of certain foreign subsidiaries it is not possible to ensure the originally determined share-based payment because of legal reasons – incompatible with relevant EU-directives –, therefore a decision was made to cancel the share-based payment in affected countries, and virtual share based payment – cash payment fixed to share price - was made from 2017.

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

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

At the same time the conditions of discounted share-based payment are determined, and share-based payment shall contain maximum HUF 2,000 discount at the assessment date, and earnings for the shares at the payment date is maximum HUF 4,000.

[1] Until the end of 2014 Board of Directors

NOTE 30: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF mn) [continued]

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or for the termination of employment. IAS 19 Employee Benefits shall be applied in accounting for all employee benefits, except those to which IFRS 2 Share-based Payment applies. In case of the jubilee benefits both standards contain regulations.

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

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

The parameters for the share-based payment relating to the year 2013-2014 were determined by Board of Directors for periods of each year as follows:

	Share purchasing at a discounted price			
Year	Exercise price	Maximum earnings per share	Exercise price	Maximum earnings per share
	HUF per share			
	for the year 2013		**for the year 2014**	
2014	2.522	2.500	-	-
2015	2.522	3.000	3.930	2.500
2016	2.522	3.500	3.930	3.000
2017	2.522	3.500	3.930	3.000
2018	-	-	3.930	3.000

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

Year	Share purchasing at a discounted price		Price of remuneration exchanged to share	Share purchasing at a discounted price		Price of remuneration exchanged to share	Share purchasing at a discounted price		Price of remuneration exchanged to share
	Exercise price	Maximum earnings per share		Exercise price	Maximum earnings per share		Exercise price	Maximum earnings per share	
	HUF per share								
	for the year 2015			**for the year 2016**			**for the year 2017**		
2016	4.892	2.500	6.892	-	-	-	-	-	-
2017	4.892	3.000	6.892	7.200	2.500	9.200	-	-	-
2018	4.892	3.000	6.892	7.200	3.000	9.200	8.064	3.000	10.064
2019	4.892	3.000	6.892	7.200	3.500	9.200	8.064	3.500	10.064
2020	-	-	-	7.200	4.000	9.200	8.064	4.000	10.064
2021	-	-	-	-	-	-	8.064	4.000	10.064
2022	-	-	-	-	-	-	8.064	4.000	10.064

NOTE 30: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF mn) [continued]

Based on parameters accepted by Board of Directors, relating to the year **2013** effective pieces are follows as at 30 June 2018:

	Effective pieces	Approved pieces of shares	Exercised until 30 June 2018	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share-purchasing period started in 2014	-	406,044	404,263	4,369	1,781
Share-purchasing period started in 2015	-	804,469	804,469	4,918	-
Share-purchasing period started in 2016	-	393,750	393,750	6,775	-
Share-purchasing period starting in 2017	30,033	483,987	453,954	9,276	-

Based on parameters accepted by Supervisory Board, relating to the year **2014** effective pieces are follows as at 30 June 2018:

	Effective pieces	Approved pieces of shares	Exercised until 30 June 2018	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share-purchasing period started in 2015	-	176,459	176,459	5,828	-
Share-purchasing period started in 2016	-	360,425	359,524	7,011	901
Share-purchasing period starting in 2017	10,154	189,778	179,624	9,252	-
Share-purchasing period starting in 2018	69,680	223,037	153,357	9,805	-

Based on parameters accepted by Supervisory Board, relating to the year **2015** effective pieces are follows as at 30 June 2018:

	Effective pieces	Approved pieces of shares	Exercised until 30 June 2018	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share-purchasing period started in 2016	-	152,247	152,247	7,373	-
Remuneration exchanged to share provided in 2016	-	10,947	10,947	6,509	-
Share-purchasing period starting in 2017	22,281	299,758	277,477	9,283	-
Remuneration exchanged to share applying in 2017	-	20,176	20,176	9,257	-
Share-purchasing period starting in 2018	64,881	166,047	101,166	9,939	-
Remuneration exchanged to share applying in 2018	-	9,229	9,229	10,098	-
Share-purchasing period starting in 2019	204,585	-	-	-	-
Remuneration exchanged to share applying in 2019	10,671	-	-	-	-

Based on parameters accepted by Supervisory Board, relating to the year **2016** effective pieces are follows as at 30 June 2018:

	Effective pieces	Approved pieces of shares	Exercised until 30 June 2018	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share-purchasing period started in 2017	-	147,984	147,984	9,544	-
Remuneration exchanged to share provided in 2017	-	4,288	4,288	9,194	-
Share-purchasing period starting in 2018	237,049	321,528	84,479	9,971	-
Remuneration exchanged to share applying in 2018	-	8,241	8,241	10,098	-
Share-purchasing period starting in 2019	163,390	-	-	-	-
Remuneration exchanged to share applying in 2019	4,148	-	-	-	-
Share-purchasing period starting in 2020	172,356	-	-	-	-
Remuneration exchanged to share applying in 2020	4,567	-	-	-	-

NOTE 30: SHARE-BASED PAYMENT AND EMPLOYEE BENEFIT (in HUF mn) [continued]

Based on parameters accepted by Supervisory Board, relating to the year **2017** effective pieces are follows as at 30 June 2018:

	Effective pieces	Approved pieces of shares	Exercised until 30 June 2018	Weighted average share price at the date of exercise (in HUF)	Expired pieces
Share-purchasing period starting in 2018	107,047	108,243	1,196	9,965	-
Remuneration exchanged to share applying in 2018	217	11,926	11,709	10,098	-
Share-purchasing period starting in 2019	212,263	-	-	-	-
Remuneration exchanged to share applying in 2019	26,293	-	-	-	-
Share-purchasing period starting in 2020	101,577	-	-	-	-
Remuneration exchanged to share applying in 2020	12,838	-	-	-	-
Share-purchasing period starting in 2021	120,981	-	-	-	-
Remuneration exchanged to share applying in 2021	12,838	-	-	-	-
Share-purchasing period starting in 2022	42,820	-	-	-	-
Remuneration exchanged to share applying in 2022	3,003	-	-	-	-

Effective pieces relating to the periods starting in 2019-2022 settled during valuation of performance of year 2015-2017, can be modified based on risk assessment and personal changes.

In connection with shares given as a part of payments detailed in the *Direction Chief Executive about Remuneration of Work in OTP Bank* and the share-based compensation for Board of Directors and connecting compensation based on performance assessment accounted as equity-settled share based transactions, HUF 1,737 million was recognized as expense for the six month period ended 30 June 2018.

NOTE 31: RELATED PARTY TRANSACTIONS (in HUF mn)

The Bank provides loans to related parties, and collects deposits.

Transactions with related parties (subsidiaries), other than increases in share capital or dividend received, are summarized below:

a) Loans provided to related parties

	30 June 2018		31 December 2017	
	Gross carrying amount	**Impairment**	**Gross carrying amount**	**Impairment**
OTP Mortgage Bank Ltd.	617,289	(419)	583,443	-
OTP Financing Malta Company Ltd. (Malta)	493,294	(1,467)	448,296	-
Merkantil Bank Ltd.	273,843	(548)	242,205	-
OTP Factoring Ltd.	57,822	(378)	63,548	-
Splitska banka (Crotia)	36,145	-	31,014	-
OTP Real Estate Leasing Ltd.	21,028	(187)	20,979	-
OTP Holding Malta Ltd.	20,156	(69)	17,201	-
OTP banka Srbija a.d. (Serbia)	22,756	(64)	10,258	-
CIL Babér Ltd.	5,724	(23)	5,710	-
Vojvodanska Banka ad Novi Sad	8,214	-	4,652	-
OTP Real Estate Ltd.	4,811	(19)	4,426	-
Merkantil Lease Ltd.	4,345	(18)	4,411	-
JN Parkolóház Llc.	4,202	(17)	2,786	-
D-ÉG Thermoset Llc.	1,302	(1,281)	1,301	(1,273)
OTP Banka Slovensko a.s. (Slovakia)	13,191	(67)	66	-
OTP Bank Romania S.A.	19,716	(78)	-	-
Crnogorska komercijalna banka a.d (Montenegro)	8,217	(28)	-	-
Other	6,047	(24)	8,533	(9)
Total	**1,618,102**	**(4,687)**	**1,448,829**	**(1,282)**

b) Deposits from related parties

	30 June 2018	**31 December 2017**
DSK Bank EAD (Bulgaria)	227,167	227,668
OAO OTP Bank (Russia)	77,874	73,669
OTP Mortgage Bank Ltd.	70,226	22,769
OTP Funds Servicing and Consulting Ltd.	22,047	39,349
OTP banka Hrvatska d.d. (Croatia)	19,357	865
OTP Building Society Ltd.	18,932	37,474
OTP Bank Romania S.A. (Romania)	18,749	1,688
OTP Bank JSC (Ukraine)	15,601	17,591
Crnogorska komercijalna banka a.d (Montenegro)	10,917	3,977
OTP Factoring Ltd.	10,693	4,899
Merkantil Bank Ltd.	6,595	6,617
Splitska banka (Crotia)	6,250	4,984
Inga Kettő Ltd.	6,092	5,446
OTP Holding Ltd. / OTP Financing Ciprus Co. Ltd. (Ciprus)	5,759	4,165
Bank Center Llc.	4,704	9,737
OTP Financing Malta Company Ltd. (Malta)	4,025	3,405
Air-Invest Llc.	3,322	3,162
OTP Real Estate Leasing Ltd.	3,219	2,545
OTP Life Annuity Ltd.	2,836	3,053
OTP Employee Stock Ownership Program (OTP ESOP)	2,434	1,454
OTP Banka Slovensko a.s. (Slovakia)	2,216	2,506
Bajor-Polár Center Ltd.	1,870	1,680
Other	12,861	16,681
Total	**553,746**	**495,384**

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

c) Interests received by the Bank[1]

	30 June 2018	30 June 2017
OTP Financing Malta Company Ltd. (Malta)	4,239	3,920
Merkantil Bank Ltd.	1,892	1,876
OTP Mortgage Bank Ltd.	223	2,014
OTP Factoring Ltd.	143	358
OTP Real Estate Leasing Ltd.	76	110
DSK Bank EAD (Bulgaria)	74	-
Merkantil Lease Llc.	38	69
Other	11	242
Total	**6,696**	**8,589**

d) Interests paid by the Bank[2]

	30 June 2018	30 June 2017
JSC "OTP Bank" (Russia)	2,815	2,954
DSK Bank EAD (Bulgaria)	381	1,860
OTP Funds Servicing and Consulting Ltd.	93	63
Splitska banka (Croatia)	65	-
Crnogorska komercijalna banka a.d (Montenegro)	56	39
OTP Bank Romania S.A. (Romania)	47	46
OTP Banka Slovensko a.s. (Slovakia)	27	74
OTP Pénzügyi Pont Llc.	20	10
OTP banka Hrvatska d.d. (Croatia)	13	58
Other	10	232
Total	**3,527**	**5,336**

e) Commissions received by the Bank

	30 June 2018	30 June 2017
From OTP Fund Management Ltd. in relation to trading activity	2,444	2,984
From OTP Real Estate Investment Fund Management Ltd. in relation to trading activity	1,356	1,055
From OTP Building Society Ltd. (agency fee in relation to finalised customer contracts)	796	748
From OTP Funds Servicing and Consulting Ltd. in relation to banking	269	254
From OTP Fund management Ltd. in relation to deposit services	174	169
From LLC MFO “OTP Finance” (Russia) (guarantee fee)	26	318
Other	219	183
Total	**5,284**	**5,711**

f) Commissions paid by the Bank

	30 June 2018	30 June 2017
OTP Faktoring Ltd. Related to commission fee	126	120
Total	**126**	**120**

[1] Derivatives and interest on securities are not included.
[2] Derivatives and interest on securities are not included.

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

g) Transactions related to OTP Mortgage Bank Ltd.:

	30 June 2018	30 June 2017
Fees and commissions received from OTP Mortgage Bank Ltd. relating to the loans	6,329	7,567
Loans sold to OTP Mortgage Bank Ltd. with recourse (including interest)	358	255
The gross book value of the loans sold	355	241

h) Transactions related to OTP Factoring Ltd.:

	30 June 2018	30 June 2017
The gross book value of the loans sold	7,336	5,934
Provision for loan losses on the loans sold	4,487	2,878
Loans sold to OTP Factoring Ltd. without recourse (including interest)	2,194	1,861
Loss on these transaction (recorded in the separate financial statements as loan and placement loss)	655	1,195

The underlying mortgage rights were also transferred to OTP Factoring Ltd.

i) Transactions related to OTP Banka Slovensko a.s. (Slovakia)

	30 June 2018	30 June 2017
Securities issued by OTP Banka Slovensko a.s. (Slovakia) held by OTP Bank (nominal value in HUF million)	41,075	41,080

j) Related party transactions with key management

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

Compensations	**30 June 2018**	**31 December 2017**
Short-term employee benefits	2,908	2,416
Share-based payment	2,424	2,520
Long-term employee benefits (on the basis of IAS 19)	401	226
Total	**5,733**	**5,162**

	30 June 2018	31 December 2017
Loans provided to companies owned by the Management (in the normal course of business)	38,320	55,164
Commitments to extend credit and bank guarantees	49,830	38,530
Credit lines of the members of Board of Directors and the Supervisory Board and their close family members (at market conditions)	4,450	4,450

An analysis of Credit lines "A" is as follows (in HUF mn):

	30 June 2018	31 December 2017
Members of Board of Directors and their close family members	84	84
Members of Supervisory Board and their close family members	4	3
Executive	108	77
Total	**196**	**164**

Interest	central bank base rate + 5%	central bank base rate + 5%
Handling fee	1%	1%
Collateral	income received to bank account	income received to bank account

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

j) Related party transactions with key management [continued]

An analysis of credit limit related to MasterCard Gold is as follows (in HUF mn):

	30 June 2018	**31 December 2017**
Members of Board of Directors and their close family members	14	14
Executive	5	5
Interest	floating, monthly 2.18%	floating, monthly 2.19%
Annual fee	15,044 HUF/year	15,044 HUF/year
Collateral	income received to bank account	income received to bank account

An analysis of credit limit related to Amex Gold/Mastercard Bonus Gold is as follows (in HUF mn):

	30 June 2018	**31 December 2017**
Members of Board of Directors and their close family members	2	2
Executive	24	10
Total	**26**	**12**
Interest	floating, monthly 2.44%	floating, monthly 2.45%
Annual fee	16,504 HUF/year	16,118 HUF/year
Collateral	income received to bank account	income received to bank account

An analysis of Amex Platinum/Visa Infinite is as follows (in HUF mn):

	30 June 2018	**31 December 2017**
Members of Board of Directors and their close family members	17	17
Executive and their close family members	76	40
Total	**93**	**57**
Interest	floating, monthly 2.47%	floating, monthly 2.48%
Annual fee	19,678 Ft/year	19,217 Ft/year
Collateral	income received to bank account	income received to bank account

An analysis of Lombard loans is as follows (in HUF mn):

	30 June 2018	**31 December 2017**
Members of Board of Directors and their close family members	29,084	29,084
Interest	0.66%	0.66%
Collateral	Securities bail	Securities bail
Executive and their close family members	230	230
Interest	2.39%	2.39%
Collateral	Government bond, Long Term Investment Account, Shares in investment funds	Government bond, Long Term Investment Account, Shares in investment funds
Total	**29,314**	**29,314**

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

j) Related party transactions with key management [continued]

An analysis of Personal loans is as follows (in HUF mn):

	30 June 2018	31 December 2017
Executive	12	5
Interest	9.99%-11.55%	11.55%
Collateral	income received to bank account	income received to bank account

An analysis of Loans distributed by OTP in its capacity of employee is as follows (in HUF mn):

	30 June 2018	31 December 2017
Executive	2	-
Interest	0.00%	-
Collateral	real estate	-

An analysis of payment to Executives related to their activity in Board of Directors and Supervisory Board is as follows (in HUF mn):

	30 June 2018	31 December 2017
Members of Board of Directors	1,077	857
Members of Supervisory Board	56	107
Total	**1,133**	**964**

In the normal course of business, OTP Bank enters into other transactions with its subsidiaries, the amounts and volumes of which are not significant to these financial statements taken as a whole.

NOTE 32: TRUST ACTIVITIES (in HUF mn)

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

	30 June 2018	31 December 2017
Loans managed by the Bank as a trustee	30,532	34,226

NOTE 33: CONCENTRATION OF ASSETS AND LIABILITIES

	30 June 2018	31 December 2017
In the percentage of the total assets		
Receivables from, or securities issued by the Hungarian Government or the NBH	30%	32%
Securities issued by the OTP Mortgage Bank Ltd.	1.54%	2.23%

There were no other significant concentrations of the assets or liabilities of the Bank as at 30 June 2018 or 31 December 2017.

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

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

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

NOTE 34: EARNINGS PER SHARE

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

	30 June 2018	**31 December 2017**
Net profit for the year attributable to ordinary shareholders (in HUF mn)	112,914	251,550
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	279,011,900	278,873,206
Basic Earnings per share (in HUF)	**405**	**902**
Separate net profit for the year attributable to ordinary shareholders (in HUF mn)	112,914	251,550
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	279,074,808	278,949,440
Diluted Earnings per share (in HUF)	**405**	**902**

	30 June 2018	**31 December 2017**
	number of shares	
Weighted average number of ordinary shares	280,000,010	280,000,010
Average number of Treasury shares	(988,110)	(1,126,804)
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	**279,011,900**	**278,873,206**
Dilutive effect of options issued in accordance with the Remuneration Policy / Management Option Program and convertible into ordinary shares[1]	62,908	76,233
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	**279,074,808**	**278,949,440**

The ICES bonds could potentially dilute basic EPS in the future, but were not included in the calculation of diluted EPS because they are antidilutive for the period presented.

[1] In 2016 and 2015 dilutive effect is in connection with the Remuneration Policy.

NOTE 35: NET GAIN OR LOSS REALISED ON FINANCIAL INSTRUMENTS (in HUF mn)

As at 30 June 2018	Net interest income and expense	Net non-interest gain and loss	Provision for impairment	Other comprehensive income
Cash, amounts due from banks and balances with the National Bank of Hungary	104	-	-	-
Placements with other banks, net of allowance for placement losses	2,750	-	210	-
Securities held for trading	2,544	(2,112)	-	-
Securities at fair value through other comprehensive income	20,578	2,946	(398)	42,531
Loans, net of allowance for loan losses	57,454	7,651	(4,183)	-
Securities at amortised cost	22,920	-	488	-
Derivative financial instruments	(2,328)	(695)	-	-
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	(5,767)	-	-	-
Deposits from customers	(2,213)	65,719	-	-
Liabilities from issued securities	(1,092)	-	-	-
Subordinated bonds and loans	(1,469)	-	-	-
Other	(20)	-	-	-
Total	**93,461**	**73,509**	**(3,883)**	**42,531**

As at 31 December 2017	Net interest income and expense	Net non-interest gain and loss	Provision for impairment	Other comprehensive income
Cash, amounts due from banks and balances with the National Bank of Hungary	1,403	-	-	-
Placements with other banks, net of allowance for placement losses	6,978	-	32	-
Securities held for trading	2,805	2,965	-	-
Securities at fair value through other comprehensive income	41,642	4,419	-	70,200
Loans, net of allowance for loan losses	113,712	18,117	11,152	-
Securities at amortised cost	44,737	-		-
Derivative financial instruments	(8,937)	2,519	-	-
Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	(15,853)	-	-	-
Deposits from customers	(4,801)	124,728	-	-
Liabilities from issued securities	(151)	-	-	-
Subordinated bonds and loans	(3,033)	-	-	-
Other	(42)	-	-	-
Total	**178,460**	**152,748**	**11,184**	**70,200**

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

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 market price is not publicly available so the Bank has to make assumptions or use valuation techniques to determine the fair value of a financial instrument. See Note 35.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). Cash and amounts due from banks and balances with the National Bank of Hungary represent amounts available immediately thus the fair value equals to the cost.

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

- the discount rates are the risk free rates related to the denomination currency adjusted by the appropriate risk premium as of the end of the reporting period,
- the contractual cash-flows are considered for the performing loans and for the non-performing loans, the 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.

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

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

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

a) Fair value of financial assets and liabilities

	30 June 2018		31 December 2017	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Cash, amounts due from banks and balances with the National Bank of Hungary	298,870	298,870	399,124	399,124
Placements with other banks, net of allowance for placement losses	1,278,831	1,276,649	978,098	990,581
Financial assets at fair value through profit or loss	316,268	316,268	303,927	303,927
Held for trading securities	*156,498*	*156,498*	*206,715*	*206,715*
Derivative financial instruments classified as held for trading	*159,770*	*159,770*	*97,212*	*97,212*
Securities at fair value through other comprehensive income	1,440,613	1,440,613	1,735,902	1,735,902
Loans[27]	2,405,165	2,532,201	2,145,046	2,286,645
Securities at amortised cost	1,359,752	1,394,875	1,043,779	1,149,034
Derivative financial instruments designated as hedging instruments	10,035	10,035	26,383	26,383
Trade receivables	3,529	3,529	13,961	13,961
FINANCIAL ASSETS TOTAL	**7,113,063**	**7,273,040**	**6,646,220**	**6,905,557**

Amounts due to banks and Hungarian Government, deposits from the National Bank of Hungary and other banks	805,859	779,866	694,533	687,249
Deposits from customers	5,459,156	5,456,221	5,192,869	5,191,558
Liabilities from issued securities	53,861	66,752	60,304	76,701
Derivative financial instruments designated as hedging instruments	8,889	8,889	17,179	17,179
Financial liabilities at fair value through profit or loss	33,166	33,166	-	-
Derivative financial liabilities designated as held for trading	144,558	144,558	79,545	79,545
Subordinated bonds and loans	113,367	104,378	108,835	105,702
Trade payables	4,070	4,070	12,476	12,476
FINANCIAL LIABILITIES TOTAL	**6,622,926**	**6,597,900**	**6,165,741**	**6,170,410**

[27] Fair value of loans increased in the six month period ended 30 June 2018 and in the year ended 31 December 2017 due to decrease of short-term and long-term interests.

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

b) Fair value of derivative instruments

	Fair value	
	30 June 2018	**31 December 2017**
Interest rate swaps classified as held for trading		
Positive fair value of interest rate swaps classified as held for trading	49,301	34,911
Negative fair value of interest rate swaps classified as held for trading	(34,547)	(30,871)
Foreign exchange swaps classified as held for trading		
Positive fair value of foreign exchange swaps classified as held for trading	61,180	24,436
Negative fair value of foreign exchange swaps classified as held for trading	(68,417)	(14,326)
Interest rate swaps designated as fair value hedge		
Positive fair value of interest rate swaps designated in fair value hedge	7,061	6,639
Negative fair value of interest rate swaps designated in fair value hedge	(5,603)	(17,179)
CCIRS classified as held for trading		
Positive fair value of CCIRS classified as held for trading	17,466	21,314
Negative fair value of CCIRS classified as held for trading	(17,208)	(22,759)
CCIRS designated as fair value hedge		
Positive fair value of CCIRS designated in fair value hedge	2,974	3,509
Negative fair value of CCIRS designated in fair value hedge	(757)	-
Interest rate swaps designated as cash flow hedge		
Positive fair value of interest rate swaps designated in cash flow hedge	-	-
Negative fair value of interest rate swaps designated in cash flow hedge	(2,529)	-
Other derivative contracts classified as held for trading		
Positive fair value of other derivative contracts classified as held for trading	31,823	16,551
Negative fair value of other derivative contracts classified as held for trading	(24,386)	(11,589)
Derivative financial assets total	**169,805**	**107,360**
Derivative financial liabilities total	**(153,447)**	**(96,724)**
Derivative financial instruments total	**16,358**	**10,636**

c) Hedge accounting

OTP Bank regularly enters into hedging transactions in order to decrease its financial risks. However some economically hedging transaction do not meet the criteria to account for hedge accounting, therefore these transactions were accounted as derivatives held for trading. Net investment hedge in foreign operations is not applicable in separate financial statements.

The summary of the hedging transactions of the Bank are as follows:

As at 30 June 2018

Types of the hedges	**Description of the hedging instrument**	**Fair value of the hedging instrument**	**The nature of the risk being hedged**
1) Cash-flow hedges	IRS	HUF (2,529) million	Interest rate
2) Fair value hedges	IRS	HUF 1,458 million	Interest rate
3) Fair value hedges	CCIRS	HUF 2,217 million	Interest rate / Foreign currency

As at 31 December 2017

Types of the hedges	**Description of the hedging instrument**	**Fair value of the hedging instrument**	**The nature of the risk being hedged**
1) Cash-flow hedges	-	-	-
2) Fair value hedges	IRS	HUF (10,540) million	Interest rate
3) Fair value hedges	CCIRS	HUF 3,509 million	Interest rate / Foreign currency

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

d) Fair value hedges

1. Securities at fair value through other comprehensive income

OTP Bank holds fixed interest rate securities denominated in HUF, EUR and USD and fixed interest rate government bonds denominated in HUF within the FVOCI portfolio. These fixed interest rate securities and bonds are exposed to the fair value risk driven by the changes in the risk-free interest rates. In order to hedge the interest rate risk of the cash-flows OTP Bank entered into pay fixed-receive floating interest rate swap transactions, where the risk from the cash-flows of the securities are swapped to payments linked to 3 or 12 month EURIBOR and the risk from the cash-flows of the bonds are swapped to payments linked to 6 month BUBOR, resulting in a decrease in the fair value exposure of the FVOCI securities.

OTP Bank holds floating interest rate bonds denominated in EUR within the FVOCI portfolio. The cash-flows of the securities are exposed to the change in the EUR foreign exchange rate and the risk of change in interest rates of EUR.

	30 June 2018	31 December 2017
Fair value of the IRS hedging instruments	(1,033)	(15,190)

2. Loans to customers / corporates

OTP Bank has fixed interest rate loans denominated in various currencies. These fixed interest rate loans are exposed to fair value risk of changes of risk-free interest rates. In order to hedge the interest rate risk of the cash-flows OTP Bank entered into pay-fixed, receive-floating interest rate swap transactions, where the risk of the payments from the loans are swapped to payments linked to 3 month EURIBOR or BUBOR resulting in a decrease in the interest-rate fair value exposure of the loans to customers.

OTP Bank has further floating interest rate loans denominated in RON and CHF. These loans are exposed to the change of foreign exchange of RON and CHF and the risk of change in interest rates of CHF. In order to hedge the foreign currency risk and the interest rate risk OTP Bank entered into CCIRS transactions.

	30 June 2018	31 December 2017
Fair value of the hedging IRS instruments	319	(9)
Fair value of the hedging CCIRS instruments	2,217	3,509

3. Issued securities

The cash-flows of the fixed rate securities issued by OTP Bank are exposed to the change in the HUF/EUR foreign exchange rate and the risk of change in the risk-free interest rates of EUR and HUF. The interest rate risk and foreign exchange risk related to these securities are hedged with EUR and HUF IRS and index option transactions. In the case of IRS transactions the fixed cash-flows were swapped to payments linked to 3 month EURIBOR or BUBOR, resulted a decrease in the interest rate and foreign exchange exposure of issued securities.

	30 June 2018	31 December 2017
Fair value of the hedging IRS instruments	2,172	4,659

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

d) *Fair value hedges [continued]*

As at 30 June 2018

Types of hedged items	Types of hedging instruments	Fair value of the hedged items	Fair value of the hedging instruments	Gains/losses attributable to the hedged risk	
				on the hedged items	on the hedging instruments
FVOCI Securities	IRS	HUF 681,993 million	HUF (1,033) million	HUF 2,875 million	HUF (14,157) million
Loans to customers	IRS	HUF 25,541 million	HUF 319 million	HUF (328) million	HUF 328 million
Loans to corporates	CCIRS	HUF 99,390 million	HUF 2,217 million	HUF 1,292 million	HUF (1,292) million
Liabilities from issued securities	IRS	HUF 48,158 million	HUF 2,172 million	HUF 2,487 million	HUF (2,487) million

As at 31 December 2017

Types of hedged items	Types of hedging instruments	Fair value of the hedged items	Fair value of the hedging instruments	Gains/losses attributable to the hedged risk	
				on the hedged items	on the hedging instruments
FVOCI Securities	IRS	HUF 939,592 million	HUF (15,190) million	HUF 7,117 million	HUF (6,719) million
Loans to customers	IRS	HUF 536 million	HUF (9) million	HUF (5) million	HUF 5 million
Loans to corporates	CCIRS	HUF 80,234 million	HUF 3,509 million	HUF (3,048) million	HUF 3,048 million
Liabilities from issued securities	IRS	HUF 52,701 million	HUF 4,659 million	HUF 930 million	HUF (930) million

e) *Cash flow hedges*

The Bank is exposed to interest rate volatility of loans to OTP Mortgage Bank Ltd. Interest rate risk from these loans are hedged with HUF IRS deals. Relevant terms and conditions of the placements and the swap deals (maturity, amounts of cash flows) correspond to each other.

	30 June 2018	31 December 2017
Fair value of the hedging IRS instruments	(2,529)	-

Types of hedged items	Types of hedging instruments	Fair value of the hedged items	Fair value of the hedging instruments	Gains/losses attributable to the hedged risk	
				on the hedged items	on the hedging instruments
Placements with other banks	IRS	HUF 22,453 million	HUF (2,529) million	HUF (2,529) million	HUF 2,529 million

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

f) Fair value classes

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

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

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

As at 30 June 2018	**Total**	**Level 1**	**Level 2**	**Level 3**
Loans at fair value through profit or loss	32,930	-	32,930	-
Financial assets at fair value through profit or loss	313,750	123,011	190,739	-
from this: securities held for trading	*153,980*	*122,991*	*30,989*	-
from this: positive fair value of derivative financial instruments classified as held for trading	*159,770*	*20*	*159,750*	-
Securities at fair value through other comprehensive income	1,422,235	982,662	436,523	3,050
Positive fair value of derivative financial instruments designated as fair value hedge	10,035	-	10,035	-
Financial assets measured at fair value total	**1,778,950**	**1,105,673**	**670,227**	**3,050**[1]
Financial liabilities at fair value through profit or loss	33,166	-	33,166	-
Negative fair value of derivative financial instruments classified as held for trading	144,558	231	144,327	-
Negative fair value of derivative financial instruments designated as fair value hedge	6,360	-	6,360	-
Negative fair value of derivative financial instruments designated as cash flow hedge	2,529	-	2,529	-
Financial liabilities measured at fair value total	**186,613**	**231**	**186,382**	**-**

As at 31 December 2017	**Total**	**Level 1**	**Level 2**	**Level 3**
Financial assets at fair value through profit or loss	300,846	107,373	193,473	-
from this: securities held for trading	*203,634*	*107,093*	*96,541*	-
from this: positive fair value of derivative financial instruments classified as held for trading	*97,212*	*280*	*96,932*	-
Securities at fair value through other comprehensive income	1,717,274	1,253,700	461,164	2,410
Positive fair value of derivative financial instruments designated as fair value hedge	10,148	-	10,148	-
Financial assets measured at fair value total	**2,028,268**	**1,361,073**	**664,785**	**2,410**[1]
Negative fair value of derivative financial instruments classified as held for trading	79,545	*188*	*79,357*	-
Negative fair value of derivative financial instruments designated as fair value hedge	17,179	-	17,179	-
Financial liabilities measured at fair value total	**96,724**	**188**	**96,536**	**-**

NOTE 37: SIGNIFICANT EVENTS DURING THE SIX MONTH PERIOD ENDED 30 JUNE 2018

1) Capital increase at OTP banka Srbija

2) Capital increase at OTP banka Slovensko

3) Capital increase at OTP Bank Romania

4) Capital increase at Bank Center No. 1.

See details in Note 9.

NOTE 38: POST BALANCE SHEET EVENTS

1) Acquisition at Albania

2) Acquisition at Bulgaria

See details about the events in Note 9.

NOTE 39: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE BANK'S FINANCIALS (in HUF mn)

After the **Eurozone** achieved a growth rate of 2.5% in 2017, growth slowed in the first half of 2018. Some of the factors behind the slowdown are one-offs, such as the flu outbreak at the beginning of the year, or the French railway strikes. However, the effects of the global trade war could have also (weakly) slowed growth. Nevertheless, as employment is significantly above the pre-crisis level (although regional disparities are significant), growth can be expected to be broad-based and reach around 2%. The market consensus expects 2.2% growth in 2018 and a 1.9% expansion in 2019. The expected slowdown in growth is supported by the fact that since the end of 2017 in Germany, and since the second quarter of 2018 in the Eurozone, economic sentiment indexes have been worsening.

The rise in fuel prices led to inflation gradually gaining pace to reach a level of around 2%, while core inflation was around 1%. At its June meeting, the ECB's Governing Council decided to gradually phase out its asset-purchasing programme. For the three months from September 2018 onwards the ECB will purchase EUR 30 billion worth of sovereign bonds every month (half of the previous amount), after which the programme will be fully phased out. The central bank's forward guidance indicates that a rise in interest rates from their current level of -0.4% can be expected in the second half of 2019. Overall, however, despite the end of the asset-purchase programme, monetary policy will remain extremely supportive in the near future.

The annualised quarterly growth rate of the **US economy** exceeded 4% in the second quarter of the year, largely thanks to the fiscal stimulus provided by President Trump's tax cuts, after having slowed in the first quarter of 2018. The Fed expects 2.8% growth this year, and a 2.4% expansion next year. The Trump administration's protectionist trade policies are a risk to the country's growth prospects, however. During the first half of this year, the US has imposed tariffs on numerous Chinese products, as well as on all steel and aluminium imports. The measures were met with retaliatory tariffs.

As a result of rising fuel prices, inflation rose to almost 3%, while core inflation has been above 2% since March. The unemployment rate is also below 4%. Wage dynamics are still muted, with wage growth remaining below 3%. As a result of the factors mentioned above, the Fed met expectations and hiked interest rates twice in 2018, with the rate hikes taking place in March and June. Looking forward, markets expect two more rate hikes this year, to be followed by three more in 2019. President Trump has repeatedly criticised Fed President Powell for lifting interest rates. Although Powell did not directly respond to these criticisms, he did state that the speed of rate hikes will depend solely on the state of the US economy.

Hungary's 2017 GDP growth surpassed both expectations and our own forecast. The 4.0% growth rate is the second strongest one since 2005 (it was 4.2% in 2014). The favourable processes persisted in the first half of 2018: Hungary's gross domestic product expanded by 4.5% in the first six months of this year. This robust growth was largely driven by household consumption, but investment's contribution was also meaningful. What is particularly encouraging is that more than half of investment growth is linked to the private sector.

There is no doubt that credit deleveraging has clearly become a thing of the past in the economy. While household loan volumes grew by only 1%, because of writing off and selling bad loans, the corporate loan volumes expanded by almost 10% in 2017. In 2018 the pace of growth accelerated further in both sectors, with households accelerating by almost 2%, and businesses speeding up to 15% in the second quarter of 2018. The performing loan volumes, which filter out the effect of write-offs, recorded a double-digit growth rate in the household sector too.

Hungary's balance indicators are reassuring. The budget deficit is likely to be around 2.4% of GDP in 2018. However, the rising commodity prices, the strong domestic demand, and decreasing spare capacity deteriorated in Hungary's external balance. The current account balance surplus shrank by EUR 3 billion in 2017, still it reached 3% of GDP. The decline in external debt also continued; the gross external debt of parent companies, excluding loans from parent companies, fell below 60% of GDP, down from 115% in 2010. In other words: it has fallen to the average level of the CEE region, from the double of it.

In the first half of 2018 inflation began to accelerate on the back of rising oil prices – the index stood at 3.4% in July. Nevertheless we expect it to have reached its intra-year high, as inflation is likely to slow as the effects of oil prices fade away: it may sink below 3% by early autumn and stay there until the end of 2019. The structure of inflation will undergo significant change in 2019: the inflation of demand-sensitive and labour-intensive products/services may speed up, while the current positive contribution of oil prices is likely to become negative owing to base effects.

NOTE 39: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE BANK'S FINANCIALS (in HUF mn) [continued]

We expect the base rate to remain unchanged for a while. The BUBOR rates may remain below the key policy rate for long. Taking into account the current market turbulences, and the above changes in the structure of inflation, the MNB may phase out its unconventional tools (FX swap, mortgage bond buys and interest rate swaps) as the first step of monetary tightening. These tools allow the MNB to influence the banking system's liquidity, BUBOR spreads and the level of long-term yields. The central bank has not increased the volume of FX swaps since May; instead, it kept it near HUF 1,290 billion. Monetary policy makers use the other important unconventional tool, the interest rate swap tender, mostly to anchor the long end of the yield curve.

From 2017 the base of the **Hungarian banking tax** is the adjusted balance sheet total at the actual calendar year minus two years (i.e. for the 2018 banking tax calculation the end-2016 adjusted total assets must be used). Effective from 2017 the applicable upper tax rate has been moderated to 0.21%. The total annual amount of the banking tax payable in 2018 was already booked in one sum in 1Q 2018.

In 1H 2018 more than 6,400 applications for the **Housing Subsidy Scheme for Families** (CSOK) subsidy were registered at OTP Bank with a value of HUF 21 billion. Applicants also combined CSOK subsidy with subsidized or market-based loan applications in the amount of HUF 30 billion.

From October 2017 the share of **fixed rate housing loans** within total housing loan applications has been rising steadily. The proportion of fixed rate housing loans (with an interest rate fixation period of at least 5 years) within applications for non-subsidized housing loans reached 90% in June 2018, versus around 50% in 2017 as a whole. It is also positive that in the last several months the popularity of housing with a repricing period of 10 years was getting closer and closer to that of 5 years fixed loans.

The gradually increasing share of **certified customer-friendly housing loans** is also noteworthy: their proportion within new fixed rate market-based housing loan applications stood at close to 70% in June 2018.

The National Bank of Hungary decided to amend the regulation on the **payment-to-income (PTI) ratio**, in order to further promote the safer fixed rate mortgages. Effective from 1 October 2018, in the case of taking out a new HUF denominated mortgage loan the debtor's total monthly debt service cannot exceed certain % of their regular net monthly income, as stipulated in the relevant central bank decree.