OTP BANK PLC.

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

FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2018

OTP BANK PLC.
CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

OTP BANK PLC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
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 Banks	*4.*	1,181,072	1,198,045	1,038,506
Placements with other banks, net of allowance for placement losses	*5.*	629,013	462,180	447,375
Financial assets at fair value through profit or loss	*6.*	332,150	344,417	226,909
Securities at fair value through other comprehensive income	*7.*	1,925,893	2,174,718	1,967,950
Loans at amortized cost and at fair value	*8.*	7,737,845	6,987,834	6,530,352
Associates and other investments	*9.*	18,672	12,269	10,312
Securities at amortized cost	*10.*	1,649,681	1,310,331	1,231,992
Property and equipment	*11.*	247,213	237,321	212,415
Intangible assets and goodwill	*11.*	175,089	176,069	169,513
Investment properties	*12.*	37,074	35,385	27,794
Derivative financial assets designated as fair value hedge	*13.*	13,441	10,277	8,072
Deferred tax assets	*13.*	28,551	29,419	42,340
Other assets	*13.*	237,732	211,963	232,394
TOTAL ASSETS		**14,213,426**	**13,190,228**	**12,145,924**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	*14.*	600,048	472,068	534,254
Deposits from customers	*15.*	10,870,394	10,233,471	9,215,539
Liabilities from issued securities	*16.*	305,109	250,320	258,139
Derivative financial liabilities designated as held for trading	*17.*	131,519	69,874	67,742
Derivative financial liabilities designated as fair value hedge	*18.*	8,905	17,199	19,732
Deferred tax liabilities	*18.*	8,498	9,271	4,953
Other liabilities	*18.*	498,064	421,942	472,839
Subordinated bonds and loans	*19.*	83,512	76,028	76,464
TOTAL LIABILITIES		**12,506,049**	**11,550,173**	**10,649,662**
Share capital	*20.*	28,000	28,000	28,000
Retained earnings and reserves	*21.*	1,740,524	1,671,879	1,526,465
Treasury shares	*22.*	(64,660)	(63,289)	(61,502)
Non-controlling interest	*23.*	3,513	3,465	3,299
TOTAL SHAREHOLDERS' EQUITY		**1,707,377**	**1,640,055**	**1,496,262**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**14,213,426**	**13,190,228**	**12,145,924**

OTP BANK PLC.
CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)
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		280,781	257,648	521,121
Placements with other banks		27,277	21,334	42,686
Amounts due from banks and balances with the National Banks		208	756	1,444
Securities at fair value through other comprehensive income		18,423	16,605	34,442
Securities at amortized cost		29,005	28,633	56,343
Other		5,565	4,606	10,479
Total Interest Income		**361,259**	**329,582**	**666,515**
Interest Expense:				
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks		(23,253)	(22,100)	(46,475)
Deposits from customers		(38,572)	(27,307)	(50,995)
Liabilities from issued securities		(2,775)	(2,431)	(5,727)
Subordinated bonds and loans		(1,064)	(1,176)	(2,259)
Other		(3,797)	(3,501)	(7,303)
Total Interest Expense		**(69,461)**	**(56,515)**	**(112,759)**
NET INTEREST INCOME		**291,798**	**273,067**	**553,756**
Provision for impairment on loan and placement losses	*8.,24.*	(8,654)	(17,702)	(40,848)
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT ON LOAN AND PLACEMENT LOSSES		**283,144**	**255,365**	**512,908**
Income from fees and commissions	*25.*	160,441	148,239	315,606
Expense from fees and commissions	*25.*	(26,260)	(24,724)	(54,413)
Net profit from fees and commissions		**134,181**	**123,515**	**261,193**
Foreign exchange gains, net		18,436	5,413	21,870
(Losses) / Gains on securities, net		(837)	4,792	7,930
Losses on loans measured mandatorily at fair value through profit or loss		(100)	-	-
Dividend income		5,136	3,313	4,152
(Provision) / Release of provision on securities at fair value through other comprehensive income and on securities at amortized cost		(166)	-	10
Other operating income	*26.*	18,520	27,673	65,469
Other operating expense	*26.*	(9,024)	(19,735)	(51,240)
Net operating gain		**31,965**	**21,456**	**48,191**
Personnel expenses	*26.*	(118,630)	(102,998)	(213,886)
Depreciation and amortization	*11.*	(25,212)	(21,777)	(48,988)
Goodwill impairment	*11.*	(229)	-	(504)
Other administrative expenses	*26.*	(130,241)	(122,167)	(236,072)
Other administrative expenses		**(274,312)**	**(246,942)**	**(499,450)**
PROFIT BEFORE INCOME TAX		**174,978**	**153,394**	**322,842**
Income tax expense	*27.*	(20,407)	(19,837)	(41,503)
NET PROFIT FOR THE PERIOD		**154,571**	**133,557**	**281,339**
From this, attributable to:				
Non-controlling interest		**145**	**137**	**197**
Owners of the company		**154,426**	**133,420**	**281,142**
Consolidated earnings per share (in HUF)				
Basic	*36.*	**590**	**510**	**1,074**
Diluted	*36.*	**590**	**510**	**1,074**

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

	Six month period ended 30 June 2018	**Six month period ended 30 June 2017**	**Year ended 31 December 2017**
NET PROFIT FOR THE PERIOD	**154,571**	**133,557**	**281,339**
Items that may be reclassified subsequently to profit or loss:			
Fair value adjustment of securities at fair value through other comprehensive income	(22,021)	8,155	15,677
Derivative financial instruments designated as cash flow hedge	33	-	-
Net investment hedge in foreign operations	(5,276)	465	155
Foreign currency translation difference	52,604	(12,738)	(20,535)
Items that will not be reclassified subsequently to profit or loss:			
Change of actuarial costs related to employee benefits	-	-	(241)
Subtotal	**25,340**	**(4,118)**	**(4,944)**
NET COMPREHENSIVE INCOME	**179,911**	**129,439**	**276,395**
From this, attributable to:			
Non-controlling interest	175	7	173
Owners of the company	179,736	129,432	276,222

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

	Note	Share capital	Capital reserve	Share-based payment reserve	Retained earnings and other reserves[1]	Option reserve	Treasury shares	Non-controlling interest	Total
Balance as at 1 January 2017		**28,000**	**52**	**28,237**	**1,476,657**	**(55,468)**	**(60,121)**	**3,292**	**1,420,649**
Net profit for the period		-	-	-	133,420	-	-	137	133,557
Other Comprehensive Income		-	-	-	(3,988)	-	-	(130)	(4,118)
Share-based payment	*30.*	-	-	1,686	-	-	-	-	1,686
Dividend for the year 2016		-	-	-	(53,200)	-	-	-	(53,200)
Sale of Treasury shares	*22.*	-	-	-	-	-	4,559	-	4,559
Treasury shares									
– loss on sale		-	-	-	784	-	-	-	784
– acquisition	*22.*	-	-	-	-	-	(5,940)	-	(5,940)
Payments to ICES holders	*21.*	-	-	-	(1,715)	-	-	-	(1,715)
Balance as at 30 June 2017		**28,000**	**52**	**29,923**	**1,551,958**	**(55,468)**	**(61,502)**	**3,299**	**1,496,262**
Balance as at 1 January 2018		**28,000**	**52**	**31,835**	**1,695,460**	**(55,468)**	**(63,289)**	**3,465**	**1,640,055**
Effect of transition due to IFRS 9 application		-	-	-	(50,401)	-	-	(127)	(50,528)
Net profit for the period		-	-	-	154,426	-	-	145	154,571
Other Comprehensive Income		-	-	-	25,310	-	-	30	25,340
Share-based payment	*30.*	-	-	1,737	-	-	-	-	1,737
Dividend for the year 2017		-	-	-	(61,320)	-	-	-	(61,320)
Sale of Treasury shares	*22.*	-	-	-	-	-	10,128	-	10,128
Treasury shares									
– loss on sale		-	-	-	(2,131)	-	-	-	(2,131)
– acquisition	*22.*	-	-	-	-	-	(11,499)	-	(11,499)
Payments to ICES holders	*21.*	-	-	-	1,024	-	-	-	1,024
Balance as at 30 June 2018		**28,000**	**52**	**33,572**	**1,762,368**	**(55,468)**	**(64,660)**	**3,513**	**1,707,377**

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

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

OPERATING ACTIVITIES	**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 (attributable to the owners of the company)		**154,426**	**133,420**	**281,142**
Dividend income		(5,136)	(3,313)	(4,152)
Depreciation and amortization	*11.*	25,212	21,777	48,988
Goodwill impairment	*11.*	229	-	504
Provision for impairment / (Release of provision) on securities	*7.,10.*	166	-	(10)
Provision for impairment on loan and placement losses	*8., 24.*	8,654	17,702	40,848
Provision for impairment on investments	*9.*	557	150	184
(Release of provision) / Provision for impairment on investment properties	*12.*	(51)	30	(71)
Provision for impairment on other assets	*13.*	722	4,747	8,213
(Release of provision) / Provision on off-balance sheet commitments and contingent liabilities	*18.*	(1,114)	10,009	15,957
Share-based payment	*2.,30.*	1,737	1,686	3,598
Unrealized gains / (losses) on fair value change of securities held for trading		13,979	(20)	18,335
Unrealized (losses) / gains on fair value change of derivative financial instruments		(18,778)	21,852	11,966
Net changes in assets and liabilities in operating activities				
Net decrease / (increase) in financial assets at fair value through profit or loss		81,491	35,927	(92,524)
Net increase in loans at amortized cost before allowance for loan losses and at fair value		(806,370)	(143,125)	(415,250)
Net increase in other assets before provisions for impairment		(26,444)	(21,395)	(10,737)
Net increase / (decrease) in deposits from customers		636,923	(165,396)	582,112
Net increase / (decrease) in other liabilities		82,671	(34,414)	(76,175)
Net (increase) / decrease in compulsory reserves at the National Banks		(115,458)	25,191	99,391
Income tax paid		(5,687)	(9,998)	(14,797)
Net Cash Provided by / (Used in) Operating Activities		**27,729**	**(105,170)**	**497,522**
Interest received		362,632	331,398	695,935
Interest paid		(66,971)	(57,102)	(112,718)

OTP BANK PLC.
CONSOLIDATED STATEMENT OF CASH-FLOWS (UNAUDITED)
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
INVESTING ACTIVITIES				
Net (increase) / decrease in placement with other banks before allowance for placements losses		(167,227)	120,329	147,968
Purchase of securities at fair value through other comprehensive income		(487,556)	(494,537)	(955,382)
Proceeds from sale of securities at fair value through other comprehensive income		693,769	240,224	545,180
Net increase in investments in associates		(2,294)	(1,351)	(682)
Net (increase) / decrease in investments in other companies		(4,946)	10,727	8,762
Dividends received		5,416	3,313	3,739
Purchase of securities at amortized cost		(987,507)	(673,015)	(1,166,466)
Redemption of securities at amortized cost		647,603	555,252	970,365
Purchase of property, equipment and intangible assets		(38,010)	(54,153)	(131,028)
Proceeds from disposals of property, equipment and intangible assets		3,649	2,565	22,383
Net (increase) / decrease in investment properties before provision for impairment		(1,638)	1,622	5,060
Net (increase) / decrease in advances for investments included in other assets		(47)	14	8
Net cash paid for acquisition	*32.*	-	(115,513)	(128,588)
Net Cash Used in Investing Activities		**(338,788)**	**(404,523)**	**(678,681)**
FINANCING ACTIVITIES				
Net increase / (decrease) in amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks		127,578	(94,112)	(167,670)
Cash received from issuance of securities		65,735	225,808	184,636
Cash used for redemption of issued securities		(10,946)	(114,569)	(81,216)
Increase / (Decrease) in subordinated bonds and loans		7,484	(994)	(1,430)
Payments to ICES holders	*21.*	1,024	(1,715)	(1,380)
Sale of Treasury shares		5,443	4,559	10,342
Purchase of Treasury shares		(8,946)	(5,156)	(16,349)
Dividends paid		(61,317)	(53,172)	(53,191)
Net Cash Provided by / (Used in) Financing Activities		**126,055**	**(39,351)**	**(126,258)**
Net decrease in cash and cash equivalents		**(185,004)**	**(549,044)**	**(307,417)**
Cash and cash equivalents at the beginning of the period		**800,689**	**1,128,610**	**1,128,610**
Foreign currency translation		52,573	(12,616)	(20,504)
Cash and cash equivalents at the end of the period	*4.*	**668,258**	**566,950**	**800,689**

NOTE 1: ORGANIZATION AND BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

1.1. General information

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

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

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

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

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

The Bank and its subsidiaries ("Entities of the Group", together the "Group") provide a full range of commercial banking services through a wide network of 1,474 branches. The Group has operations in Hungary, Bulgaria, Russia, Ukraine, Croatia, Romania, Slovakia, Serbia and Montenegro.

The number of employees at the Group:

	30 June 2018	31 December 2017
The number of employees at the Group	40,905	41,514
The average number of employees at the Group	41,203	41,127

1.2. Basis of Accounting

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

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

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

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

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

1.2. Basis of Accounting [continued]

1.2.1. The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 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 authorization of these financial statements the following standards, amendments to the existing standards and interpretations issued by IASB and adopted by the EU which 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 Group's consolidated 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 are updated continuously. 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, the Group expects significant change in the Consolidated Financial Position, while the effect in the Consolidated 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 Consolidated Financial Statements.

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

1.2. Basis of Accounting [continued]

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

Implementation of IFRS 16 [continued]

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.

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

- **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 was 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 "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 2017 and amendments to IFRS 1 and IAS 28 are to be applied 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 beginning on or after 1 January 2020).

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

The adoption of the above presented Amendments to the existing Standards, new Standards and Interpretations would have no significant impact on the Consolidated Financial Statements in the period of initial application.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1. Basis of Presentation

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

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

2.2. Foreign currency translation

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

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

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

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.2. Foreign currency translation [continued]

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

2.3. Principles of consolidation

Included in these Consolidated Financial Statements are the accounts of those subsidiaries in which the Bank exercises control. The list of the major fully consolidated subsidiaries, the percentage of issued capital owned by the Bank and the description of their activities is provided in Note 33. However, certain subsidiaries in which the Bank holds a controlling interest have not been consolidated because the effect of consolidating such companies is not material to the Consolidated Financial Statements as a whole (see Note 2.13.).
As the ultimate parent, the Bank is preparing consolidated financial statements of the Group.

2.4. Accounting for acquisitions

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

If the Group loses control of a subsidiary, derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost and recognizes any difference as a gain or loss on the sale attributable to the parent in Statement of Profit or Loss.
Goodwill acquired in a business combination is tested for impairment annually or more frequently if events or changes in circumstances indicate. The goodwill is allocated to the cost generating units that are expected to benefit from the synergies of the combinations.
The Group calculates the fair value based on discounted cash-flow model. The 5 year period explicit cash-flow model serves as a basis for the impairment test by which the Group defines the impairment need on goodwill based on the strategic factors and financial data of its cash-generating units.

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

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

2.5. Securities at amortized cost

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. At reporting dates of Consolidated Financial Statements, securities that the Group holds for contractual cash-flow 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 are measured at amortized cost.
The amortisation of any discount or premium on the acquisition of a security at amortized cost is aggregated with other investment income receivable over the term of the investment so that the revenue recognized in each period represents a constant yield on the investment.
Such securities comprise mainly securities issued by the Hungarian and foreign Government, discounted Treasury bills and corporate bonds.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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. Unrealized gains and losses on held for trading securities are recognized in profit or loss and included in the Consolidated Statement of Profit or Loss for the period. The Group mainly holds these securities to obtain short-term gains consequently realised and unrealised gains and losses are recognized in the net operating income. The Group applies the FIFO[1] inventory valuation method for securities held for trading. Such securities consist of corporate shares, investment bonds, Hungarian and foreign government bonds, discounted and interest bearing treasury bills and other securities.

2.6.2. Derivative financial instruments

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

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

Foreign currency contracts

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

Foreign exchange swaps and interest rate swaps

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

[1] First In First Out

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

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

2.6.2. Derivative financial instruments [continued]

Cross-currency interest rate swaps

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

Equity and commodity swaps

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

Forward rate agreements (FRA)

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

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

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 Consolidated Statement of Profit or Loss along with the corresponding change in fair value of the hedged asset or liability that is attributable to the specific hedged risk. The ineffective element of the hedge is charged directly to the Consolidated Statement of Profit or Loss.
The conditions of hedge accounting applied by the Bank are the following: formally designed as hedge, proper hedge documentation is prepared, effectiveness test is performed and based on it the hedge is qualified as effective.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.8. Offsetting

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

2.9. Embedded derivatives

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

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

2.10. Securities at fair value through other comprehensive income

Securities at fair value through other comprehensive income are held within a business model whose objective is achieved by both collecting of contractual cash flows and selling securities. Furthermore contractual terms of these securities give rise on specified dates to cash flows that are solely payment of principal and interest on the principal amount outstanding
Investments in securities are accounted for on a 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. Unrealized gains and losses on securities at fair value through other comprehensive income are recognized directly in Other Comprehensive Income, except for interest and foreign exchange gains/losses on monetary items, unless such financial asset at fair value through other comprehensive income is part of an effective hedge. Such gains and losses will be reported when realized in Consolidated Statement of Profit or Loss for the applicable period. The Group applies the FIFO[1] inventory valuation method for securities held for trading.

Such securities consist of Hungarian and foreign government bonds, corporate bonds, discounted Treasury bills and other securities. Other securities include shares in investment funds, shares in non-financing companies and venture capital fund bonds.

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

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

Those Loans and placements with other banks that are accounted at amortized cost, stated at the principal amounts outstanding (including accrued interest), net of allowance for loan or placement losses, respectively. Transaction fees and charges should adjust the carrying amount at initial recognition and be included in effective interest calculation. Loans and placements with other banks are derecognised when the contractual rights to the cash-flows expire or they are transferred. Interest and amortised cost are accounted using effective interest rate method.

[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

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

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 collateral, discounted at the original effective interest rate.

Allowance for loan and placement losses with other banks represent Management assessment for potential losses in relation to these activities.
Allowance for losses on loans and placements with other banks is recognised by the Group based on the expected credit loss model in accordance with IFRS 9. Based on the three stage model provision for impairment is recognised at an amount equal to 12-month expected credit loss from the initial recognition. On financial assets with significantly increased credit risk or credit impaired financial assets (based on objective evidences) 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.

If the reason for provisioning is no longer deemed appropriate, the redundant provisioning charge is released into net operating 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 "Provision for impairment on loan and placement losses" in the Consolidated Statement of Profit or Loss.
The Group applies partial or full write-off for loans based on the definitions and prescriptions of financial instruments in accordance with IFRS 9. If the Group has no reasonable expectations regarding a financial asset (loan) to be recovered, it will be written off partially or fully at the time of emergence. A loan will be written off if it is overdue or was terminated by the Group.

The gross amount and impairment loss of the loans shall be written off in the same amount to the estimated maximum recovery amount while the net carrying value remains unchanged. In these cases there is no reasonable expectation from the clients to complete contractual cash-flows therefore the Group 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 Statement of Financial Position and the consideration received is recorded in Other liabilities or Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks. 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 based on effective interest method evenly over the life of the repurchase agreement.
In the case of security lending transactions the Group doesn't recognize or derecognize the securities because believes that the transferor retains substantially all the risks and rewards of the ownership of the securities. Only a financial liability or financial receivable is recognized for the consideration amount.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.13. Associates and other investments

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

2.14. Property and equipment, Intangible assets

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

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

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

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

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

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

The Group may conclude contracts for purchasing property, equipment and intangible assets, where the purchase price is settled in foreign currency. By entering into such agreements, firm commitment in foreign currency due on a specified future date arises at the Group.
Reducing the foreign currency risk caused by firm commitment, forward foreign currency contracts may be concluded to ensure the amount payable in foreign currency on a specified future date on one hand and to eliminate the foreign currency risk arising until settlement date of the contract on the other hand.
In the case of 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.

2.15. Financial liabilities

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.16. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as a lessor

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

The Group as a lessee

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 principal element of each future lease obligation is recorded as a liability, while the interest elements are charged to the Consolidated Statement of Profit or Loss over the period of the leases to produce a constant rate of charge on the balance of principal payments outstanding.

Payments made under operating leases are charged to the Consolidated Statement of Profit or Loss on a straight-line basis over the term of the lease. 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.
Applying rules for lessee will change after 1 January 2019 in accordance with IFRS 16. (See 1.2.2.)

2.17. Investment properties

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

2.18. Treasury shares

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

2.19. Interest income and interest expense

Interest income and expenses are recognized in profit or loss in the period to which they relate, using the effective interest rate method. Interest from loans and deposits are accrued on a daily basis. Interest income and expenses include relevant transaction costs and the amortisation of any discount or premium between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.
The Group recognizes interest income when assumes that the interest associated with the transaction will flow to the Group and the amount of the revenue can be reasonably measured. All interest income and expense recognized are arising from loans, placements with other banks, securities held for trading, securities at fair value through other comprehensive income, securities at amortized cost and amounts due to banks, deposits from customers, liabilities from issued securities, subordinated bond and loans are presented under these lines of financial statements.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.20. Fees and Commissions

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

2.21. Dividend income

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

2.22. Income tax

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

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

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

2.23. Off-balance sheet commitments and contingent liabilities

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

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

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

2.24. Share-based payment and employee benefit

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [continued]

2.25. Consolidated Statement of Cash-flows

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

2.26. Segment reporting

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

2.27. Comparative figures

These Consolidated Financial Statements are prepared in accordance with the same accounting policies in all respects as the Consolidated Financial Statements prepared in accordance with IFRS as adopted by the EU for the year ended 31 December 2017, which were approved by the Management board on 13 March 2018, excluding the initial application of IFRS 9 standard. In relation with initial application of IFRS 9 the Management has decided to present comparative figures in accordance with IAS 39 standard which are the same as presented at the end of 2017.

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

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

3.1. Impairment on financial instruments

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

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

3.2. Valuation of instruments without direct quotations

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

3.3. Provisions

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

Other provisions are recognized and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The Group is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Group assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for. (See Note 18.)

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

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

3.4. Impairment on goodwill

Goodwill acquired in a business combination is tested for impairment annually or more frequently when there is an indication that the unit might be impaired, in accordance with IAS 36 “Impairment of assets”.
The Group calculates the fair value based on discounted cash-flow model. The 5 year period explicit cash-flow model serves as a basis for the impairment test by which the Group defines the impairment need on goodwill based on the strategic factors and financial data of its cash-generating units. In the calculation of the goodwill impairment, also the expectations about possible variations in the amount or timing of those future cash-flows, the time value of money, represented by the current market risk-free rate of interest and other factors are reflected.

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

	30 June 2018	31 December 2017
Cash on hand		
In HUF	110,361	95,113
In foreign currency	204,181	199,102
	314,542	**294,215**
Amounts due from banks and balances with the National Banks		
Within one year:		
In HUF	143,134	208,200
In foreign currency	723,228	695,475
	866,362	**903,675**
Over one year:		
In HUF	-	-
In foreign currency	-	-
	-	**-**
Accrued interest	168	155
Total	**1,181,072**	**1,198,045**
Compulsory reserve set by the National Banks[1]	**(512,815)**	**(397,356)**
Cash and cash equivalents	**668,258**	**800,689**

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	157,509	51,447
In foreign currency	397,456	357,849
	554,965	**409,296**
Over one year		
In HUF	47,933	52,410
In foreign currency	25,948	380
	73,881	**52,790**
Accrued interest	577	162
Provision for impairment on placement losses	(410)	(68)
Total	**629,013**	**462,180**

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

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

An analysis of the change in the provision for impairment on placement with other banks is as follows:

	30 June 2018	31 December 2017
Balance as at 1 January	**68**	**95**
Effect of transition due to IFRS 9 application	189	-
Provision for the period	1,391	53
Release of provision for the period	(1,202)	(77)
Foreign currency translation difference	(36)	(3)
Closing balance	**410**	**68**

Interest conditions of placements with other banks:

	30 June 2018	31 December 2017
In HUF	(0.1)% - 3.84%	(0.5)% - 3.84%
In foreign currency	(0.3)% - 12.7%	(20.0)% - 14.9%

	30 June 2018	31 December 2017
Average interest rates on placements with other banks	1.04%	0.98%

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	121,341	113,572
Interest bearing treasury bills	22,599	93,806
Shares and investment bonds	16,678	11,169
Discounted Treasury bills	1,615	1,169
Other securities	8,778	34,631
Other non-interest bearing securities	3,735	1,248
	174,746	**255,595**
Accrued interest	2,679	3,668
	177,425	**259,263**
Non trading securities measured mandatorily at fair value through profit or loss	606	-
Total	**178,031**	**259,263**

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

Positive fair value of derivative financial assets designated as held for trading

	30 June 2018	**31 December 2017**
Foreign exchange swaps designated as held for trading	61,545	18,047
Interest rate swaps designated as held for trading	46,871	33,377
CCIRS and mark-to-market CCIRS[1] designated as held for trading	13,374	16,976
Foreign exchange forward contracts designated as held for trading	10,697	4,998
Other derivative transactions designated as held for trading	21,632	11,756
	154,119	**85,154**
Total	**332,150**	**344,417**

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

	30 June 2018	**31 December 2017**
Denominated in HUF (%)	76.5%	67.3%
Denominated in foreign currency (%)	23.5%	32.7%
Total	**100.0%**	**100.0%**

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

	30 June 2018	**31 December 2017**
Denominated in HUF (%)	77.2%	55.0%
Denominated in foreign currency (%)	22.8%	45.0%
Total	**100.0%**	**100.0%**

	30 June 2018	**31 December 2017**
Interest rates on securities held for trading	0.01% - 11.0%	0.01% - 9.25%
Average interest rates on securities held for trading	2.58%	2.20%

[1] CCIRS: Cross Currency Interest Rate Swaps (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 can be analysed as follows:

	30 June 2018	31 December 2017
Within one year		
With variable interest	5,478	2,991
With fixed interest	90,599	136,194
	96,077	**139,185**
Over one year		
With variable interest	14,720	14,214
With fixed interest	43,536	89,779
	58,256	**103,993**
Non-interest bearing securities	20,413	12,417
Total	**174,746**	**255,595**

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

	30 June 2018	31 December 2017
Securities at fair value through other comprehensive income		
Government bonds	1,476,983	1,703,665
Discounted Treasury bills	224,823	223,238
Corporate bonds	152,543	174,742
From this:		
Listed securities:		
In HUF	*70,651*	*84,048*
In foreign currency	*56,120*	*49,737*
	126,771	*133,785*
Non-listed securities:		
In HUF	*24,296*	*32,598*
In foreign currency	*1,476*	*8,359*
	25,772	*40,957*
Other securities	640	545
Other non-interest bearing securities	53,155	50,153
From this:		
Listed securities:		
In HUF	-	*1,472*
In foreign currency	*2,384*	*76*
	2,384	*1,548*
Non-listed securities:		
In HUF	*20,129*	*19,419*
In foreign currency	*30,642*	*29,186*
	50,771	*48,605*
	1,908,144	**2,152,343**

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

	30 June 2018	31 December 2017
Accrued interest	17,749	22,745
Provision for impairment on securities at fair value through other comprehensive income	-	(370)
Total	**1,925,893**	**2,174,718**

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

	30 June 2018	31 December 2017
Denominated in HUF (%)	55.5%	61.7%
Denominated in foreign currency (%)	44.5%	38.3%
Total	**100.0%**	**100.0%**

An analysis of government bonds by currency (%):

	30 June 2018	31 December 2017
Denominated in HUF (%)	53.9%	61.4%
Denominated in foreign currency (%)	46.1%	38.6%
Total	**100.0%**	**100.0%**

	30 June 2018	31 December 2017
Interest rates on securities at fair value through other comprehensive income denominated in HUF	0.08% - 7.5%	0.01% - 7.5%
Interest rates on securities at fair value through other comprehensive income denominated in foreign currency	0.30% - 18.0%	(0.25)% - 18.2%

	30 June 2018	31 December 2017
Average interest rates securities at fair value through other comprehensive income denominated in HUF	1.65%	1.56%
Average interest rates on securities at fair value through other comprehensive income denominated in foreign currency	2.19%	2.63%

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

	30 June 2018	31 December 2017
Within one year		
With variable interest	11,610	756
With fixed interest	544,987	615,554
	556,597	**616,310**
Over one year		
With variable interest	71,370	75,651
With fixed interest	1,227,022	1,410,229
	1,298,392	**1,485,880**
Non-interest bearing securities	53,155	50,153
Total	**1,908,144**	**2,152,343**

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

An analysis of the change in the provision for impairment on securities at fair value through other comprehensive income is as follows:

	30 June 2018	31 December 2017
Balance as at 1 January	**370**	**305**
Effect of transition due to IFRS 9 application	(370)	-
Provision for the period	-	4
Release of provision	-	(11)
Use of provision	-	-
Reclassification from equity investments	-	96
Foreign currency translation difference	-	(24)
Closing balance	**-**	**370**

Certain securities are hedged against interest rate risk. See Note 38.

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

	30 June 2018	31 December 2017
Short-term loans and promissory notes (within one year)	2,664,966	2,628,507
Long-term loans and promissory notes (over one year)	5,837,099	5,098,123
	8,502,065	**7,726,630**
Provision for impairment on loan losses	(799,292)	(738,796)
Loans measured at amortized cost	**7,702,773**	**6,987,834**
Non-trading loans at fair value through profit or loss with market risk value adjustment	37,695	-
Accumulated negative changes in fair value due to credit risk	(2,623)	-
Loans measured at fair value through profit or loss	**35,072**	**-**
Total loans at amortized cost and at fair value	**7,737,845**	**6,987,834**

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

	30 June 2018	31 December 2017
In HUF	33%	34%
In foreign currency	67%	66%
Total	**100%**	**100%**

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

Interest rates of the loan portfolio are as follows:

	30 June 2018	31 December 2017
Short-term loans denominated in HUF	0.18% - 37.45%	0.0% - 37.45%
Long-term loans denominated in HUF	0.01% - 37.5%	0.0% - 37.5%
Short-term loans denominated in foreign currency	(0.64)% - 59.7%	(0.67)% - 59.9%
Long-term loans denominated in foreign currency	(0.64)% - 49.9%	(0.67)% - 59.0%

	30 June 2018	31 December 2017
Average interest rates on loans denominated in HUF	6.97%	7.55%
Average interest rates on loans denominated in foreign currency	6.89%	7.66%

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	**738,796**	**944,273**
Effect of transition due to IFRS 9 application	47,626	-
Provision for the period	151,243	355,929
Release of provision	(127,039)	(351,214)
Use of provision	(43,518)	(105,734)
Increase due to acquisition	-	6,917
Reclassification	-	(1,397)
Partial write-off[1]	(4,788)	(76,947)
Foreign currency translation difference	36,972	(33,031)
Closing balance	**799,292**	**738,796**

Movement in provision for impairment on loan and placement losses is summarized as below:

	30 June 2018	31 December 2017
Provision / (Release of provision) on placements and losses and (gains) / losses on placements due to write-off and sale	125	228
Provision for impairment on loans and loan gains / (losses) due to write-off and sale	8,529	40,620
Total	**8,654**	**40,848**

[1] See details in Note 2.11.

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

	30 June 2018	31 December 2017
Investments		
Investments in associates (non-listed)	14,243	7,335
Other investments (non-listed) at cost	9,349	9,338
	23,592	**16,673**
Provision for impairment on investments	(4,920)	(4,404)
Total	**18,672**	**12,269**

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

	30 June 2018	31 December 2017
Balance as at 1 January	**4,404**	**4,330**
Provision for the period	557	184
Use of provision	-	(13)
Reclassification to securities at fair value through other comprehensive income	(41)	(96)
Foreign currency translation difference	-	(1)
Closing balance	**4,920**	**4,404**

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

	30 June 2018	31 December 2017
Government bonds	1,618,143	1,290,630
Corporate bonds	10,240	6
Discounted Treasury bills	-	30
	1,628,383	**1,290,666**
Accrued interest	24,578	20,381
Provision for impairment on securities at amortized cost	(3,280)	(716)
Total	**1,649,681**	**1,310,331**

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

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

	30 June 2018	31 December 2017
Within one year		
With variable interest	-	270
With fixed interest	178,312	105,251
	178,312	**105,521**
Over one year		
With variable interest	-	-
With fixed interest	1,450,071	1,185,145
	1,450,071	**1,185,145**
Total	**1,628,383**	**1,290,666**

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

	30 June 2018	31 December 2017
Denominated in HUF (%)	93.8%	91.8%
Denominated in foreign currency (%)	6.2%	8.2%
Total	**100.0%**	**100.0%**

	30 June 2018	31 December 2017
Interest rates of securities at amortized cost with variable interest	-	1.4% - 4.45%
Interest rates of securities at amortized cost with fixed interest	0.5% - 17.0%	1.39% - 14.5%

	30 June 2018	31 December 2017
Average interest rates on securities at amortized cost	4.01%	4.72%

An analysis of the change in the provision for impairment on securities at amortized cost is as follows:

	30 June 2018	31 December 2017
Balance as at 1 January	**716**	**800**
Effect of transition due to IFRS 9 application	2,014	-
Provision for the period	751	15
Release of provision	(197)	(18)
Use of provision	(74)	(93)
Foreign currency translation difference	70	12
Closing balance	**3,280**	**716**

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

For the six month period ended 30 June 2018

Cost	**Intangible assets and goodwill**	**Property**	**Office equipment and vehicles**	**Construction in progress**	**Total**
Balance as at 1 January	**302,057**	**226,513**	**174,585**	**20,033**	**723,188**
Additions	13,323	4,530	13,528	17,617	**48,998**
Foreign currency translation differences	4,830	7,644	4,362	594	**17,430**
Disposals	(3,514)	(1,742)	(4,524)	(20,277)	**(30,057)**
Balance as at 30 June	**316,696**	**236,945**	**187,951**	**17,967**	**759,559**

Depreciation and Amortization	**Intangible assets and goodwill**	**Property**	**Office equipment and vehicles**	**Construction in progress**	**Total**
Balance as at 1 January	**125,988**	**58,146**	**125,664**	**-**	**309,798**
Charge for the period (without goodwill impairment)	13,586	3,168	8,458	-	**25,212**
Goodwill impairment	229	-	-	-	**229**
Foreign currency translation differences	2,950	1,972	3,227	-	**8,149**
Disposals	(1,146)	(521)	(4,464)	-	**(6,131)**
Balance as at 30 June	**141,607**	**62,765**	**132,885**	**-**	**337,257**
Carrying value					
Balance as at 1 January	**176,069**	**168,367**	**48,921**	**20,033**	**413,390**
Balance as at 30 June	**175,089**	**174,180**	**55,066**	**17,967**	**422,302**

An analysis of the intangible assets for the six month period ended 30 June 2018 is as follows:

Intangible assets	**Self-developed**	**Other**	**Total**
Gross values	5,219	208,969	**214,188**
Depreciation and amortization	1,912	139,466	**141,378**
Carrying value	**3,307**	**69,503**	**72,810**

An analysis of the changes in the goodwill for the six month period ended 30 June 2018 is as follows:

	Goodwill
Balance as at 1 January	**100,976**
Additions	513
Foreign currency translation difference	1,019
Impairment for the current period	-229
Balance as at 30 June	**102,279**
Carrying value	
Balance as at 1 January	**100,976**
Balance as at 30 June	**102,279**

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

For the six month period ended 30 June 2018 [continued]

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

List of units	**HUF mn**
JSC "OTP Bank" (Russia)	42,275
DSK Bank EAD	28,541
OTP banka Hrvatska d.d.	19,076
OTP Bank Romania S.A.	6,529
Monicomp Ltd.	5,732
Other[1]	126
Total	**102,279**

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

On the basis of the opinion of the Bank's Management as at 30 June 2018 there weren't happened such kinds of circumstances which would have reasoned the preparation of the impairment test, while as at 31 December 2017 the Bank decided to prepare impairment test where a three-year cash-flow model was applied with an explicit period between 2018-2020. The basis for the estimation was the annual financial strategic plan for year 2017, while for the three-year explicit period the Bank applied the prognosis for year 2018 accepted by the Management Committee of the subsidiaries and on the basis of this prognosis the prepared medium-term (2019-2020) forecasts. When the Bank prepared the calculations for the period 2019-2020, it considered the actual worldwide economic situations, the expected economic growth for the following years, their possible effects on the financial sector, the plans for growing which result from these, and the expected changes of the mentioned factors.

Present value calculation with the FCF method

The Bank calculated the expected cash-flow for the given period based on the expected after tax profit of the companies. For calculating the discount factor as risk free rates in case of OTP Bank JSC (Ukraine) the local interbank interest rate in foreign currency with a period of one year was applied, while in case of the other subsidiaries the ten-year local government bonds in foreign currency or swap yields were considered as presented in the actual macro forecasts. The Bank calculated risk premiums on the basis of information from the country risk premiums that are published on damodaran.com, which were modified with CDS spread in case of OTP Banka Slovensko a.s and Crnogorska komercijalna banka a.d., since according to the Bank's assumption the risk free interest rate includes the country-dependent risks in an implicit way.
The growth rate in the explicit period is the growth rate of the profit after tax adjusted by the interest rate of the cash and subordinated loans. The supposed growth rates for the periods of residual values reflect the long-term economic expectations in case of every country.
The values of the subsidiaries in the FCF method were then calculated as the sum of the discounted cash-flows of the explicit period, the present value of the terminal values and the initial free capital assuming an effective capital structure.

Present value calculation with the EVA method

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

Summary of the impairment test for the six month period ended 30 June 2018

Based on the valuations of the subsidiaries as at 30 June 2018 229 million HUF goodwill impairment for OTP Real Estate Lease Ltd., while as at 31 December 2017 504 million HUF goodwill impairment for OTP Banka Slovensko a.s. was needed on Group level

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

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

For the year ended 31 December 2017

Cost	**Intangible assets and goodwill**	**Property**	**Office equipment and vehicles**	**Construction in progress**	**Total**
Balance as at 1 January	**300,216**	**197,913**	**163,285**	**12,451**	**673,865**
Acquisition	14,938	29,406	2,791	365	**47,500**
Additions	37,275	13,355	29,233	37,855	**117,718**
Foreign currency translation differences	(4,746)	(1,393)	(1,470)	(96)	**(7,705)**
Disposals	(45,626)	(12,768)	(19,254)	(30,542)	**(108,190)**
Balance as at 31 December	**302,057**	**226,513**	**174,585**	**20,033**	**723,188**

Depreciation and Amortization	**Intangible assets and goodwill**	**Property**	**Office equipment and vehicles**	**Construction in progress**	**Total**
Balance as at 1 January	**138,185**	**54,026**	**126,138**	**-**	**318,349**
Charge for the year (without goodwill impairment)	27,081	7,400	14,507	-	**48,988**
Goodwill impairment	504	-	-	-	**504**
Foreign currency translation differences	(1,067)	(555)	(1,155)	-	**(2,777)**
Disposals	(38,715)	(2,725)	(13,826)	-	**(55,266)**
Balance as at 31 December	**125,988**	**58,146**	**125,664**	**-**	**309,798**
Carrying value					
Balance as at 1 January	**162,031**	**143,887**	**37,147**	**12,451**	**355,516**
Balance as at 31 December	**176,069**	**168,367**	**48,921**	**20,033**	**413,390**

An analysis of the intangible assets for the year ended 31 December 2017 is as follows:

Intangible assets	**Self-developed**	**Other**	**Total**
Gross values	4,735	195,833	**200,568**
Depreciation and amortization	1,789	123,685	**125,475**
Carrying value	**2,946**	**72,148**	**75,094**

An analysis of the changes in the goodwill for the year ended 31 December 2017 is as follows:

	Goodwill
Balance as at 1 January	**104,282**
Additions	-
Foreign currency translation difference	(2,802)
Impairment for the current period	(504)
Balance as at 31 December	**100,976**
Carrying value	
Balance as at 1 January	**104,282**
Balance as at 31 December	**100,976**

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

For the year ended 31 December 2017 [continued]

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

List of units	HUF mn
JSC "OTP Bank" (Russia)	42,182
DSK Bank EAD	28,541
OTP banka Hrvatska d.d.	18,004
OTP Bank Romania S.A.	6,162
Monicomp Ltd.	5,732
Other[1]	355
Total	**100,976**

Summary of the impairment test for the year ended 31 December 2017

Based on the valuations of the subsidiaries 504 million HUF goodwill impairment was needed on Group level for OTP Banka Slovensko a.s. as at 31 December 2017.

NOTE 12: INVESTMENT PROPERTIES (in HUF mn)

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

Gross values	30 June 2018	31 December 2017
Balance as at 1 January	**50,887**	**44,847**
Increase due to transfer from held-for-sale properties	358	44
Increase from purchase	325	660
Increase due to transfer from inventories or owner-occupied properties	291	5,879
Additions due to acquisition	-	3,394
Other additions	485	309
Disposal due to transfer to inventories or owner-occupied properties	-	(1,104)
Disposal due to transfer to held-for-sale properties	-	(137)
Other disposal	-	(945)
Disposal due to sale	(1,252)	(1,638)
Foreign currency translation difference	2,358	(422)
Closing balance	**53,452**	**50,887**

The applied depreciation and amortization keys were the following:

	30 June 2018	31 December 2017
Depreciation and amortization key	1% - 46.2%	1% - 46.2%

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

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

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

Depreciation and amortization	**30 June 2018**	**31 December 2017**
Balance as at 1 January	**7,422**	**5,408**
Charge for the period	388	781
Additions due to transfer from inventories or owner-occupied properties	-	18
Other increase for the period	32	1,410
Disposal due to transfer to inventories or owner-occupied properties	-	(137)
Disposal due to sale	(361)	-
Other disposal for the period	-	(62)
Foreign currency translation difference	401	4
Closing balance	**7,882**	**7,422**

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

Impairment	**30 June 2018**	**31 December 2017**
Balance as at 1 January	**8,080**	**9,993**
Impairment for the period	-	298
Release of impairment for the period	(51)	(369)
Use of impairment	(35)	(1,789)
Foreign currency translation difference	502	(53)
Closing balance	**8,496**	**8,080**

Carrying values	**30 June 2018**	**31 December 2017**
Balance as at 1 January	**35,385**	**29,446**
Balance as at 30 June	**37,074**	**35,385**
Fair values	**43,111**	**40,258**

Income and expenses	**30 June 2018**	**31 December 2017**
Rental income	**1,504**	**2,038**
Direct operating expenses of investment properties – income generating	**33**	**104**
Direct operating expenses of investment properties – non income generating	**1**	**8**

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

	30 June 2018	31 December 2017
Inventories	59,993	60,998
Prepayments and accrued income	40,896	32,674
Receivables from card operations	33,960	29,982
Assets subject to operating lease	26,355	27,798
Other advances	14,780	10,623
Trade receivables	13,641	10,710
Current income tax receivable	13,373	14,281
Receivables from investment services	9,542	3,273
Settlement and suspense accounts	4,795	2,330
Due from Hungarian Government from interest subsidies	4,068	4,170
Stock exchange deals	2,892	1,664
Other receivables from Hungarian Government	2,683	115
Giro clearing accounts	2,659	5,699
Receivable from the National Asset Management	2,331	3,130
Receivables from leasing activities	1,934	2,096
Receivables due from pension funds and investment funds	994	6,574
Advances for securities and investments	705	658
Loans sold under deferred payment scheme	-	137
Other	31,045	23,646
Subtotal	**266,646**	**240,558**
Provision for impairment on other assets[2]	(28,914)	(28,595)
	237,732	**211,963**
Fair value of derivative financial assets designated as fair value hedge	13,441	10,277
Deferred tax assets[3]	28,551	29,419
Subtotal	**41,992**	**39,696**
Total	**279,724**	**251,659**

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

	30 June 2018	31 December 2017
Interest rate swaps designated as fair value hedge	10,467	6,639
CCIRS and mark-to-market CCIRS designated as fair value hedge	2,974	3,638
Total	**13,441**	**10,277**

[1] Other assets – except income tax receivable and fair value of derivative financial assets designated as fair value hedge – are expected to be recovered or settled no more than twelve months after the reporting period. Unrealised gains/losses on derivative financial instruments are recovering in accordance with their maturity.
[2] Provision for impairment mostly relates for inventories, prepayments and accrued income.
[3] See Note 27.

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

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	**28,595**	**28,073**
Effect of transition due to IFRS 9 application	(139)	-
Provision for the period	52	5,674
Use of provision	(592)	(6,599)
Reclassification	-	1,677
Foreign currency translation difference	998	(230)
Closing balance	**28,914**	**28,595**

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

	30 June 2018	31 December 2017
Within one year		
In HUF	156,892	80,188
In foreign currency	179,504	115,852
	336,396	**196,040**
Over one year		
In HUF	149,627	187,062
In foreign currency	79,809	87,988
	229,436	**275,050**
Financial liabilities designated at fair value through profit or loss		
Within one year in HUF	3,093	-
Over one year in HUF	29,992	-
	33,085	**-**
Accrued interest	1,131	978
Total	**600,048**	**472,068**

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

	30 June 2018	31 December 2017
Within one year		
In HUF	(1.9)% - 2.67%	(18.0)% - 0.9%
In foreign currency	(0.6)% - 7.25%	(0.6)% - 7.2%
Over one year		
In HUF	0.0% - 2.67%	0.0% - 3.8%
In foreign currency	(0.27)% - 19.7%	(0.27)% - 16.3%

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

	30 June 2018	31 December 2017
Average interest rates on amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks denominated in HUF	2.00%	1.90%
Average interest rates on amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks denominated in foreign currency	1.67%	1.79%

NOTE 15: DEPOSITS FROM CUSTOMERS (in HUF mn)

	30 June 2018	31 December 2017
Within one year		
In HUF	4,505,670	4,314,972
In foreign currency	6,003,396	5,568,663
	10,509,066	**9,883,635**
Over one year		
In HUF	235,260	215,869
In foreign currency	113,843	119,292
	349,103	**335,161**
Accrued interest	12,225	14,675
Total	**10,870,394**	**10,233,471**

Interest rates on deposits from customers are as follows:

	30 June 2018	31 December 2017
Within one year		
In HUF	(4.48)% - 9.69%	(5.0)% - 9.69%
In foreign currency	(0.4)% - 26.0%	(0.4)% - 30.0%
Over one year		
In HUF	0.0% - 6.96%	0.0% - 10.10%
In foreign currency	0.0% - 26.0%	0.0% - 16.0%

	30 June 2018	31 December 2017
Average interest rates on deposits from customers denominated in HUF	0.11%	0.18%
Average interest rates on deposits from customers denominated in foreign currency	0.74%	0.80%

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

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

	30 June 2018		31 December 2017	
Retail deposits	6,573,618	61%	6,106,809	60%
Municipality deposits	2,804,539	26%	624,789	6%
Corporate deposits	1,480,012	14%	3,487,198	34%
Total	**10,858,169**	**100%**	**10,218,796**	**100%**

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

	30 June 2018	31 December 2017
With original maturity		
Within one year		
In HUF	46,961	12,098
In foreign currency	7,405	7,064
	54,366	**19,162**
Over one year		
In HUF	247,756	228,015
In foreign currency	15	310
	247,771	**228,325**
Accrued interest	2,972	2,833
Total	**305,109**	**250,320**

Interest rates on liabilities from issued securities are as follows:

	30 June 2018	31 December 2017
Issued securities denominated in HUF	0.2% - 9.48%	0.2% - 9.48%
Issued securities denominated in foreign currency	0.20% - 7.7%	0.0% - 8.1%

	30 June 2018	31 December 2017
Average interest rates on issued securities denominated in HUF	2.31%	3.23%
Average interest rates on issued securities denominated in foreign currency	1.30%	0.55%

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 issue	Maturity	Nominal value (in HUF mn)	Interest conditions (actual interest rate in % p.a.)		Hedged
1	OTP 2018/Cx	18/07/2012	18/07/2018	2,935	indexed		hedged
2	OTP 2018/Dx	29/10/2012	26/10/2018	2,477	indexed	1.70	hedged
3	OTP 2018/Ex	28/12/2012	28/12/2018	2,342	indexed	1.70	hedged
4	OTP 2019/Ax	25/06/2009	01/07/2019	211	indexed		hedged
5	OTP 2019/Bx	05/10/2009	14/10/2019	298	indexed		hedged
6	OTP 2019/Cx	14/12/2009	20/12/2019	238	indexed		hedged
7	OTP 2019/Dx	22/03/2013	21/03/2019	3,515	indexed	1.70	hedged
8	OTP 2019/Ex	28/06/2013	24/06/2019	2,866	indexed	0.60	hedged
9	OTP 2020/Ax	25/03/2010	30/03/2020	281	indexed		hedged
10	OTP 2020/Bx	28/06/2010	09/07/2020	275	indexed		hedged
11	OTP 2020/Cx	11/11/2010	05/11/2020	176	indexed		hedged
12	OTP 2020/Dx	16/12/2010	18/12/2020	177	indexed		hedged
13	OTP 2020/Ex	18/06/2014	22/06/2020	3,402	indexed	0.70	hedged
14	OTP 2020/Fx	10/10/2014	16/10/2020	2,976	indexed	0.20	hedged
15	OTP 2020/Gx	15/12/2014	21/12/2020	2,550	indexed	0.30	hedged
16	OTP 2021/Ax	01/04/2011	01/04/2021	235	indexed		hedged
17	OTP 2021/Bx	17/06/2011	21/06/2021	274	indexed		hedged
18	OTP 2021/Cx	19/09/2011	24/09/2021	251	indexed		hedged
19	OTP 2021/Dx	21/12/2011	27/12/2021	310	indexed		hedged
20	OTP 2022/Ax	22/03/2012	23/03/2022	242	indexed		hedged
21	OTP 2022/Bx	18/07/2012	18/07/2022	208	indexed	1.70	hedged
22	OTP 2022/Cx	29/10/2012	28/10/2022	227	indexed	1.70	hedged
23	OTP 2022/Dx	28/12/2012	27/12/2022	290	indexed	1.70	hedged
24	OTP 2023/Ax	22/03/2013	24/03/2023	353	indexed	1.70	hedged
25	OTP 2023/Bx	28/06/2013	26/06/2023	240	indexed	0.60	hedged
26	OTP 2024/Ax	18/06/2014	21/06/2024	256	indexed	1.30	hedged
27	OTP 2024/Bx	10/10/2014	16/10/2024	339	indexed	0.70	hedged
28	OTP 2024/Cx	15/12/2014	20/12/2024	272	indexed	0.60	hedged
29	OTP 2020/RF/A	12/07/2010	20/07/2020	2,010	indexed		hedged
30	OTP 2020/RF/B	12/07/2010	20/07/2020	1,177	indexed		hedged
31	OTP 2020/RF/C	11/11/2010	05/11/2020	2,415	indexed		hedged
32	OTP 2021/RF/A	05/07/2011	13/07/2021	2,258	indexed		hedged
33	OTP 2021/RF/B	20/10/2011	25/10/2021	2,394	indexed		hedged
34	OTP 2021/RF/C	21/12/2011	30/12/2021	427	indexed		hedged
35	OTP 2021/RF/D	21/12/2011	30/12/2021	298	indexed		hedged
36	OTP 2021/RF/E	21/12/2011	30/12/2021	53	indexed		hedged
37	OTP 2022/RF/A	22/03/2012	23/03/2022	1,714	indexed	1.70	hedged
38	OTP 2022/RF/B	22/03/2012	23/03/2022	574	indexed	1.70	hedged
39	OTP 2022/RF/C	28/06/2012	28/06/2022	156	indexed	1.70	hedged
40	OTP 2022/RF/D	28/06/2012	28/06/2022	208	indexed	1.70	hedged
41	OTP 2022/RF/E	29/10/2012	31/10/2022	578	indexed	1.70	hedged
42	OTP 2022/RF/F	28/12/2012	28/12/2022	424	indexed	1.70	hedged
43	OTP 2023/RF/A	22/03/2013	24/03/2023	586	indexed	1.70	hedged
44	OJB 2019/I	17/03/2004	18/03/2019	31,517	9.48	fixed	
45	OJB 2019/II	31/05/2011	18/03/2019	1,093	9.48	fixed	
46	OJB 2020/I	19/11/2004	12/11/2020	5,503	9.0	fixed	
	Subtotal			**81,601**			

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

Issued securities denominated in HUF as at 30 June 2018 (in HUF mn) [continued]

	Name	Date of issue	Maturity	Nominal value (in HUF mn)	Interest conditions (actual interest rate in % p.a.)		Hedged
47	OJB 2020/II	31/05/2011	12/11/2020	1,486	9.0	fixed	
48	OJB 2020/III	23/02/2017	20/05/2020	31,419	0.73	floating	
49	OJB 2021/I	15/02/2017	27/10/2021	114,000	2.0	fixed	
50	OJB 2022/I	24/02/2017	24/05/2022	20,524	0.91	floating	
51	OJB 2023/I	05/04/2018	24/11/2023	43,600	1.75	fixed	
52	Other			226			
	Subtotal			**211,255**			
	Subtotal issued securities in HUF			**292,856**			
	Unamortized premium			(336)			
	Fair value adjustment			2,197			
	Total issued securities in HUF			**294,717**			

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

	Name	Date of issue	Maturity	Type of FX	Nominal value (FX mn)	Nominal value (HUF mn)	Interest conditions (actual interest rate in % p.a.)		Hedged
1	OTP 2018/Fx	19/12/2013	21/12/2018	EUR	0.62	203	indexed		hedged
2	OTP_VK_USD_1_2018/V	14/07/2017	14/07/2018	USD	2.07	583	1.88	floating	
3	OTP_VK_USD_1_2018/VI	04/08/2017	04/08/2018	USD	0.66	186	1.98	floating	
4	OTP_VK_USD_1_2018/VII	29/09/2017	29/09/2018	USD	4.38	1,235	2.45	floating	
5	OTP_VK_USD_1_2018/VIII	17/11/2017	17/11/2018	USD	2.95	832	2.49	floating	
6	OTP_VK_USD_1_2018/IX	20/12/2017	20/12/2018	USD	1.44	405	2.5	floating	
7	OTP_VK_USD_1_2019/I	16/02/2018	16/02/2019	USD	3.05	860	1.00	floating	
8	OTP_VK_USD_1_2019/II	29/03/2018	29/03/2019	USD	2.98	839	1.00	floating	
9	OTP_VK_USD_1_2019/III	18/05/2018	18/05/2019	USD	2.99	842	1.00	floating	
10	OTP_VK_USD_1_2019/IV	28/06/2018	28/06/2019	USD	2.98	841	1.00	floating	
11	Other[1]					594			
	Subtotal issued securities in FX					**7,420**			
	Unamortized premium					(2)			
	Fair value adjustment					2			
	Total issued securities in FX					**7,420**			
	Accrued interest					2,972			
	Total issued securities					**305,109**			

[1] Other category includes promissory notes issued by OTP Banka Slovensko a.s. in the amount of HUF 227 million and by JSC "OTP Bank" (Russia) in the amount of HUF 367 million.

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

Hedge accounting

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

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

Term Note Program in the value of HUF 200 billion for the year of 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.

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

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

	30 June 2018	31 December 2017
Foreign exchange swaps designated as held for trading	64,828	14,745
Interest rate swaps designated as held for trading	32,510	30,453
Option contracts designated as held for trading	11,610	2,675
CCIRS and mark-to-market CCIRS designated as held for trading	10,019	12,948
Foreign exchange forward contracts designated as held for trading	7,499	6,731
Forward rate agreements designated as held for trading (FRA)	343	-
Forward security agreements designated as held for trading	18	3
Other transactions designated as held for trading	4,692	2,319
Total	**131,519**	**69,874**

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

	30 June 2018	31 December 2017
Provision on off-balance sheet commitments and contingent liabilities	85,241	78,318
Liabilities from investment services	79,302	52,569
Accrued expenses	53,157	39,934
Liabilities connected to Cafeteria benefits	43,971	35,028
Salaries and social security payable	30,117	28,220
Clearing, settlement and suspense accounts	27,043	19,030
Current income tax payable	24,249	17,674
Liabilities from card transactions	23,351	25,213
Accounts payable	18,374	30,805
Liabilities due to short positions	15,401	5,221
Giro clearing accounts	12,721	12,096
Advances received from customers	11,706	8,274
Liabilities due to refunding assets	10,781	11,101
Insurance technical reserve	4,289	3,816
Provision for expected losses due to CHF loans conversion at foreign subsidiaries	4,085	3,539
Liabilities related to housing loans	3,267	7,819
Loans from government	920	900
Liabilities connected to loans for collection	714	766
Dividend payable	118	83
Liabilities connected to leasing activities	23	31
Other	48,423	40,846
Subtotal	**497,253**	**421,283**
Accrued interest	811	659
	498,064	**421,942**
Fair value of derivative financial liabilities designated as fair value hedge	8,905	17,199
Deferred tax liabilities[2]	8,498	9,271
Subtotal	**17,403**	**26,470**
Total	**515,467**	**448,412**

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

[2] See Note 27.

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

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

	30 June 2018	31 December 2017
Commitments and guarantees given	26,507	17,000
Pending legal issues and tax litigation	23,579	24,958
Pensions and other post employment defined benefit obligations	12,658	14,324
Provision for expected losses due to CHF loans conversion at foreign subsidiaries	4,085	3,539
Other long-term employee benefits	1,239	1,193
Restructuring	991	1,058
Other provision	20,267	19,785
Total	**89,326**	**81,857**

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

	30 June 2018	31 December 2017
Balance as at 1 January	**81,857**	**54,568**
Effect of transition due to IFRS 9 application	4,989	-
Provision for the period	19,543	57,847
Release of provision for the period	(20,657)	(41,890)
Use of provision	(393)	(1,036)
Change due to acquisition	-	12,846
Foreign currency translation differences	3,987	(478)
Closing balance	**89,326**	**81,857**

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

	30 June 2018	31 December 2017
Interest rate swaps designated as fair value hedge	8,148	17,199
CCIRS and mark-to-market CCIRS designated as fair value hedge	757	-
Total	**8,905**	**17,199**

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

	30 June 2018	31 December 2017
Over one year:		
In foreign currency	83,512	76,028
Total	**83,512**	**76,028**

Types of subordinated bonds and loans	**30 June 2018**	**31 December 2017**
Debt securities issued	78,709	76,020
Deposits	4,803	8
Total	**83,512**	**76,028**

Interest rates on subordinated bonds and loans are as follows:

	30 June 2018	31 December 2017
Denominated in foreign currency	2.68% - 5.00%	2.67%

	30 June 2018	31 December 2017
Average interest rates on subordinated bonds and loans	2.69%	2.88%

Subordinated bonds and loans can be detailed as follows:

Type	Nominal value	Date of issuance	Date of maturity	Issue price	Interest conditions	Interest rate as at 30 June 2018
Subordinated bond	EUR 244.6 million	07/11/2006	Perpetual	99.375%	Three-month EURIBOR + 3%, variable after year 10 (payable quarterly)	2.678%
Subordinated loan	USD 17.041 million	05/06/2018	05/06/2025	100.00%	Bullet repayment, once at the end of the loan agreement	5.00%

NOTE 20: SHARE CAPITAL (in HUF mn)

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

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

In 2018 the Bank paid dividends of HUF 61,320 million from the profit of the year 2017, which meant HUF 219 dividend per share payable to the shareholders. In 2019 dividends of HUF 61,320 million are expected to be proposed by the Management from the profit of the year 2018, which means HUF 219 dividend per share payable to the shareholders.

The retained earnings and reserves according to IFRS contains the retained earnings (HUF 614,150 million and HUF 523,019 million) and reserves (HUF 1,126,374 million and HUF 1,148,860 million) as at 30 June 2018 and 31 December 2017 respectively. The reserves include mainly the option reserve, other reserves, the fair value adjustment of financial instruments at fair value through other comprehensive income, fair value of hedge transactions, additional reserves of Income Certificates Exchangeable for Shares ("ICES"), changes in equity accumulated in the previous years at the subsidiaries and due to consolidation as well as translation of foreign exchange differences.
In the Consolidated Financial Statement the Group recognizes the non-monetary items at historical cost. The difference between the historical cost of the non-monetary items in forint amount and the translated foreign currencies into the presentation currency using the exchange rate at the balance sheet date, is presented in the shareholders' equity as a translation difference. The accumulated amounts of exchange differences were HUF (109,086) million and HUF (161,660) million as at 30 June 2018 and 31 December 2017 respectively.

	30 June 2018	31 December 2017
Retained earnings	614,150	523,019
Capital reserve	52	52
Option reserve	(55,468)	(55,468)
Other reserves	58,592	42,971
Fair value of financial instruments measured at fair value through other comprehensive income	41,930	59,935
Share-based payment reserve	33,572	31,835
Fair value of derivative financial instruments designated as cash-flow hedge	33	-
Net investment hedge in foreign operations	(18,311)	(13,034)
Extra reserves	89,935	89,935
Net profit for the period	154,426	281,142
Changes in equity accumulated in the previous years at the subsidiaries and due to consolidation	930,699	873,152
Foreign currency translation differences	(109,086)	(161,660)
Retained earnings and other reserves	**1,740,524**	**1,671,879**

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

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

NOTE 22: TREASURY SHARES (in HUF mn)

	30 June 2018	31 December 2017
Nominal value (Ordinary shares)	1,832	1,827
Carrying value at acquisition cost	64,660	63,289

[1] See more details about the Consolidated statement of Changes in equity on page 5.

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

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

Change in number of shares:

	30 June 2018	31 December 2017
Number of shares as at 1 January	**18,274,010**	**18,216,002**
Additions	708,018	1,441,203
Disposals	(658,774)	(1,383,195)
Closing number of shares	**18,323,254**	**18,274,010**

Change in carrying value:

	30 June 2018	31 December 2017
Balance as at 1 January	**63,289**	**60,121**
Additions	6,815	13,510
Disposals	(5,444)	(10,342)
Closing balance	**64,660**	**63,289**

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

	30 June 2018	31 December 2017
Balance as at 1 January	**3,465**	**3,292**
Non-controlling interest included in net profit for the period	144	197
Changes due to ownership structure	(11)	110
Effect of transition due to IFRS 9 application	(127)	-
Foreign currency translation difference	42	(134)
Closing balance	**3,513**	**3,465**

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

	30 June 2018	30 June 2017
Provision for impairment on loan losses		
Provision for the period	151,243	202,904
Release of provision	(127,039)	(186,810)
Loan (gains) / losses due to write-off and sale	(14,214)	1,643
Modification gains - loans measured at amortized cost	(1,461)	-
	8,529	**17,737**
Provision / (Release of provision) on placement losses		
Provision for the period	1,391	22
Release of provision	(1,202)	(48)
Gains on placements due to write-off and sale	(64)	(9)
	125	**(35)**
Provision for impairment on loan and placement losses	**8,654**	**17,702**

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	68,836	59,433
Fees and commissions related to the issued bank cards	28,488	24,529
Fees related to cash withdrawal	16,137	14,486
Fees and commissions related to lending[1]	10,920	12,791
Fees and commissions related to security trading	10,202	13,831
Fees and commissions related to fund management	9,117	6,418
Insurance fee income	6,420	3,309
Other	10,321	13,442
Total	**160,441**	**148,239**

Expense from fees and commissions	30 June 2018	30 June 2017
Fees and commissions related to issued bank cards	9,199	6,675
Interchange fees	5,015	4,142
Fees and commissions related to deposits	2,124	2,023
Fees and commissions paid on loans	1,760	3,817
Insurance fees	1,724	1,485
Fees and commissions related to security trading	1,539	1,032
Cash withdrawal transaction fees	883	694
Postal fees	447	443
Fees and commissions related to collection of loans	428	478
Money market transaction fees and commissions	85	190
Other	3,056	3,745
Total	**26,260**	**24,724**
Net profit from fees and commissions	**134,181**	**123,515**

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 sale of receivables	2,776	3,741
Gains on transactions related to property activities	1,287	1,528
Gains on transactions related to insurance activity	409	-
Negative goodwill due to acquisition	-	14,459
Other income from non-financial activities	14,048	7,945
Total	**18,520**	**27,673**

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

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

Other operating expenses	**30 June 2018**	**30 June 2017**
Financial support for sport association and organization of public utility	5,011	573
Provision for impairment on other assets	699	4,396
Provision for impairment on investments[1]	557	150
Non-repayable assets contributed	343	319
Expenses from losses due to foreign currency loan conversion at foreign subsidiaries	247	291
Provision for assets subject to operating lease	23	351
Fine imposed by Competition Authority	4	15
(Release of provision) / Provision on investment properties	(51)	30
Release of provision for expected losses due to foreign currency loan conversion at foreign subsidiaries	(258)	(934)
(Release of provision) / Provision for off-balance sheet commitments and contingent liabilities	(856)	10,943
Other	3,305	3,601
Total	**9,024**	**19,735**

Other administrative expenses	**30 June 2018**	**30 June 2017**
Personnel expenses		
Wages	90,071	76,904
Taxes related to personnel expenses	19,220	18,713
Other personnel expenses	9,339	7,381
Subtotal	**118,630**	**102,998**
Depreciation and amortization, goodwill impairment[2]	**25,441**	**21,777**

	30 June 2018	**30 June 2017**
Other administrative expenses		
Taxes, other than income tax [3]	48,025	50,484
Services	29,528	24,873
Administration expenses	17,523	16,293
Professional fees	17,164	14,064
Rental fees	10,466	8,980
Advertising	7,535	7,473
Subtotal	**130,241**	**122,167**
Total	**274,312**	**246,942**

[1] See details in Note 9.

[2] See details in Note 11.

[3] Special tax of financial institutions was paid by the Group in the amount of HUF 11,043 million and HUF 9,509 million for the first half year of 2018 and for the year 2017 respectively, recognized as an expense thus decreased the corporate tax base. In the first half year of 30 June 2018 financial transaction duty was paid by the Bank in the amount of HUF 26,753 million.

NOTE 27: INCOME TAXES (in HUF mn)

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

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

The breakdown of the income tax expense is:

	30 June 2018	31 December 2017
Current tax expense	11,862	16,093
Deferred tax expense	8,545	25,410
Total	**20,407**	**41,503**

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

	30 June 2018	31 December 2017
Balance as at 1 January	**20,148**	**49,359**
Effect of transition due to IFRS 9 application	3,510	-
Deferred tax expense in profit or loss	(8,545)	(25,410)
Deferred tax related to items recognized directly in equity and in Comprehensive Income	2,436	(1,947)
Due to acquisition of subsidiary	-	(800)
Foreign currency translation difference	2,504	(1,054)
Closing balance	**20,053**	**20,148**

A breakdown of the deferred tax assets are as follows:

	30 June 2018	31 December 2017
Unused tax allowance	8,956	11,489
Premium and discount amortization on bonds	6,063	3,555
Tax accrual caused by negative taxable income	5,878	7,307
Difference due to IFRS 9	4,115	-
Fair value adjustment of securities at fair value through profit or loss and through other comprehensive income	3,646	3,608
Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments	2,930	1,607
Refundable tax in accordance with Acts on Customer Loans	1,861	2,294
Adjustment from effective interest rate method	922	1,660
Difference due to transition to IFRS	751	252
Provision for impairment on investments (Goodwill)	634	1,268
Difference in depreciation and amortization	328	139
Amounts unenforceable by tax law	219	-
Fair value adjustment of derivative financial instruments	106	303
Temporary differences arising on consolidation	101	-
Difference in accounting for leases	63	-
Other	13,813	14,090
Deferred tax asset	**50,386**	**47,572**

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

A breakdown of the deferred tax liabilities are as follows:

	30 June 2018	31 December 2017
Temporary differences arising on consolidation	(7,031)	(785)
Fair value adjustment of securities at fair value through profit or loss and through other comprehensive income	(6,981)	(10,168)
Difference in depreciation and amortization	(5,260)	(5,089)
Deferred tax due to acquisition	(4,461)	(4,608)
Premium and discount amortization on bonds	(2,492)	(3)
Difference due to transition to IFRS	(1,160)	(2,024)
Fair value adjustment of derivative financial instruments	(863)	(1,195)
Provision for off-balance sheet commitments and contingent liabilities, derivative financial instruments	(408)	(406)
Difference in accounting for leases	(375)	(769)
Difference due to IFRS 9	(171)	-
Adjustment from effective interest rate method	-	(176)
Other	(1,131)	(2,201)
Deferred tax liabilities	**(30,333)**	**(27,424)**
Net deferred tax asset (net amount presented in the statement of financial positions)	**20,053**	**20,148**
Deferred tax assets	28,551	29,419
Deferred tax liabilities	8,498	9,271

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

	30 June 2018	31 December 2017
Profit before income tax	174,978	322,842
Income tax expense at statutory tax rates	22,770	37,561

Income tax adjustments due to permanent differences are as follows:

	30 June 2018	31 December 2017
Deferred use of tax allowance	2,496	10,492
Share-based payment	156	324
Permanent differences from unused tax losses	118	-
Difference due to transition to IFRS	(72)	(4,485)
Amounts unenforceable by tax law	(85)	-
Transfer of statutory general provision to retained earnings	(159)	-
Use of tax allowance in the current year	(1,033)	(6,964)
Other	(3,784)	4,575
Income tax	**20,407**	**41,503**
Effective tax rate	**11.7%**	**12.9%**

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 Group. The most significant risks the Group faces include:

28.1. Credit risk

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

28.1.1. Analysis by loan types

Listing into stages

According to the requirements of the IFRS9 standard Group allocates the financial assets measured at amortized cost and at fair value through other comprehensive income into three stages:

- stage 1 – performing assets without significant increase in credit risk since initial recognition
- stage 2 – performing assets with significant increase in credit risk since initial recognition but not credit-impaired
- stage 3 – non-performing, credit-impaired assets

Performing (Stage 1) assets include all financial assets in the case of which the events and conditions specified in respect of stage 2 and stage 3 do not exist on the reporting date.

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

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

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types [continued]

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

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

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

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

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

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

Defining the expected credit loss on individual and collective basis

The following exposures are subject to collective assessment:

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

The Group assesses the debt securities and corporate bonds individually except those ones in stage 3 and not in workout management.
Individually assessed are the non-retail or micro- and small enterprise exposure of significant amount on a stand-alone basis:

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

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 and of interest bearing securities at fair value through other comprehensive income by stages as at 30 June 2018:

	Carrying amount	Gross carrying amount					Accumulated impairment			
		Stage 1	of which: assets with low credit risk	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Placements with other banks	**629,013**	629,391	-	-	32	**629,423**	394	-	16	**410**
Mortgage loans	**2,343,655**	1,970,969	-	273,305	322,589	**2,566,863**	8,421	13,707	201,080	**223,208**
Loans to medium and large corporates	**2,456,201**	2,259,086	-	108,507	296,554	**2,664,147**	26,971	7,836	173,139	**207,946**
Consumer loans	**1,778,169**	1,640,415	-	161,883	257,041	**2,059,339**	50,155	19,388	211,627	**281,170**
Loans to micro and small enterprises	**567,765**	499,012	-	54,839	74,588	**628,439**	5,914	2,995	51,765	**60,674**
Car-finance loans	**279,786**	261,574	-	16,124	25,755	**303,453**	1,745	925	20,997	**23,667**
Municipal loans	**277,197**	279,343	14,669	-	481	**279,824**	2,372	-	255	**2,627**
Loans at amortized cost	**7,702,773**	6,910,399	14,669	614,658	977,008	**8,502,065**	95,578	44,851	658,863	**799,292**
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost[1]	**3,522,419**	3,512,831	3.151.869	11,733	1,135	**3,525,699**	4,563	892	824	**6,279**
Financial assets total	**11,854,205**	**11,055,620**	**3,166,538**	**626,391**	**978,175**	**12,660,186**	**100,535**	**45,743**	**659,703**	**805,981**

Transfers between stages of the gross carrying amount of financial assets at amortized cost and of interest bearing securities at fair value through other comprehensive income by stages as at 30 June 2018:

	Gross carrying amount / nominal amount					
	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3
Placements with other banks	-	-	-	-	-	-
Loans at amortized cost	135,429	59,571	33,962	16,405	119,649	10,191
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	-	-	-	5,373	-	-
Financial assets total	**135,429**	**59,571**	**33,962**	**21,778**	**119,649**	**10,191**

[1] Interest bearing securities at fair value through other comprehensive income is recognized in the Consolidated statement of financial position as at fair value (see in Note 7). Loss allowances for securities at fair value through other comprehensive income is recognized in the Other comprehensive income which is included in the accumulated impairment of this table.

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan types [continued]

Movement of impairment on financial assets at amortized cost and on interest bearing securities at fair value through other comprehensive income as at 30 June 2018:

	Opening balance	Increases due to origination and acquisition	Decreases due to derecognition	Changes due to change in credit risk (net)	Changes due to modifications without derecognition (net)	Changes due to update in the institution's methodology for estimation (net)	Decrease in allowance account due to write-offs	Other adjustments	Closing balance
Stage 1	**88,457**	**33,673**	**(9,646)**	**(8,916)**	**(315)**		**(112)**	**1,897**	**105,038**
Placements with other banks	245	765	-	(560)	-	-	-	(54)	**396**
Loans at amortized cost	84,113	32,643	(9,593)	(8,381)	(315)	-	(112)	1,947	**100,302**
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	4,099	265	(53)	25	-	-	-	4	**4,340**
Stage 2	**40,938**	**2,251**	**(2,312)**	**1,973**	**(867)**	**-**	**(55)**	**(3,758)**	**38,170**
Placements with other banks	1	-	-	(1)	-	-	-	-	**-**
Loans at amortized cost	40,871	2,251	(2,312)	1,907	(867)	-	(55)	(4,409)	**37,386**
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	66	-	-	67	-	-	-	651	**784**
Stage 3	**663,157**	**20,414**	**(27,773)**	**5,652**	**6,605**	**-**	**(15,661)**	**10,379**	**662,773**
Placements with other banks	11	-	-	3	-	-	-	-	**14**
Loans at amortized cost	661,436	20,414	(27,773)	5,606	6,605	-	(15,661)	10,977	**661,604**
Interest bearing securities at fair value through other comprehensive income and securities at amortized cost	1,710	-	-	43	-	-	-	(598)	**1,155**
Impairment on financial assets total	**792,552**	**56,338**	**(39,731)**	**(1,291)**	**5,423**	**-**	**(15,828)**	**8,518**	**805,981**

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

	30 June 2018		31 December 2017	
Country	**Carrying amount of gross loan at amortized cost and placement with other banks portfolio**	**Allowance**	**Carrying amount of gross loan at amortized cost and placement with other banks portfolio**	**Allowance**
Hungary	3,332,118	190,894	2,988,753	177,834
Croatia	1,428,772	79,564	1,252,800	64,521
Bulgaria	1,423,756	131,929	1,280,915	123,673
Russia	639,817	127,449	588,153	115,064
Romania	630,590	49,406	536,597	42,197
Serbia	428,903	24,153	355,214	23,248
Slovakia	401,940	37,512	382,567	31,563
Ukraine	365,551	104,102	294,181	95,493
Montenegro	184,849	45,750	146,724	43,453
United Kingdom	78,933	1,354	64,151	873
Germany	34,694	171	54,110	108
France	29,058	27	30,677	19
Austria	29,048	4,780	29,967	5,251
Belgium	22,279	99	12,494	55
Cyprus	21,540	592	41,577	14,117
Switzerland	15,022	113	4,522	2
United States of America	13,580	49	10,157	22
Italy	12,008	52	10,445	33
Czech Republic	11,668	78	13,167	14
Norway	5,742	30	8,194	21
Turkey	5,110	16	6,235	9
The Netherlands	4,915	123	4,968	143
Poland	4,694	39	2,553	21
Slovenia	1,410	25	309	1
Bosnia and Herzegovina	916	-	1,307	-
Denmark	899	1	113	1
Ireland	545	114	401	67
Sweden	430	40	371	15
Greece	351	85	455	53
Israel	248	1	4,453	1
Spain	143	3	5,323	1
Kazakhstan	123	53	130	57
United Arab Emirates	123	40	23	16
Australia	107	852	155	-
Canada	104	-	250	807
Egypt	92	-	88	6
Japan	76	-	623	-
Iceland	50	50	47	34
Latvia	29	18	5	14
Luxembourg	8	-	697	-
Other[1]	1,247	138	54,849	56
Total[2]	**9,131,488**	**799,702**	**8,188,720**	**738,863**

[1] Other category in the first half year of 2018 includes e.g.: Malta, Macedonia, Iran, Pakistan, China, Republic of South-Africa, Armenia, Hong Kong, Moldova, Syria, Tunisia, Estonia, Jordan, India, Finland, Brazil, Morocco, Lithuania, Belorussia.
[2] Without the amount of bill of exchange and with accrued interest receivable.

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

28.1. Credit risk [continued]

28.1.1. Analysis by loan type [continued]

Loan portfolio by countries [continued]

Country	30 June 2018 Loans at fair value
Hungary	32,930
Croatia	2,142
Total	**35,072**

The loan portfolio increased mostly in Montenegro, Ukraine and Serbia however there were no significant decreases in any other countries of Group members. Their stock of provision increased mostly in Croatia, Slovakia and Romania while in the other countries who are members of the Group the movements stayed below 10%, while the decreasing tendency is not typical at all in any of the other countries of the Group.

28.1.2. Collateral

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

Types of collateral	30 June 2018	31 December 2017
Mortgages	7,998,751	7,330,181
Assignments (revenue or other receivables)	428,189	409,486
Guarantees and warranties	320,935	297,574
Guarantees of state or organizations owned by state	181,825	173,824
Cash deposits	111,001	115,217
Securities	81,907	75,589
Other	1,141,541	949,143
Total	**10,264,149**	**9,351,014**

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

Types of collateral	30 June 2018	31 December 2017
Mortgages	3,678,345	3,397,094
Assignments (revenue or other receivables)	369,732	340,365
Guarantees and warranties	202,566	180,680
Guarantees of state or organizations owned by state	170,571	155,615
Cash deposits	57,973	45,207
Securities	50,176	48,622
Other	673,852	550,817
Total	**5,203,215**	**4,718,400**

The coverage level of the loan portfolio (total collateral) decreased by 1.54%, as well as the coverage level to the extent of the exposures decreased by 0.57% as at 30 June 2018.

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

28.1. Credit risk [continued]

28.1.3. Restructured loans

	30 June 2018		31 December 2017	
	Gross portfolio	Allowance	Gross portfolio	Allowance
Retail mortgage loans	56,248	5,444	74,087	2,353
Loans to medium and large corporations	23,751	4,825	36,199	1,030
Retail consumer loans	14,599	3,126	16,683	617
Loans to micro and small enterprises	13,546	2,027	4,647	239
Other loans	145	12	2,113	296
Total	**108,289**	**15,434**	**133,729**	**4,535**

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

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

28.1. Credit risk [continued]

28.1.4. Financial instruments by rating categories[1]

Securities held for trading as at 30 June 2018

	Aaa	A1	A2	Baa1	Baa2	Baa3	Ba1	Ba2	Not rated	Total
Government bonds	276	-	-	-	9,209	97,245	9,182	5,429	-	**121,341**
Interest bearing treasury bills	-	-	-	-	-	22,599	-		-	**22,599**
Shares and investment bonds	-	56	23	36	20	321	-	12	16,210	**16,678**
Discounted Treasury bills	-	-	-	-	-	1,615	-	-	-	**1,615**
Other securities	-	-	-	-	-	1,488	764	-	6,526	**8,778**
Other non-interest bearing securities	-	-	-	-	-	-	-	-	3,735	**3,735**
Total	**276**	**56**	**23**	**36**	**9,229**	**123,268**	**9,946**	**5,441**	**26,471**	**174,746**
Accrued interest										2,679
Total										**177,425**

Securities at fair value through other comprehensive income as at 30 June 2018

	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3	Caa2	Not rated	Total
Government bonds	-	34,433	6,170	46,273	100,183	984,737	56,653	181,606	40,844	13,232	12,852	**1,476,983**
Discounted Treasury bills	-	-	-	-	-	176,619	-	48,204	-	-	-	**224,823**
Corporate bonds	-	-	-	-	1,476	47,883	-	9,129	-	-	94,055	**152,543**
Other securities	-	-	-	-	-	-	-	-	-	-	640	**640**
Other non-interest bearing securities	4,803	868	-	-	-	1,265	-	-	-	-	46,219	**53,155**
Total	**4,803**	**35,301**	**6,170**	**46,273**	**101,659**	**1,210,504**	**56,653**	**238,939**	**40,844**	**13,232**	**153,766**	**1,908,144**
Accrued interest												17,749
Total												**1,925,893**

[1] Moody's ratings

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

28.1. Credit risk [continued]

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

Securities at amortized cost as at 30 June 2018

	A2	Ba2	Baa2	Baa3	B1	Caa2	Not rated	Total
Government bonds	23,479	-	3,428	1,539,731	25,593	25,192	720	**1,618,143**
Corporate bonds	-	9,795	-	-	-	-	445	**10,240**
Total	**23,479**	**9,795**	**3,428**	**1,539,731**	**25,593**	**25,192**	**1,165**	**1,628,383**
Accrued interest								24,578
Total								**1,652,961**

[1] Moody's ratings

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

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

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

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

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

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

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

Due to the balance sheet adjustment process (deleveraging) experienced in the last few years, the liquidity reserves of the Group increased significantly while the liquidity risk exposure has decreased considerably. Currently the (over)coverage of potential liquidity risk exposure by high quality liquid assets is very high. In the first half year of 2018 there were no material changes in the liquidity risk management process.

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

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

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

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

28. 2. Maturity analysis of assets, 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 Banks	1,180,095	977	-	-	-	1,181,072
Placements with other banks, net of allowance for placement losses	506,440	74,866	61,461	378	1,307	644,452
Securities at fair value through profit or loss	38,328	61,237	42,562	16,039	11,200	169,365
Securities at fair value through other comprehensive income	128,791	451,022	900,962	359,806	47,192	1,887,773
Loans at amortized cost and at fair value	921,167	1,570,698	3,066,797	2,720,073	-	8,278,736
Associates and other investments	-	-	-	-	18,672	18,672
Securities at amortized cost	39,938	160,961	602,093	759,032	-	1,562,024
Property, equipment and intangible assets	926	2,513	8,953	10,373	399,537	422,302
Investment properties	-	-	1,852	6,292	28,930	37,074
Other assets[1]	158,351	51,627	45,476	7,111	5,912	268,477
TOTAL ASSETS	**2,974,037**	**2,373,901**	**4,730,156**	**3,879,104**	**512,750**	**14,469,947**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	302,805	35,871	137,518	123,417	479	600,090
Deposits from customers	9,360,043	1,016,774	242,664	117,143	149,339	10,885,963
Liabilities from issued securities	8,363	48,933	202,905	41,954	-	302,155
Other liabilities[1]	413,334	40,855	12,549	39,026	1,332	507,096
Subordinated bonds and loans	-	-	-	83,524	-	83,524
TOTAL LIABILITIES	**10,084,545**	**1,142,433**	**595,636**	**405,064**	**151,150**	**12,378,828**
NET POSITION	**(7,110,508)**	**1,231,468**	**4,134,520**	**3,474,040**	**361,600**	**2,091,119**
Receivables from derivative financial instruments designated as held for trading	466,413	727,591	376,176	244,435	-	1,814,615
Liabilities from derivative financial instruments designated as held for trading	(2,171,890)	(3,533,195)	(705,707)	(303,617)	-	(6,714,409)
Net position of financial instruments designated as held for trading	**(1,705,477)**	**(2,805,604)**	**(329,531)**	**(59,182)**	**-**	**(4,899,794)**
Receivables from derivative financial instruments designated as fair value hedge	1,635	33,201	356,737	38,834	-	430,407
Liabilities from derivative financial instruments designated as fair value hedge	-	(129,453)	(294,087)	(60,320)	-	(483,860)
Net position of financial instruments designated as fair value hedge	**1,635**	**(96,252)**	**62,650**	**(21,486)**	**-**	**(53,453)**
Net position of derivative financial instruments total	**(1,703,842)**	**(2,901,856)**	**(266,881)**	**(80,668)**	**-**	**(4,953,247)**
Commitments to extend credit	808,739	820,137	283,446	42,132	21,532	1,975,986
Bank guarantees	101,118	235,626	123,227	104,637	2,619	567,227
Off-balance sheet commitments	**909,857**	**1,055,763**	**406,673**	**146,769**	**24,151**	**2,543,213**

[1] Without derivative financial instruments.

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

28. 2. Maturity analysis of assets, 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 Banks	1,198,257	22	-	-	293	1,198,572
Placements with other banks, net of allowance for placement losses	353,289	57,534	67,814	-	1,183	479,820
Securities at fair value through profit or loss	69,004	74,337	93,041	9,833	6,405	252,620
Securities at fair value through other comprehensive income	186,336	459,696	1,029,498	393,069	33,153	2,101,752
Loans at amortized cost and at fair value	858,922	1,483,399	2,651,539	2,450,010	1,090	7,444,960
Associates and other investments	-	-	-	-	12,269	12,269
Securities at amortized cost	62,873	64,141	470,228	666,807	5	1,264,054
Property, equipment and intangible assets	788	2,025	8,269	47,804	354,504	413,390
Investment properties	-	-	450	6,966	27,969	35,385
Other assets[1]	132,921	40,143	43,589	4,027	21,290	241,970
TOTAL ASSETS	**2,862,390**	**2,181,297**	**4,364,428**	**3,578,516**	**458,161**	**13,444,792**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	146,667	47,467	124,910	153,089	-	472,133
Deposits from customers	8,864,259	1,032,706	250,209	91,438	-	10,238,612
Liabilities from issued securities	8,758	13,234	223,785	2,092	-	247,869
Other liabilities[1]	363,012	28,852	21,500	13,172	3,579	430,115
Subordinated bonds and loans	325	2	-	75,701	-	76,028
TOTAL LIABILITIES	**9,383,021**	**1,122,261**	**620,404**	**335,492**	**3,579**	**11,464,757**
NET POSITION	**(6,520,631)**	**1,059,036**	**3,744,024**	**3,243,024**	**454,582**	**1,980,035**
Receivables from derivative financial instruments designated as held for trading	1,370,126	972,622	585,361	136,689	-	3,064,798
Liabilities from derivative financial instruments designated as held for trading	(1,665,817)	(796,322)	(513,955)	(150,520)	-	(3,126,614)
Net position of financial instruments designated as held for trading	**(295,691)**	**176,300**	**71,406**	**(13,831)**	**-**	**(61,816)**
Receivables from derivative financial instruments designated as fair value hedge	4,302	62,093	158,991	66,120	-	291,506
Liabilities from derivative financial instruments designated as fair value hedge	(402)	(307,404)	(468,105)	(20,241)	-	(796,152)
Net position of financial instruments designated as fair value hedge	**3,900**	**(245,311)**	**(309,114)**	**45,879**	**-**	**(504,646)**
Net position of derivative financial instruments total	**(291,791)**	**(69,011)**	**(237,708)**	**32,048**	**-**	**(566,462)**
Commitments to extend credit	730,236	754,814	205,020	40,620	340	1,731,030
Bank guarantees	120,691	177,311	134,118	98,445	1,794	532,359
Off-balance sheet commitments	**850,927**	**932,125**	**339,138**	**139,065**	**2,134**	**2,263,389**

[1] Without derivative financial instruments.

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	557,231	3,273,858	68,540	4,076,181	7,975,810
Liabilities	(626,046)	(2,871,832)	(111,511)	(3,563,200)	(7,172,589)
Off-balance sheet assets and liabilities, net[1]	118,983	57,422	(2,777)	(203,966)	(30,338)
Net position	**50,168**	**459,448**	**(45,748)**	**309,015**	**772,883**

As at 31 December 2017

	USD	EUR	CHF	Others	Total
Assets	530,142	2,604,035	67,349	3,654,025	6,855,551
Liabilities	(585,891)	(2,266,480)	(101,631)	(3,236,902)	(6,190,904)
Off-balance sheet assets and liabilities, net[1]	78,813	278,963	(1,665)	(374,122)	(18,011)
Net position	**23,064**	**616,518**	**(35,947)**	**43,001**	**646,636**

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

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

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

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

[1] 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		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
ASSETS	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
Cash, amounts due from banks and balances with the National Banks	**141,844**	**290,627**	**1,766**	**76**	**-**	**190**	**-**	**-**	**-**	**-**	**110,047**	**636,522**	**253,657**	**927,415**	**1,181,072**
fixed rate	139,556	241,890	1,760	6	-	190	-	-	-	-	-	-	141,316	242,086	383,402
variable rate	2,288	48,737	6	70	-	-	-	-	-	-	-	-	2,294	48,807	51,101
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	110,047	636,522	110,047	636,522	746,569
Placements with other banks, net of allowance for placements losses	**58,880**	**301,990**	**68,241**	**14,121**	**21,742**	**73,147**	**33,234**	**-**	**16,813**	**797**	**14**	**40,034**	**198,924**	**430,089**	**629,013**
fixed rate	5,576	206,570	1,563	12,486	7,794	73,147	33,234	-	16,813	797	-	-	64,980	293,000	357,980
variable rate	53,304	95,420	66,678	1,635	13,948	-	-	-	-	-	-	-	133,930	97,055	230,985
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	14	40,034	14	40,034	40,048
Financial assets at fair value through profit or loss	**18,315**	**18,851**	**13,412**	**-**	**56,765**	**7,748**	**2,187**	**1,905**	**28,323**	**13,486**	**12,136**	**4,903**	**131,138**	**46,893**	**178,031**
fixed rate	10,272	12,681	10,109	-	47,464	7,739	2,187	1,905	28,323	13,486	-	-	98,355	35,811	134,166
variable rate	8,043	6,170	3,303	-	9,301	9	-	-	-	-	-	-	20,647	6,179	26,826
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	12,136	4,903	12,136	4,903	17,039
Securities at fair value through other comprehensive income	**56,461**	**88,755**	**31,191**	**15,295**	**314,011**	**167,230**	**352,856**	**81,412**	**286,531**	**462,924**	**30,795**	**38,432**	**1,071,845**	**854,048**	**1,925,893**
fixed rate	11,033	88,112	30,454	15,123	278,822	167,230	352,856	81,412	285,544	462,924	-	-	958,709	814,801	1,773,510
variable rate	45,428	643	737	172	35,189	-	-	-	987	-	-	-	82,341	815	83,156
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	30,795	38,432	30,795	38,432	69,227
Loans at amortized cost and at fair value	**921,472**	**2,254,655**	**673,393**	**550,215**	**200,686**	**632,306**	**294,366**	**325,766**	**617,130**	**1,222,473**	**694**	**44,689**	**2,707,741**	**5,030,104**	**7,737,845**
fixed rate	52,566	426,749	26,978	137,247	62,913	416,583	245,390	295,752	237,704	840,158	-	-	625,551	2,116,489	2,742,040
variable rate	868,906	1,827,906	646,415	412,968	137,773	215,723	48,976	30,014	379,426	382,315	-	-	2,081,496	2,868,926	4,950,422
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	694	44,689	694	44,689	45,383
Securities at amortized cost	**9,616**	**25,192**	**-**	**80**	**139,442**	**13,556**	**47,429**	**12,290**	**1,327,483**	**50,491**	**24,013**	**89**	**1,547,983**	**101,698**	**1,649,681**
fixed rate	9,616	25,192	-	80	139,442	13,556	47,429	12,290	1,327,483	50,491	-	-	1,523,970	101,609	1,625,579
variable rate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	24,013	89	24,013	89	24,102
Derivative financial instruments	**554,748**	**298,471**	**575,028**	**354,718**	**941,543**	**815,432**	**20,158**	**4,090**	**21,933**	**55,305**	**403,366**	**109,709**	**2,516,776**	**1,637,725**	**4,154,501**
fixed rate	527,223	292,989	417,002	334,527	931,183	769,270	20,114	4,001	21,933	55,305	-	-	1,917,455	1,456,092	3,373,547
variable rate	27,525	5,482	158,026	20,191	10,360	46,162	44	89	-	-	-	-	195,955	71,924	267,879
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	403,366	109,709	403,366	109,709	513,075

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

28.4. Interest rate risk management [continued]

As at 30 June 2018 [continued]

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
LIABILITIES	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	**HUF**	**Currency**	
Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks	**100,456**	**183,383**	**1,376**	**57,252**	**46,172**	**16,042**	**17,032**	**7,030**	**140,879**	**26,655**	**958**	**2,813**	**306,873**	**293,175**	**600,048**
fixed rate	84,788	140,058	682	18,283	13,874	9,280	16,958	7,030	140,814	26,485	-	-	257,116	201,136	458,252
variable rate	15,668	43,325	694	38,969	32,298	6,762	74	-	65	170	-	-	48,799	89,226	138,025
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	958	2,813	958	2,813	3,771
Deposits from customers	**1,259,070**	**3,940,478**	**157,608**	**406,514**	**127,214**	**772,979**	**47,978**	**88,009**	**3,150,206**	**685,570**	**2,221**	**232,547**	**4,744,297**	**6,126,097**	**10,870,394**
fixed rate	481,187	2,245,594	151,140	404,384	127,214	772,978	47,978	88,009	159,450	136,592	-	-	966,969	3,647,557	4,614,526
variable rate	777,883	1,694,884	6,468	2,130	-	1	-	-	2,990,756	548,978	-	-	3,775,107	2,245,993	6,021,100
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	2,221	232,547	2,221	232,547	234,768
Liabilities from issued securities	**55,015**	**655**	**-**	**3,136**	**41,970**	**3,566**	**2,107**	**13**	**195,642**	**50**	**2,937**	**18**	**297,671**	**7,438**	**305,109**
fixed rate	3,096	72	-	15	41,970	644	2,107	13	195,642	50	-	-	242,815	794	243,609
variable rate	51,919	583	-	3,121	-	2,922	-	-	-	-	-	-	51,919	6,626	58,545
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	2,937	18	2,937	18	2,955
Derivative financial instruments	**736,367**	**126,935**	**699,086**	**209,624**	**1,037,337**	**702,892**	**20,571**	**12,876**	**41,728**	**41,946**	**262,717**	**237,073**	**2,797,806**	**1,331,346**	**4,129,152**
fixed rate	707,825	118,564	564,950	192,289	1,032,159	669,907	20,527	12,876	41,728	41,946	-	-	2,367,189	1,035,582	3,402,771
variable rate	28,542	8,371	134,136	17,335	5,178	32,985	44	-	-	-	-	-	167,900	58,691	226,591
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	262,717	237,073	262,717	237,073	499,790
Subordinated bonds and loans	**-**	**-**	**-**	**78,704**	**-**	**-**	**-**	**-**	**-**	**4,784**	**-**	**24**	**-**	**83,512**	**83,512**
fixed rate	-	-	-	78,698	-	-	-	-	-	4,784	-	-	-	83,482	83,482
variable rate	-	-	-	6	-	-	-	-	-	-	-	-	-	6	6
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	24	-	24	24
Net position	**(389,572)**	**(972,910)**	**504,961**	**179,275**	**421,496**	**214,130**	**662,542**	**317,535**	**(1,230,242)**	**1,046,471**	**312,232**	**401,903**	**281,417**	**1,186,404**	**1,467,821**

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

28.4. Interest rate risk management [continued]

As at 31 December 2017

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
ASSETS	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
Cash, amounts due from banks and balances with the National Banks	**205,408**	**435,363**	**2,977**	**290**	**-**	**22**	**-**	**-**	**-**	**-**	**95,079**	**458,906**	**303,464**	**894,581**	**1,198,045**
fixed rate	203,141	363,723	2,972	290	-	22	-	-	-	-	-	-	206,113	364,035	570,148
variable rate	2,267	71,640	5	-	-	-	-	-	-	-	-	-	2,272	71,640	73,912
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	95,079	458,906	95,079	458,906	553,985
Placements with other banks, net of allowance for placements losses	**70,716**	**263,359**	**15,698**	**21,517**	**3,197**	**23,258**	**14,214**	**-**	**202**	**3,896**	**17**	**46,106**	**104,044**	**358,136**	**462,180**
fixed rate	14,098	197,489	1,063	10,969	3,197	13,983	14,214	-	202	3,188	-	-	32,774	225,629	258,403
variable rate	56,618	65,870	14,635	10,548	-	9,275	-	-	-	708	-	-	71,253	86,401	157,654
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	17	46,106	17	46,106	46,123
Financial assets at fair value through profit or loss	**12,126**	**14,056**	**33,662**	**6,342**	**66,770**	**21,042**	**43,938**	**18,339**	**1,480**	**25,890**	**11,742**	**3,876**	**169,718**	**89,545**	**259,263**
fixed rate	11,656	13,862	33,038	6,342	50,432	21,042	43,938	18,339	1,480	25,890	-	-	140,544	85,475	226,019
variable rate	470	194	624	-	16,338	-	-	-	-	-	-	-	17,432	194	17,626
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	11,742	3,876	11,742	3,876	15,618
Securities at fair value through other comprehensive income	**81,348**	**55,439**	**70,013**	**58,292**	**384,454**	**95,966**	**279,134**	**122,569**	**528,552**	**468,019**	**11,265**	**19,667**	**1,354,766**	**819,952**	**2,174,718**
fixed rate	59,495	49,309	50,493	28,285	360,619	95,966	269,149	122,569	528,552	468,019	-	-	1,268,308	764,148	2,032,456
variable rate	21,853	6,130	19,520	30,007	23,835	-	9,985	-	-	-	-	-	75,193	36,137	111,330
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	11,265	19,667	11,265	19,667	30,932
Loans at amortized cost and at fair value	**877,092**	**2,323,586**	**665,244**	**725,290**	**224,567**	**683,897**	**122,063**	**248,308**	**505,101**	**500,411**	**45,587**	**66,688**	**2,439,654**	**4,548,180**	**6,987,834**
fixed rate	40,871	306,371	24,701	110,151	56,856	322,608	58,585	230,020	210,269	443,789	-	-	391,282	1,412,939	1,804,221
variable rate	836,221	2,017,215	640,543	615,139	167,711	361,289	63,478	18,288	294,832	56,622	-	-	2,002,785	3,068,553	5,071,338
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	45,587	66,688	45,587	66,688	112,275
Securities at amortized cost	**-**	**41,241**	**-**	**2,824**	**69,084**	**4,995**	**111,596**	**8,600**	**1,002,642**	**49,751**	**19,504**	**94**	**1,202,826**	**107,505**	**1,310,331**
fixed rate	-	40,895	-	2,824	69,084	4,987	111,596	8,600	1,002,642	49,751	-	-	1,183,322	107,057	1,290,379
variable rate	-	346	-	-	-	8	-	-	-	-	-	-	-	354	354
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	19,504	94	19,504	94	19,598
Derivative financial instruments	**756,421**	**339,855**	**702,752**	**418,190**	**484,697**	**311,040**	**71,257**	**31,422**	**22,061**	**33,834**	**623,542**	**231,976**	**2,660,730**	**1,366,317**	**4,027,047**
fixed rate	735,532	335,957	525,555	415,869	463,910	298,831	70,794	31,422	22,061	33,834	-	-	1,817,852	1,115,913	2,933,765
variable rate	20,889	3,898	177,197	2,321	20,787	12,209	463	-	-	-	-	-	219,336	18,428	237,764
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	623,542	231,976	623,542	231,976	855,518

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

28.4. Interest rate risk management [continued]

As at 31 December 2017 [continued]

	Within 1 month		Over 1 month and Within 3 months		Over 3 months and Within 12 months		Over 1 year and Within 2 years		Over 2 years		Non-interest-bearing		Total		Total
LIABILITIES	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	HUF	Currency	
Amounts due to banks, the Hungarian Government, deposits from the National Bank of Hungary and other banks	**40,026**	**116,024**	**8,927**	**19,477**	**34,745**	**22,624**	**17,858**	**11,954**	**165,864**	**32,771**	**17**	**1,781**	**267,437**	**204,631**	**472,068**
fixed rate	22,904	82,573	8,583	2,085	25,817	17,182	17,843	11,954	165,115	32,768	-	-	240,262	146,562	386,824
variable rate	17,122	33,451	344	17,392	8,928	5,442	15	-	749	3	-	-	27,158	56,288	83,446
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	17	1,781	17	1,781	1,798
Deposits from customers	**1,337,594**	**3,597,101**	**142,659**	**386,023**	**98,017**	**722,046**	**59,361**	**80,024**	**2,894,525**	**681,756**	**2,312**	**232,053**	**4,534,468**	**5,699,003**	**10,233,471**
fixed rate	500,409	2,061,046	133,246	383,738	98,017	722,046	59,361	80,024	132,197	127,130	-	-	923,230	3,373,984	4,297,214
variable rate	837,185	1,536,055	9,413	2,285	-	-	-	-	2,762,328	554,626	-	-	3,608,926	2,092,966	5,701,892
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	2,312	232,053	2,312	232,053	234,365
Liabilities from issued securities	**53,686**	**1,358**	**2,309**	**2,462**	**7,621**	**3,265**	**39,818**	**251**	**134,286**	**57**	**5,197**	**10**	**242,917**	**7,403**	**250,320**
fixed rate	429	58	2,309	22	7,621	357	39,818	251	134,286	57	-	-	184,463	745	185,208
variable rate	53,257	1,300	-	2,440	-	2,908	-	-	-	-	-	-	53,257	6,648	59,905
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	5,197	10	5,197	10	5,207
Derivative financial instruments	**875,512**	**207,974**	**909,079**	**147,684**	**397,702**	**309,225**	**43,494**	**9,167**	**35,935**	**38,342**	**368,513**	**469,341**	**2,630,235**	**1,181,733**	**3,811,968**
fixed rate	853,960	204,051	770,912	123,845	394,530	303,888	43,428	9,167	35,935	38,342	-	-	2,098,765	679,293	2,778,058
variable rate	21,552	3,923	138,167	23,839	3,172	5,337	66	-	-	-	-	-	162,957	33,099	196,056
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	368,513	469,341	368,513	469,341	837,854
Subordinated bonds and loans	**-**	**-**	**-**	**76,020**	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**7**	**-**	**76,028**	**76,028**
fixed rate	-	-	-	76,020	-	-	-	-	-	-	-	-	-	76,020	76,020
variable rate	-	-	-	-	-	-	-	-	-	1	-	-	-	1	1
non-interest-bearing	-	-	-	-	-	-	-	-	-	-	-	7	-	7	7
Net position	**(303,707)**	**(449,558)**	**427,372**	**601,079**	**694,684**	**83,060**	**481,671**	**327,842**	**(1,170,572)**	**328,874**	**430,697**	**124,121**	**560,145**	**1,015,418**	**1,575,563**

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

28.5. Market risk

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

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

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

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

Historical VaR (99%, one-day) by risk type	**Average**	
	30 June 2018	**30 June 2017**
Foreign exchange	470	142
Interest rate	228	267
Equity instruments	23	8
Diversification	-	-
Total VaR exposure	**721**	**417**

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

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

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

28.5. Market risk [continued]

28.5.2. Foreign currency sensitivity analysis

The following table details the Group's sensitivity to an increase and decrease in the HUF exchange rate against the EUR and USD, over a 3 months period. Monte Carlo simulation is used when reporting foreign currency risk internally to key management personnel and represents Management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as strategic open positions related to foreign activities.
The strategic open position related to the foreign operations was short and amounted to EUR 310 million (kept to hedge the currency risk of the expected FX-denominated net earnings of the main foreign subsidiaries) as at 30 June 2018. High portion of strategic positions is considered as effective hedge of the net investment in foreign subsidiaries – net investment hedge is applied at a Group level -, and so FX risk affects the Group's Comprehensive Income and not its earnings.

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

Probability	Effects to the Consolidated Statement of Profit or Loss in 3 months period	
	30 June 2018 In HUF billion	30 June 2017 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.

The effect on equity of the foreign currency sensitivity analysis is not significant either for the half year ended 2018 or the year ended 2017.

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 was outstanding for the whole year. The analysis was prepared by assuming only adverse interest rate changes. The main assumptions were as follows:

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

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

28.5 Market risk [continued]

28.5.3. Interest rate sensitivity analysis [continued]

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

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

The net interest income in a one year period after 1 July 2018 would be decreased by HUF 2,112 million (probable scenario) and HUF 4,521 million (alternative scenario) as a result of these simulation. The same simulation indicated HUF 191 million (probable scenario) and HUF 5,028 million (alternative scenario) decrease in the Net interest income in a one year period after 31 December 2017.
This effect is counterbalanced by capital gains HUF 269 million (or probable scenario), HUF 3,440 million (for alternative scenario) as at 30 June 2018 and (HUF 306 million for probable scenario, HUF 3,735 million for alternative scenario) as at 31 December 2017 on the government bond portfolio held for hedging (economic).

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

	30 June 2018		30 June 2017	
Description	**Effects to the net interest income (one-year period)**	**Effects to capital (Price change of government bonds at fair value through other comprehensive income)**	**Effects to the net interest income (one-year period)**	**Effects to capital (Price change of government bonds at fair value through other comprehensive income)**
HUF (0.1%) parallel shift	(1,718)	(675)	(1,635)	170
EUR (0.1%) parallel shift	(291)	-	(331)	-
USD (0.1%) parallel shift	(159)	-	(94)	-
Total	**(2,168)**	**(675)**	**(2,060)**	**170**

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

Description	30 June 2018	30 June 2017
VaR (99%, one day, HUF million)	23	8
Stress test (HUF million)	(29)	(126)

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

28.6. Capital management

Capital management

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

Capital adequacy

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

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

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

For international comparison purposes, the Group calculated the Regulatory capital based on IFRS data as adopted by the EU, and the consolidated Capital adequacy ratio based on this in accordance with the regulations of Basel III. The Capital adequacy ratio of the Group (IFRS) was 16.5%, the Regulatory capital was HUF 1,488,071 million and the Total regulatory capital requirement was HUF 719,329 million as at 30 June 2018. The same ratios calculated as at 31 December 2017 were the following: 14.6%, HUF 1,228,628 million and HUF 671,194 million.

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

28.6. Capital management [continued]

Capital adequacy [continued]

Calculation on IFRS basis	**30 June 2018**	**31 December 2017**
Core capital (Tier 1) = Common Equity Tier 1 (CET 1)	***1,314,371***	***1,062,701***
Issued capital	28,000	28,000
Reserves	1,548,025	1,383,726
Fair value corrections	41,930	59,936
Other capital components	(93,792)	(142,860)
Non-controlling interests	1,017	940
Treasury shares	(64,660)	(63,289)
Goodwill and other intangible assets	(175,088)	(178,640)
Other adjustments	28,939	(25,112)
Additional Tier 1 (AT1)	-	-
Supplementary capital (Tier 2)	***173,700***	***165,927***
Subordinated bonds and loans	83,513	75,695
Other issued capital components	89,935	89,935
Components recognized in T2 capital issued by subsidiaries	252	297
Regulatory capital[1]	**1,488,071**	**1,228,628**
Credit risk capital requirement	603,962	543,645
Market risk capital requirement	31,046	41,000
Operational risk capital requirement	84,321	86,549
Total requirement regulatory capital	**719,329**	**671,194**
Surplus capital	**768,742**	**557,434**
CET 1 ratio	14.6%	12.7%
Tier 1 ratio	14.6%	12.7%
Capital adequacy ratio	**16.5%**	**14.6%**

Basel III

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

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

[1] The consolidated regulatory capital of the Group doesn't contain the profit decreased by the paid dividend for the first half year of 2018 and for the year 2017.

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

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

Contingent liabilities

	30 June 2018	31 December 2017
Commitments to extend credit	1,975,986	1,731,030
Guarantees arising from banking activities	567,227	532,359
Legal disputes (disputed value)	15,763	15,775
Confirmed letters of credit	9,253	14,541
Other	253,423	326,745
Total	**2,821,652**	**2,620,450**

Legal disputes

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

The Group believes that the various asserted claims and litigations in which it is involved will not materially affect its financial position, future operating results or cash-flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation. Provisions due to legal disputes were HUF 23,579 million and HUF 24,958 million as at 30 June 2018 and 31 December 2017, respectively. (See Note 18.)

Commitments to extend credit, guarantees and letters of credit

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

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

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

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

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 Group to assume responsibility for the debt obligation of a borrower if that borrower defaults until a determined amount, until a determined date, in case of fulfilling conditions, without checking the underlying transactions. The guarantee's liability is joint and primary with the principal, in case of payment undertaking, while the Group assumes the obligation derived from guarantee independently by the conditions established by the Group.
A guarantee is most typically required when the ability of the primary obligor or principal to perform its obligations under a contract is in question, or when there is some public or private interest which requires protection from the consequences of the principal's default or delinquency. A contract of guarantee is subject to the statute of frauds (or its equivalent local laws) and is only enforceable if recorded in writing and signed by the surety and the principal.
If the surety is required to pay or perform due to the principal's failure to do so, the law will usually give the surety a right of subrogation, allowing the surety to use the surety's contractual rights to recover the cost of making payment or performing on the principal's behalf, even in the absence of an express agreement to that effect between the surety and the principal.

Derivatives

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

NOTE 30: SHARE-BASED PAYMENTS AND EMPLOYEE BENEFITS (in HUF mn)

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

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

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

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

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

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

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

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

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

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

[1] Until the end of 2014 Board of Directors

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

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:

Year	Share purchasing at a discounted price			
	Exercise price	Maximum earnings	Exercise price	Maximum earnings
	(HUF per share)			
	for the year 2013		for the year 2014	
2011	-	-	-	-
2012	-	-	-	-
2013	-	-	-	-
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 years from 2015 by the Supervisory Board for periods of each year as follows:

Year	Share purchasing at a discounted price		Price of remuneration exchanged to share	Share purchasing at a discounted price		Price of remuneration exchanged to share	Share purchasing at a discounted price		Price of remuneration exchanged to share
	Exercise price	Maximum earnings		Exercise price	Maximum earnings		Exercise price	Maximum earnings	
	(Ft/db)								
	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 PAYMENTS AND EMPLOYEE BENEFITS (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 started in 2017	30,033	483,987	453,954	9,276	-

Based on parameters accepted by Board of Directors 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 started in 2017	10,154	189,778	179,624	9,252	-
Share purchasing period started 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 started in 2017	22,281	299,758	277,477	9,283	-
Remuneration exchanged to share provided in 2017	-	20,176	20,176	9,257	-
Share purchasing period started in 2018	64,881	166,047	101,166	9,939	-
Remuneration exchanged to share provided 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	-	-	-	-

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

Based on parameters accepted by Supervisory Board relating to the year **2016** effective pieces are follows as at 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 started in 2018	237,049	321,528	84,479	9,971	-
Remuneration exchanged to share provided 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	-	-	-	-

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 started in 2018	107,047	108,243	1,196	9,965	-
Remuneration exchanged to share provided 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 of Chief Executive about the Remuneration of Work in OTP Bank* and the share-based compensation for Board of Directors and connecting compensation based on performance assessment accounted as equity-settled share based transactions, HUF 1,737 million and HUF 3,597 million was recognized as expense as at 30 June 2018 and 31 December 2017 respectively.

NOTE 31: RELATED PARTY TRANSACTIONS (in HUF mn)

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

Compensations	30 June 2018	31 December 2017
Short-term employee benefits	4,557	8,323
Share-based payment	1,546	2,520
Other long-term employee benefits	333	384
Post-employment benefits	23	12
Termination benefits	-	29
Total	**6,459**	**11,268**

	30 June 2018	31 December 2017
Commitments to extend credit and guarantees	49,940	38,652
Loans provided to companies owned by the Management (normal course of business)	39,632	56,508
Credit lines of the members of Board of Directors and the Supervisory Board and their close family members and Treasury credit lines of the members of Board of Directors and their close family members (at normal market conditions)	3,778	3,743

	30 June 2018		31 December 2017	
Types of transactions	Non-consolidated subsidiaries	Associated companies	Non-consolidated subsidiaries	Associated companies
Loans provided	5,105	3,591	4,484	1,334
Client deposits	10,201	2	5,191	321
Net interest income on loan provided	85	-	132	111
Net fee incomes	21	-	44	-

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

	30 June 2018	31 December 2017
Members of Board of Directors and their close family members	124.8	37
Executives	108	163.8
Members of Supervisory Board and their close family members	4.8	0.7
Total	**237.6**	**201.5**

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

	30 June 2018	31 December 2017
Members of Board of Directors and their close family members	31	29
Executives	5	5
Total	**36**	**34**

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

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

	30 June 2018	31 December 2017
Members of Board of Directors and their close family members	29.1	31
Members of Supervisory Board and their close family members	0.3	0.3
Total	**29.4**	**31.3**

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

	30 June 2018	31 December 2017
Members of Board of Directors and their close family members	0.6	0.6

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

	30 June 2018	31 December 2017
Members of Board of Directors and their close family members	4.9	2.8
Executives	24	12
Total	**28.9**	**14.8**

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

	30 June 2018	31 December 2017
Members of Board of Directors and their close family members	17	17
Executives and their close family members	76	39.8
Total	**93**	**56.8**

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

	30 June 2018	31 December 2017
Members of Board of Directors and their close family members	29,084	29,084
Executives and their close family members	230	230
Total Lombard loans	**29,314**	**29,314**
Executives	12	5
Total Personal loans	**12**	**5**

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

	30 June 2018	31 December 2017
Members of Board of Directors	1,775	2,121
Members of Supervisory Board	100	204
Total	**1,875**	**2,325**

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

NOTE 32: ACQUISITION (in HUF mn)

a) Purchase and consolidation of subsidiaries

Based on the acquisition agreement on purchasing 100% shareholding of Splitska banka d.d., member of Société Générale Group signed on 20 December 2016 between OTP banka Hrvatska, the Croatian subsidiary of OTP Bank and Société Générale Group, on 2 May 2017 the financial closure of the transaction has been completed and Splitska banka was consolidated.

OTP banka Srbija a.d. Novi Sad signed an acquisition agreement on purchasing 100% shareholding held in the Serbian Vojvodjanska banka a.d. („VOBAN") and NBG Leasing d.o.o. and certain other Serbian exposures held by the Group of the National Bank of Greece S.A. on 4 August 2017. The financial closure of the transaction has been completed on 1 December 2017 and VOBAN and NBG Leasing d.o.o. were consolidated.

The fair value of the assets and liabilities acquired, and the related negative goodwill (gain from bargain purchase, which was reasoned by the market situation of the banking sector in the relevant countries) is as follows:

	VOBAN and NBG Leasing d.o.o.	**Splitska banka group**
Cash amounts and due from banks	(25,942)	(16,896)
Placements with other banks, net of allowance for placement losses and balances with the National Banks	(42,707)	(204,139)
Financial assets at fair value through profit or loss	(132)	(146)
Securities at fair value through other comprehensive income	(42,620)	(177,587)
Loans, net of allowance for loan losses	(208,240)	(668,732)
Associates and other investments	(282)	(10,002)
Securities at amortized cost	-	-
Property and equipment	(18,134)	(9,613)
Intangible assets	(1,746)	(1,436)
Other assets	(4,615)	(22,918)
Amounts due to banks, the Hungarian Government, deposits from the National Banks	11,372	84,591
Deposits from customers	270,424	840,352
Liabilities from issued securities	-	-
Derivative financial liabilities designated as held for trading	32	439
Other liabilities	5,812	39,218
Subordinated bonds and loans	-	-
Net assets	**(56,778)**	**(146,869)**
Non-controlling interest	-	-
Negative goodwill	17,761	14,460
Cash consideration	**(39,017)**	**(132,409)**

NOTE 32: ACQUISITION (in HUF mn) [continued]

b) Analysis of net outflow of cash in respect of purchase of subsidiaries

	1 December 2017	30 April 2017
Cash consideration	(39,017)	(132,409)
Cash acquired	25,942	16,896
Net cash outflow	**(13,075)**	**(115,513)**

NOTE 33: SIGNIFICANT SUBSIDIARIES AND ASSOCIATES (in HUF mn)

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

Significant subsidiaries

Name	Ownership (Direct and Indirect)		Activity
	30 June 2018	**31 December 2017**	
DSK Bank EAD (Bulgaria)	100.00%	100.00%	commercial banking services
OTP Bank JSC (Ukraine)	100.00%	100.00%	commercial banking services
JSC "OTP Bank" (Russia)	97.90%	97.90%	commercial banking services
OTP banka Hrvatska d.d. (Croatia)	100.00%	100.00%	commercial banking services
Splitska banka d.d. (Croatia)	100.00%	100.00%	commercial banking services
OTP Bank Romania S.A. (Romania)	100.00%	100.00%	commercial banking services
OTP banka Srbija a.d. (Serbia)	98.90%	98.90%	commercial banking services
Vojvodjanska banka a.d. Novi Sad (Serbia)	100.00%	100.00%	commercial banking services
OTP Banka Slovensko a. s. (Slovakia)	99.38%	99.38%	commercial banking services
OTP Financing Malta Company Ltd. (Malta)	100.00%	100.00%	refinancing activities
OTP Factoring Ltd.	100.00%	100.00%	work-out
OTP Mortgage Bank Ltd.	100.00%	100.00%	mortgage lending
OTP Real Estate Ltd.	100.00%	100.00%	real estate management and development
Merkantil Bank Ltd.	100.00%	100.00%	finance lease
Merkantil Car Ltd.	100.00%	100.00%	finance lease
OTP Building Society Ltd.	100.00%	100.00%	housing savings and loan
OTP Fund Management Ltd.	100.00%	100.00%	fund management
R.E. Four d.o.o. (Serbia)	100.00%	100.00%	real estate management
Crnogorska komercijalna banka a.d. (Montenegro)	100.00%	100.00%	commercial banking services
OTP Financing Netherlands B.V. (the Netherlands)	100.00%	100.00%	refinancing activities
OTP Holding Ltd. (Cyprus)	100.00%	100.00%	refinancing activities
OTP Financing Cyprus Ltd. (Cyprus)	100.00%	100.00%	refinancing activities
Bank Center No. 1. Ltd.	100.00%	100.00%	real estate lease
Inga Kettő Ltd.	100.00%	100.00%	property management
OTP Funds Servicing and Consulting Ltd.	100.00%	100.00%	fund services
OTP Real Estate Leasing Ltd. (previously OTP Flat Lease Ltd.)	100.00%	100.00%	real estate leasing
OTP Life Annuity Ltd.	100.00%	100.00%	life annuity services

NOTE 33: SIGNIFICANT SUBSIDIARIES AND ASSOCIATES (in HUF mn) [continued]

Significant associates and joint ventures[1]

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

As at 30 June 2018

	Szallas.hu Ltd.	*D-ÉG Thermoset Ltd.*	*Company for Cash Services Ltd.*	*Total*
Total assets	1,605	3,883	2,400	**7,888**
Total liabilities	795	4,629	212	**5,636**
Shareholders' equity	810	(746)	2,188	**2,252**
Total revenues	1,054	2,386	542	**3,982**
Ownership	30%	0.10%	20%	

As at 31 December 2017

	Szallas.hu Ltd.	*D-ÉG Thermoset Ltd.*	*Company for Cash Services Ltd.*	*Total*
Total assets	1,667	3,883	2,289	**7,839**
Total liabilities	722	4,629	-	**5,351**
Shareholders' equity	945	(746)	2,289	**2,488**
Total revenues	3,459	2,386	127	**5,972**
Ownership	30%	0.10%	20%	

NOTE 34: TRUST ACTIVITIES (in HUF mn)

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

	30 June 2018	**31 December 2017**
The amount of loans managed by the Group as a trustee	35,959	39,413

NOTE 35: 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	20.12%	21.69%

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

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

[1] Based on unaudited financial statements.

NOTE 35: CONCENTRATION OF ASSETS AND LIABILITIES [continued]

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

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

NOTE 36: CONSOLIDATED EARNINGS PER SHARE (in HUF mn)

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

	30 June 2018	**31 December 2017**
Consolidated net profit for the period attributable to ordinary shareholders (in HUF mn)	154,426	281,142
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS (number of share)	261,724,031	261,743,165
Basic Earnings per share (in HUF)	**590**	**1,074**
Consolidated net profit for the period attributable to ordinary shareholders (in HUF mn)	154,426	281,142
Modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS (number of share)	261,842,153	261,851,512
Diluted Earnings per share (in HUF)	**590**	**1,074**

	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	18,275,979	18,256,845
Weighted average number of ordinary shares outstanding during the year for calculating basic EPS	**261,724,031**	**261,743,165**
Dilutive effects of options issued in accordance with the remuneration policy and convertible into ordinary shares[1]	118,122	108,347
The modified weighted average number of ordinary shares outstanding during the year for calculating diluted EPS	**261,842,153**	**261,851,512**

[1] Both in the first half year of 2018 and in year 2017 the dilutive effect is in connection with the Remuneration Policy and the Management Option Program.

NOTE 37: **NET GAIN OR LOSS REALIZED ON FINANCIAL INSTRUMENTS (in HUF mn)**

As at 30 June 2018

	Net interest gain and loss	Net non-interest gain and loss	Provision for impairment	Other Comprehensive Income
Cash, amounts due from banks and balances with the National Banks	208	-	-	-
Placements with other banks, net of allowance for placements losses	2,870	-	(124)	-
Securities at fair value through profit or loss	-	186	-	-
Securities at fair value through other comprehensive income	18,423	801	366	(24,199)
Loans at amortized cost and at fair value	266,959	9,160	(8,529)	-
Securities at amortized cost	29,005	-	(532)	-
Other assets	1,825	-	-	-
Derivative financial instruments	3,721	5,178	-	-
Amounts due to banks , the Hungarian Government, deposits from the National Banks and other banks	(4,424)	-	-	-
Deposits from customers	(22,950)	96,239	-	-
Liabilities from issued securities	(2,775)	-	-	-
Subordinated bonds and loans	(1,064)	-	-	-
Total	**291,798**	**111,564**	**(8,819)**	**(24,199)**

As at 31 December 2017

	Net interest gain and loss	Net non-interest gain and loss	Provision for impairment	Other Comprehensive Income
Cash, amounts due from banks and balances with the National Banks	1,444	-	-	-
Placements with other banks, net of allowance for placements losses	4,178	-	(228)	-
Securities at fair value through profit or loss	-	3,829	-	-
Securities at fair value through other comprehensive income	34,442	4,101	7	17,227
Loans at amortized cost and at fair value	513,919	19,218	(40,620)	-
Securities at amortized cost	56,343	-	3	-
Other assets	3,219	-	-	-
Derivative financial instruments	4,079	5,617	-	-
Amounts due to banks , the Hungarian Government, deposits from the National Banks and other banks	(9,308)	-	-	-
Deposits from customers	(46,574)	178,168	-	-
Liabilities from issued securities	(5,727)	-	-	-
Subordinated bonds and loans	(2,259)	-	-	-
Total	**553,756**	**210,933**	**(40,838)**	**17,227**

NOTE 38: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn)

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

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

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

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

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

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

NOTE 38: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn)

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 Banks	1,181,072	1,177,905	1,198,045	1,195,075
Placements with other banks, net of allowance for placements losses	629,013	626,820	462,180	474,585
Financial assets at fair value through profit or loss	332,150	332,150	344,417	344,417
Securities at fair value through profit or loss	*178,031*	*178,031*	*259,263*	*259,263*
Fair value of derivative financial assets designated as held for trading	*154,119*	*154,119*	*85,154*	*85,154*
Securities at fair value through other comprehensive income	1,925,893	1,713,722	2,174,718	2,174,718
Loans at amortized cost and at fair value[1]	7,737,845	8,151,401	6,987,834	7,458,834
Securities at amortized cost	1,649,681	1,652,608	1,310,331	1,419,123
Derivative financial assets designated as fair value hedge	13,441	13,441	10,277	10,277
Trade receivables	13,641	13,641	17,284	17,284
Financial assets total	**13,482,736**	**13,668,047**	**12.505.086**	**13.094.313**
Amounts due to banks, the Hungarian Government, deposits from the National Banks and other banks	600,048	567,113	472,068	464,194
Deposits from customers	10,870,394	10,853,328	10,233,471	10,221,086
Liabilities from issued securities	305,109	386,924	250,320	367,678
Derivative financial liabilities designated as held for trading	8,905	8,905	69,874	69,874
Derivative financial liabilities designated as fair value hedge	131,519	131,519	17,199	17,199
Account payables	18,374	18,374	30,805	30,805
Subordinated bonds and loans	83,512	92,501	76,028	72,890
Financial liabilities total	**12,017,861**	**12,058,664**	**11,149,765**	**11,243,726**

[1] Higher discount rate due to the lower yield environment resulted in higher fair value comparing to the carrying values.

NOTE 38: **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 designated as held for trading		
Positive fair value of interest rate swaps designated as held for trading	46,871	33,377
Negative fair value of interest rate swaps designated as held for trading	(32,510)	(30,453)
Foreign exchange swaps designated as held for trading		
Positive fair value of foreign exchange swaps designated as held for trading	61,545	18,047
Negative fair value of foreign exchange swaps designated as held for trading	(64,828)	(14,745)
CCIRS designated as held for trading		
Positive fair value of CCIRS designated as held for trading	13,374	16,976
Negative fair value of CCIRS designated as held for trading	(10,019)	(12,948)
Other derivative contracts classified as held for trading		
Positive fair value of other derivative contracts designated as held for trading	32,329	16,754
Negative fair value of other derivative contracts designated as held for trading	(24,162)	(11,728)
Interest rate swaps designated as fair value hedge		
Positive fair value of interest rate swaps designated as fair value hedge	7,646	6,639
Negative fair value of interest rate swaps designated as fair value hedge	(5,619)	(17,199)
CCIRS designated as fair value hedge		
Positive fair value of CCIRS designated as fair value hedge	2,974	3,638
Negative fair value of CCIRS designated as fair value hedge	(757)	-
Interest rate swaps designated as cash-flow hedge		
Positive fair value of interest rate swaps designated as cash-flow hedge	2,821	-
Negative fair value of interest rate swaps designated as cash-flow hedge	(2,529)	-
Derivative financial assets total	**167,560**	**95,431**
Derivative financial liabilities total	**(140,424)**	**(87,073)**
Derivative financial instruments total	**27,136**	**8,358**

NOTE 38: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

c) Hedge accounting

The Group regularly enters into hedging transactions in order to decrease its financial risks. However some economically hedging transaction do not meet the criteria to account for hedge accounting, therefore these transactions were accounted as derivatives held for trading.

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

As at 30 June 2018

Types of the hedges	Hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
1) Cash-flow hedges	IRS	HUF 292 million	Interest rate
2) Fair value hedges	IRS	HUF 2,027 million	Interest rate
3) Fair value hedges	CCIRS	HUF 2,217 million	Interest rate / Foreign exchange
4) Net investment hedge in foreign operations[1]	CCIRS and issued securities	HUF 5,798 million	Foreign exchange

As at 31 December 2017

Types of the hedges	Hedging instrument	Fair value of the hedging instrument	The nature of the risk being hedged
1) Fair value hedges	IRS	HUF (10,560) million	Interest rate
2) Fair value hedges	CCIRS	HUF 3,638 million	Interest rate / Foreign exchange
3) Net investment hedge in foreign operations[1]	CCIRS and issued securities	HUF (170) million	Foreign exchange

d) Fair value hedges

1. **Securities at fair value through other comprehensive income**

The Group holds fixed interest rate securities denominated in foreign currencies (HUF, EUR, USD) and fixed interest rate government bonds denominated in HUF within the securities at fair value through other comprehensive income portfolio. These fixed interest rate securities 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 the Group 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 securities at fair value through other comprehensive income.

[1] The objective of these hedge relationships is to mitigate the risk of changes in value of net investments in foreign subsidiaries (namely: DSK Bank EAD, OTP banka Hrvatska d.d., Crnogorska komercijalna banka a.d., OTP Banka Slovensko a.s.) due to change in foreign exchange rates.

NOTE 38: **FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]**

d) Fair value hedges [continued]

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

The Group holds floating interest rate bonds denominated in EUR within the securities at fair value through other comprehensive income 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 hedging IRS instruments	(1,033)	(15,210)

2. Loans to customers / corporates

The Group 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 the Group 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.
The 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 changes in interest rates of CHF. In order to hedge the foreign currency risk and the interest rate risk OTP entered into CCIRS transactions.

	30 June 2018	31 December 2017
Fair value of the hedging IRS instruments	888	(9)
Fair value of the hedging CCIRS instruments	2,217	3,638

3. Issued securities

The cash-flows of the fixed rate securities issued by the Group 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, resulting 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 38: 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	
				on the hedged items	on hedging instruments
Securities at fair value through other comprehensive income	IRS	HUF 681,993 million	HUF (1,033) million	HUF 2,875 million	HUF (14,157) million
Loans to customers	IRS	HUF 26,110 million	HUF 888 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	
				on the hedged items	on hedging instruments
Securities at fair value through other comprehensive income	IRS	HUF 939,611 million	HUF (15,210) million	HUF 7,136 million	HUF (6,739) million
Loans to customers	IRS	HUF 536 million	HUF (9) million	HUF 5 million	HUF (5) million
Loans to customers	CCIRS	HUF 85,904 million	HUF 3,638 million	HUF (3,653) million	HUF 3,653 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 Group hedges interest rate risk from granted and received loans whose cash-flows are exposed to interest rate volatility with HUF IRS and MIRS 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)	-
Fair value of the hedging MIRS instruments	2,821	-

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
Amounts due to banks	MIRS	HUF (22,453) million	HUF 2,821 million	HUF 2,821 million	HUF (2,821) million

NOTE 38: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

f) Fair value levels

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

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

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

As at 30 June 2018	**Total**	**Level 1**	**Level 2**	**Level 3**
Financial assets at fair value through profit or loss	329,471	142,705	186,766	-
from this: securities at fair value through profit or loss	175,352	142,685	32,667	-
from this: positive fair value of derivative financial assets designated as held for trading	154,119	20	154,099	-
Securities at fair value through other comprehensive income	1,908,144	1,486,954	409,433	11,757[1]
Loans mandatorily measured at fair value through profit or loss	35,072	-	35,072	-
Positive fair value of derivative financial assets designated as fair value hedge	10,620	-	10,620	-
Positive fair value of derivative financial assets designated as cash-flow hedge	2,821	-	2,821	-
Financial assets measured at fair value total	**2,286,128**	**1,629,659**	**644,712**	**11,757**
Negative fair value of derivative financial liabilities designated as held for trading	131,519	231	131,288	-
Negative fair value of derivative financial liabilities designated as fair value hedge	6,376	-	6,376	-
Negative fair value of derivative financial liabilities designated as cash-flow hedge	2,529	-	2,529	-
Financial liabilities measured at fair value total	**140,424**	**231**	**140,193**	**-**

As at 31 December 2017	**Total**	**Level 1**	**Level 2**	**Level 3**
Financial assets at fair value through profit or loss	340,749	159,049	181,700	-
from this: securities at fair value through profit or loss	255,595	158,769	96,826	-
from this: positive fair value of derivative financial assets designated as held for trading	85,154	280	84,874	-
Securities at fair value through other comprehensive income	2,151,973	1,693,738	448,397	9,838[1]
Positive fair value of derivative financial assets designated as fair value hedge	10,277	-	10,277	-
Financial assets measured at fair value total	**2,502,999**	**1,852,787**	**640,374**	**9,838**
Negative fair value of derivative financial liabilities designated as held for trading	69,874	188	69,686	-
Negative fair value of derivative financial liabilities designated as fair value hedge	17,199	-	17,199	-
Financial liabilities measured at fair value total	**87,073**	**188**	**86,885**	**-**

[1] The portfolio includes Visa Inc. “C” convertible preferred stock and common shares.

NOTE 38: FAIR VALUE OF FINANCIAL INSTRUMENTS (in HUF mn) [continued]

f) Fair value levels [continued]

Movements in Level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 securities at fair value through other comprehensive income which are recorded at fair value:

Movement on securities at fair value through other comprehensive income in Level 3	Opening balance	Increase / (Decrease)	Closing balance
OTP Bank Plc.	2,410	640	**3,050**
DSK Bank EAD	2,147	309	**2,456**
OTP Factoring Ltd.	2,179	142	**2,321**
Splitska banka d.d.	1,079	370	**1,449**
OTP Factoring Ukraine LLC	713	113	**826**
OTP banka Hrvatska d.d.	488	124	**612**
OTP Bank Romania S.A.	437	116	**553**
OTP Banka Slovensko a.s.	385	105	**490**
Total	**9,838**	**1,919**	**11,757**

There were no movements among the levels of fair value hierarchy neither for the half year ended 30 June 2018 nor for the year ended 31 December 2017.

NOTE 39: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF mn)

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

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

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

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

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

The activities of the other subsidiaries are out of the leasing and fund management activity, such as: OTP Real Estate Ltd., OTP Life Annuity Ltd, OTP Funds Servicing and Consulting Ltd., OTP Building s.r.o., OTP Real Slovensko s.r.o.

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

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

Goodwill / investment impairment and their tax saving effect:

In the six month period ended 30 June 2018 in case of OTP Factoring Montenegro d.o.o. and OTP Factoring Serbia d.o.o. HUF 795 million tax shield was recognized due to impairment on investment, which affect was compensated by HUF 90 million as release of impairment on OTP Factoring Ukraine LLC. Altogether in the first half year of 2018 with HUF 229 million goodwill impairment on OTP Real Estate Lease Ltd. HUF 476 million positive tax effect, while in year 2017 with HUF 504 million goodwill impairment on OTP Banka Slovensko a.s HUF 6,064 million negative tax effect was recognized.

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

NOTE 39: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF mn) [continued]

As at 30 June 2018

Main components of the Consolidated Statement of Profit or Loss in HUF million	OTP Group - consolidated - in the Consolidated Statement of Profit or Loss - structure of accounting reports	Adjustements on the accounting in Recognized Income	OTP Group - consolidated - in the Consolidated Statement of Profit or Loss - structure of management reports	OTP CORE (Hungary)	Foreign banks subtotal (without adjustments)	JSC "OTP Bank" (Russia) and Touch Bank	OTP Bank JSC (Ukraine)	DSK Bank EAD (Bulgaria)	OTP Bank Romania S.A. (Romania)	OTP banka Srbija a.d. and Vojvodjanska banka a.d. (Serbia)	OTP banka Hrvatska d.d. and Splitska banka d.d. (Croatia)	OTP Banka Slovensko a.s. (Slovakia)	Crnogorska komercijalna banka a.d. (Montenegro)	Non-banking subsidiaries subtotal	Leasing subsidiaries	Asset Management subsidiaries	Other subsidiaries	Corporate Centre	Eliminations and adjustments
	a	b	1=a+b 1= 2+3+12+16+17	2	3=4+…+11	4	5	6	7	8	9	10	11	12=13+14+15	13	14	15	16	17
Net profit for the year	154,570		154,570																
Adjustments (total)		(15,573)	(15,573)																
Dividends and net cash transfers (after income tax)		301	301																
Goodwill /investment impairment (after income tax)		476	476																
Bank tax on financial institutions (after income tax)		(14,912)	(14,912)																
Effect of acquisition (after income tax)		(1,438)	(1,438)																
Consolidated adjusted net profit for the year	154,571	15,573	170,144	95,355	64,650	12,828	11,283	24,131	1,368	1,563	12,241	(129)	1,365	7,893	4,766	2,071	1,056	2,718	(472)
Profit before income tax	174,978	16,489	191,467	103,496	76,583	16,378	13,505	26,586	1,962	1,559	15,016	4	1,573	8,644	4,978	2,273	1,393	3,042	(296)
Adjusted operating profit	183,632	7,749	191,381	79,132	99,762	32,588	12,745	28,603	4,548	2,299	16,698	1,323	958	9,276	5,141	2,148	1,987	3,042	170
Adjusted total income	457,944	(31,666)	426,278	187,101	214,113	62,918	20,432	52,392	14,065	13,980	38,039	7,354	4,933	24,895	10,236	3,587	11,072	3,251	(3,083)
Adjusted net interest income	291,798	(2,307)	289,491	119,510	154,650	49,985	14,033	34,398	10,537	9,676	26,922	5,556	3,543	10,817	9,027	19	1,771	3,251	1,264
Adjusted net profit from fees and commissions	134,181	(27,868)	106,313	53,024	48,182	12,750	5,124	14,321	1,714	3,363	7,813	1,645	1,452	5,526	438	3,562	1,526	0	(419)
Adjusted other net non-interest income	31,965	(1,491)	30,474	14,567	11,281	183	1,275	3,673	1,814	941	3,304	153	(62)	8,552	771	6	7,775	0	(3,928)
Adjusted other administrative expenses	(274,312)	39,415	(234,897)	(107,969)	(114,351)	(30,330)	(7,687)	(23,789)	(9,517)	(11,681)	(21,341)	(6,031)	(3,975)	(15,619)	(5,095)	(1,439)	(9,085)	(209)	3,253
Total risk costs	(8,654)	5,296	(3,358)	20,920	(23,179)	(16,210)	760	(2,017)	(2,586)	(740)	(1,682)	(1,319)	615	(632)	(163)	125	(594)	0	(466)
Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX)	(8,654)	7,991	(663)	23,973	(24,029)	(14,893)	1,198	(4,426)	(2,304)	(710)	(1,845)	(1,430)	381	(126)	(126)	0	0	0	(481)
Other provision (adjustment)	0	(2,695)	(2,695)	(3,053)	850	(1,317)	(438)	2,409	(282)	(30)	163	111	234	(506)	(37)	125	(594)	0	15
Total other adjustments (one-off items)[1]	0	3,444	3,444	3,444	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Income tax	(20,407)	(916)	(21,323)	(8,141)	(11,933)	(3,550)	(2,222)	(2,455)	(594)	4	(2,775)	(133)	(208)	(751)	(212)	(202)	(337)	(324)	(176)
Total Assets	14,213,426	0	14,213,426	8,239,391	7,030,313	686,880	367,596	2,101,200	711,039	542,576	1,930,952	469,117	220,953	892,811	591,146	21,507	280,158	1,845,447	(3,794,537)
Total Liabilities	12,506,049	0	12,506,049	6,785,377	6,117,386	529,883	321,951	1,857,149	660,566	456,316	1,665,292	443,844	182,385	682,544	550,566	6,560	125,418	966,426	(2,045,682)

( ) used at: provisions, impairment and expenses

[1] One-off item consists of: the result of the treasury share swap agreement at OTP Core in the amount of HUF 3,444 million.

NOTE 39: SEGMENT REPORTING BY BUSINESS AND GEOGRAPHICAL SEGMENTS (in HUF mn) [continued]

As at 31 December 2017

Main components of the Consolidated Statement of Profit or Loss in HUF million	OTP Group - consolidated - in the Consolidated Statement of Profit or Loss - structure of accounting reports	Adjustements on the accounting in Recognized Income	OTP Group - consolidated - in the Consolidated Statement of Profit or Loss - structure of management reports	OTP CORE (Hungary)	Foreign banks subtotal (without adjustments)	JSC "OTP Bank" (Russia) and Touch Bank	OTP Bank JSC (Ukraine)	DSK Bank EAD (Bulgaria)	OTP Bank Romania S.A. (Romania)	OTP banka Srbija a.d. and Vojvodjanska banka a.d. (Serbia)	OTP banka Hrvatska d.d. and Splitska banka d.d. (Croatia)	OTP Banka Slovensko a.s. (Slovakia)	Crnogorska komercijalna banka a.d. (Montenegro)	Non-banking subsidiaries subtotal	Leasing subsidiaries	Asset Management subsidiaries	Other subsidiaries	Corporate Centre	Eliminations and adjustments
	a	b	1=a+b 1= 2+3+12+16+17	2	3=4+…+11	4	5	6	7	8	9	10	11	12=13+14+15	13	14	15	16	17
Net profit for the year	**281,339**		**281,339**																
Adjustments (total)		**(2,732)**	**(2,732)**																
Dividends and net cash transfers (after income tax)		680	680																
Goodwill /investment impairment (after income tax)		(6,064)	(6,064)																
Bank tax on financial institutions (after income tax)		(15,233)	(15,233)																
Fine imposed by the Hungarian Competition Authority (after income tax)		177	177																
Effect of acquisition (after income tax)		17,708	17,708																
Consolidated adjusted net profit for the year	**281,339**	**2,733**	**284,072**	**168,575**	**96,652**	**20,381**	**14,120**	**47,121**	**3,036**	**(2,905)**	**17,106**	**(2,051)**	**(156)**	**18,061**	**9,836**	**8,677**	**(452)**	**195**	**590**
Profit before income tax	**322,842**	**(1,421)**	**321,421**	**185,561**	**115,015**	**26,079**	**17,074**	**52,041**	**3,952**	**(3,014)**	**20,848**	**(1,820)**	**(145)**	**19,893**	**10,453**	**9,499**	**(59)**	**584**	**369**
Adjusted operating profit	**363,690**	**(531)**	**363,159**	**150,833**	**192,737**	**64,497**	**18,876**	**61,460**	**9,346**	**1,360**	**28,780**	**6,616**	**1,802**	**16,654**	**8,410**	**9,228**	**(984)**	**3,114**	**(178)**
Adjusted total income	863,140	(58,195)	804,945	365,591	398,148	127,249	34,595	108,290	27,138	10,071	63,644	17,452	9,709	46,094	18,013	12,449	15,632	3,407	(8,293)
Adjusted net interest income	553,756	(7,102)	546,654	234,304	289,639	103,094	23,060	72,257	19,779	7,235	44,313	13,358	6,543	19,187	16,887	47	2,253	3,407	118
Adjusted net profit from fees and commissions	261,193	(51,765)	209,428	109,128	85,453	23,135	9,716	27,714	3,064	2,275	12,603	3,627	3,319	15,342	309	12,425	2,608	0	(495)
Adjusted other net non-interest income	48,191	672	48,863	22,159	23,056	1,020	1,819	8,319	4,295	561	6,728	467	(153)	11,565	817	(23)	10,771	0	(7,916)
Adjusted other administrative expenses	(499,450)	57,664	(441,786)	(214,758)	(205,411)	(62,752)	(15,719)	(46,830)	(17,792)	(8,711)	(34,864)	(10,836)	(7,907)	(29,440)	(9,603)	(3,221)	(16,616)	(293)	8,115
Total risk costs	**(40,848)**	**(4,835)**	**(45,683)**	**30,783**	**(77,722)**	**(38,418)**	**(1,802)**	**(9,419)**	**(5,394)**	**(4,374)**	**(7,932)**	**(8,436)**	**(1,947)**	**3,239**	**2,043**	**271**	**925**	**(2,530)**	**547**
Adjusted provision for impairment on loan and placement losses (without the effect of revaluation of FX)	(40,848)	9,789	(31,059)	33,586	(67,107)	(37,561)	(1,060)	(3,571)	(5,062)	(3,133)	(7,498)	(8,358)	(864)	1,921	1,951	0	(30)	0	542
Other provision (adjustment)	0	(14,624)	(14,624)	(2,803)	(10,615)	(857)	(742)	(5,848)	(332)	(1,241)	(434)	(78)	(1,083)	1,318	92	271	955	(2,530)	5
Total other adjustments (one-off items)[1]	0	3,945	**3,945**	3,945	**0**	0	0	0	0	0	0	0	0	**0**	0	0	0	0	0
Income tax	(41,503)	4,154	**(37,349)**	(16,986)	**(18,363)**	(5,698)	(2,954)	(4,920)	(916)	109	(3,742)	(231)	(11)	**(1,832)**	(617)	(822)	(393)	(389)	221
Total Assets	**13,190,228**	**0**	**13,190,228**	**7,704,135**	**6,488,032**	**671,724**	**312,334**	**1,925,740**	**624,060**	**482,887**	**1,821,613**	**452,084**	**197,590**	**813,667**	**528,453**	**23,095**	**262,119**	**1,674,411**	**(3,490,016)**
Total Liabilities	**11,550,173**	**0**	**11,550,173**	**6,273,879**	**5,635,488**	**529,369**	**278,254**	**1,675,445**	**570,578**	**402,817**	**1,582,678**	**419,884**	**176,463**	**603,149**	**488,288**	**2,845**	**112,016**	**826,037**	**(1,788,381)**

( ) used at: provisions, impairment and expenses

[1] One-off item consists of: the result of the treasury share swap agreement at OTP Core in the amount of HUF 3,945 million.

NOTE 40: SIGNIFICANT EVENTS DURING THE SIX MONTH PERIOD ENDED 30 JUNE 2018

Term Note Program

See details in Note 16.

NOTE 41: POST BALANCE SHEET EVENTS

1) New acquisition in Albania

On 1 August, 2018 the 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 the fourth quarter of 2018 subject to obtaining all the necessary regulatory approvals.

2) New acquisition in Bulgaria

On 1 August, 2018 DSK Bank EAD, the Bulgarian subsidiary of the 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 the fourth quarter of 2018 subject to obtaining all the necessary regulatory approvals.

NOTE 42: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE GROUP'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 European Central Bank's ("ECB") 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.

NOTE 42: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE GROUP'S FINANCIALS (in HUF mn) [continued]

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.

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 NBH 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 NBH 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.

It can clearly be stated that **Russia** has left behind its period of negative growth. After expanding at a rate of 1.5% in 2017, the economy can be expected to grow by about 2% this year. The inflation rate, which reached very high levels previously, has dropped below the very low level of 3%. With this, the period of falling real wages has come to an end. The deceleration in inflation has enabled the Bank of Russia to decrease its base rate from 17% to the current 7.25%. Furthermore, the level of disinflation will enable the central bank to continue its rate-cutting cycle. Meanwhile, thanks to an increase in oil prices, the budget deficit has disappeared entirely. The government's budget is currently balanced. Growth in real wages has started, and the increased level of borrowing is a clear sign that the population's confidence is returning. In consequence of these factors, household consumption in 2018 could grow faster than GDP overall. The economy's vulnerability has decreased: government debt has been reduced, and the rise in oil prices has caused an increase in the trade balance.

NOTE 42: STATEMENT OF ECONOMIC SITUATION AND IMPLICATIONS ON THE GROUP'S FINANCIALS (in HUF mn) [continued]

The most significant problem of the Russian economy is the low level of diversification of its production, and the – relative to the level of development of Russia – low level of long-run potential GDP growth, around 1.5%. However, at the beginning of his most recent six-year term, President Putin has launched a significant programme for boosting economic growth, which could increase the pace of growth by about 0.3-0.4% in the long-run, partially thanks to the significant infrastructure expenditure the programme entails, and partially thanks to an expected rise in labour supply, which will result from a higher retirement age.

The **Ukrainian economy**'s growth rate increased from around 2% last year to a rate of 3.3% on yearly basis in the first half of 2018. This is mainly a result of rising consumption, which can be attributed to rising real income and an increase in repatriated earnings from workers abroad. A growth rate of 3.2% is expected for this year as a whole, to be followed by an expansion of 3.5% next year.

Inflation has somewhat exceeded the central bank's expectations in the first half of 2018, as a result of which the National Bank of Ukraine raised its key interest rate to 17.5% from 16%. Inflation was at 8.9% in July. According to the Ukrainian central bank's statement, an unexpected rise in inflation, a deterioration in the external environment, and the potentially higher risks of meeting the conditions of the International Monetary Fund ("IMF") programme, could potentially lead to further rate hikes going forward. Looking ahead, the inflation rate for the year could reach 11%, after which it is expected to sharply decelerate in 2019 to around 7.5%. This process would be accompanied with a lowering of interest rates, if the risks mentioned above do not materialise. The hryvnia rose against the dollar as a result of the rate hikes at the beginning of the year, after which it continuously remained at a level of 26. However, the currency depreciated to a level of around 28 since July, as a result of the worsening external environment and also because of seasonal effects.

During the first half of 2018, the Ukrainian government passed its anticorruption law package, which was a key condition of continued IMF support. The IMF's delegation will arrive in the first half of September, and if the negotiations go as planned, another payment can be expected from the IMF's USD 17.5 billion programme. No material changes have taken place since 2016 regarding the armed conflicts in separatist areas.

From 2017 the basis 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 the first quarter of 2018.

In the first half of 2018 more than 6,400 applications for the Housing Subsidy Scheme for Families ("CSOK") subsidy were registered at OTP 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 NBH 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.